



Application of the O&M Cost Index

The Operations and Maintenance (O&M) Cost Index has three basic uses:

- To adjust to a common price level for annual O&M costs experienced over a period of years. This applies particularly to the development of O&M cost estimating guides.
- To adjust to the current price level values obtained from O&M cost estimating guides.
- To adjust O&M cost estimates based on a 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 normal. The following example illustrates use of the cost index for adjusting Reclamation's operations, maintenance, and replacement cost estimates.

Example

An estimate prepared in 1980 (\$35,000) needs to be adjusted to 2025 costs. Estimates of annual provisions for replacement and electrical energy costs should be adjusted using 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	1.28
2025	6.64

$$\text{Ratio of Indexes: } 6.64 \div 1.28 = 5.19$$

To determine the 2025 estimated costs for personnel, equipment, materials and supplies, administration, and general expenses, multiply the 1980 estimated costs by the ratio of indexes.

$$\text{2025 Estimated Costs: } \$35,000 \times 5.19 = \$181,650$$