

# Avoided Cost Explained

Otsego Electric Cooperative (OEC) does not “Net Meter” any of our accounts. We pay our Avoided Cost for power delivered back to our system from approved grid-connected systems. Avoided cost is the incremental cost to a utility of generating or purchasing electric energy or capacity, or both, in an amount equal to that purchased from the qualifying facility. There are a number of different accepted practices for determining a utility's avoided cost. OEC's avoided cost is a market-based calculation based on our annual energy costs. Otsego Electric Cooperative buys all of our energy from the New York Power Authority and almost 90% of this power comes from hydropower generated by the Niagara River Power Project.

## *Key Points:*

- The “avoided cost” is the price the cooperative would have paid to purchase or produce power, which is the fair market-based price for hydropower and open market power when we buy incremental. Our historic average has been about 203 cents per kWh.
- As an electric cooperative, our rate policy and our avoided cost policy strive to maintain fundamental cost fairness among all of our member-consumers as a form of consumer protection.
- Our metering arrangement is for the member to pay for the kWhs delivered to their property based on a tariffed cost-based rate. This rate is designed to compensate the cooperative for the costs it incurs to purchase and deliver kWhs through the transmission and distribution systems.
- The cooperative will pay a member generator for the kWh's delivered to the grid at a rate that is developed based on an avoided cost basis, pursuant to federal regulations.
- Asking the cooperative to pay a higher price for energy produced by a single member than the price we would pay to purchase it elsewhere is not fair to other members when our other sources are less expensive .
- Any member connected to the grid with access to virtually unlimited electricity on demand must pay a portion of the costs associated with poles, wires, substations, transformers, and operations necessary to deliver reliable electricity to their property in order to achieve cost fairness among all members.
- The avoided cost rate pays members for intermittent electric generation when it's available while the cooperative's retail rate covers costs associated with generation, transmission, and distribution of electricity available to members on demand.
- Basic fairness to utility customers is the rationale for the federal standard being what it is and for the cooperative's avoided cost rate.

- Electric cooperatives are not-for-profit, so this is a matter of consumer protection for all members and not about making a profit.

The diagram below demonstrates how a typical residential member with solar generation (green line) still relies on OEC (red line) a large portion of hours per day. Because typical solar generation may not match the member's load curve, the typical member is drawing electricity from the grid for most of the hours of any given day or pushing excess electricity onto the grid at various other times.

