From PNNL EVM System Description:

1.1.1 Contingency Allocation

Contingency is only used as a last resort. Value engineering and cost avoidance may be used to initiate budget reductions in some areas that may help offset the need for using project contingency. The planned allocation of contingency is established during the annual planning and budgeting cycle. Funding is typically allocated to the project by fiscal year, with projections provided for future years. Likewise, for control purposes, the planned allocation of contingency for a particular fiscal year is based on that particular fiscal year's approved work scope. Contingency requirements are developed and time phased consistent with the life cycle baseline scope, schedule, and budget for future years.

For DOE Line Item projects, the Federal Project Director determines and documents in the PEP the amount of contingency budget to be allocated each year to PNNL as management reserve budget to manage project uncertainties within PNNL's approval authority. For DOE funded activities, a DOE work authorization is used to allocate fiscal year budget (potentially including contingency) to PNNL. The project contingency amount is the difference between the project PMB and the project TPC. Funding authorization equivalent to the project budget and contingency amounts is transmitted through Obligation Notices issued by PNSO and cost ceilings established in the DOE Authorized Funding Program. For anticipated current year work activities and after PNSO approval, PNNL is initially allocated a percentage of the project contingency to cover changes that may result from unforeseen and unpredictable conditions and uncertainties within the defined project scope of work each year. The portion of the project contingency allocated to PNNL is defined as Management Reserve. The remaining contingency is controlled by the Federal Project Director. Contingency is evaluated throughout the project life cycle and specifically discussed during project quarterly reviews.

During the course of a project lifecycle it is possible that all contingency may be allocated to address scope changes such that no contingency budget remains, yet project actual cost could be less than budgeted such that a favorable cost variance exists. If additional scope changes are necessary, the PNNL Project Manager may request from the customer, through the change control process, for the Total Project Cost to be increased by the amount of available funding such that necessary scope changes can be appropriately budgeted. The customer must ultimately approve any increase to the project TPC, or to have unused funding returned.

1.1.2 Management Reserve

That percentage of the project contingency specifically assigned to PNNL for the management of changes within PNNL's approval authority is referred to as Management Reserve. This naming convention differentiates that portion of the project contingency that is assigned by the customer to PNNL for baseline management and control. Management reserve is held in reserve by the PNNL project manager at the project level to provide flexibility to manage baseline changes to Work Packages or Planning Packages within the project Performance Measurement Baseline. Management reserve, just like contingency, is a budget related component of the project TPC. Use of management reserve is documented and controlled consistent with the Baseline Change Control process. Management Reserve is used by PNNL to control the execution of the project baseline, for control account planning, and to manage risks and other project unknowns and uncertainties, but is never used for additional scope outside of the authorized technical portion of the baseline.