

## *Reflections on the January Dinner Meeting*

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47 Chinook-Calgary members and guests braved near blizzard conditions to attend the 10 January 2007 technical dinner meeting. Chinook-Calgary President Cindy Strickland introduced Pal Bhatia who gave information on the up-coming seminar March 2/3, 2007. Then Ginette Basak gave a short talk on ICEC (International Cost Engineering Council). She had attended the 2006 conference in Ljubljana, Slovenia. The next one will be held in Toronto in 2008.

Every AACE member is automatically a member of ICEC. It was formed in 1976 by American, British, Dutch and Mexican cost professionals. AACE has negotiated agreements with Quantity Engineers and Project Management Institute to share knowledge on cost and project management, linking 47 national societies encompassing 150,000 professionals.

Firoz Surani introduced Suncor's John Zhao who gave an informative talk on the significance of WBS in contingency modeling.

Contingency is not understood too well in construction and project control. There have been cost overruns in the Suncor Millennium project, Syncrude UE-1 project, Shell Athabasca project, Opti-Nexen Long Lake project, Conoco-Phillips and CNRL projects. There seem to be unaccounted for extra illegitimate project costs which may be hidden in base costs. Sometimes a Monte Carlo black box is used to generate contingency-but it may be a catch-all item that may be inappropriate-because of the need to use a large number of items for input. WBS based risk contingency allocation may be used to manage contingency in a controlled manner-making it transparent.

Risk-taking is a major aspect of managerial work. Projects require a team approach to transfer, eliminate, accept, mitigate. Accept the uncertain state and condition of cost estimates. Add in contingency to compensate for estimate uncertainty. Project cost estimate depends on scope and capacity definitions. Costs also depend on cost estimate deliverables and adequacy of cost data and knowledge. Adding contingency doesn't increase estimate accuracy. Contingency does jeopardize profitability. Adding contingency does not relieve project manager of his responsibility. WBS allows breaking down project into small manageable tasks. Risk breakdown structure defines risks involved in project and is set out in controllable and non-controllable items. Statistics work on large numbers of items, with many variables in a disorderly fashion. A qualitative approach depends on expert judgment and management assumptions. There is a need to provide information in many work packages which can be assembled into a total project. Following John Zhao's presentation, there was a lively question period.



Cindy Strickland and John Zhao