

The operation and maintenance (O&M) Cost Index has three basic uses:

1. To adjust to a common price year level for annual O&M costs experienced during a period of years. This applies particularly to the development of O&M cost estimating guides.
2. To adjust to the current price level values obtained from O&M cost estimating guides.
3. To adjust O&M cost estimates based on some past price level to the current price level. This would be appropriate where the earlier estimate is adequate and the intervening local area wage rate trends are not abnormal. The following example illustrates use of the cost index for adjusting Reclamation's OM&R (operation, maintenance, and replacement) cost estimates.

Given: An estimate prepared in 1980 (\$35,000) to be adjusted to 2011 costs. Estimates of annual provisions for replacement and electrical energy costs should be adjusted by use of current construction costs and energy rates, respectively.

O&M costs, exclusive of replacement and energy costs, should be indexed as follows:

<u>Date of Estimate</u>	<u>O&M Cost Index</u>
1980	1980 = 1.28
2011	2011 = 4.33
Ratio of indexes:	$\frac{4.33}{1.28} = 3.3828$

The 1980 subtotal for personnel, equipment, materials, and supplies, administration and general expenses - \$35,000 x 3.3828 = \$118,398 (2011 costs).