

Understanding Cost Avoidance

Cost avoidance is the calculated value of the difference between what we actually spend on utilities and what we would have spent had we maintained our old habits and methods of using energy.

For example, say a family takes a vacation every summer and drives the family car 4,000 miles. They have a hummer that gets 10 miles per gallons. Last year the cost of gas was \$3/gal so the trip cost them \$1200 for gas, having used 400 gallons. This year they decide to buy a Prius that gets 40 miles per gallon. They take the same trip, but this year they use 100 gallons of gas. Unfortunately, the cost of gas has gone up to \$4/gal, so the trip costs them \$400.

<u>Trip Last Year</u>	<u>Trip this year (if the Hummer was used)</u>	<u>Trip this year with Prius</u>
Miles: 4,000	Miles: 4,000	Miles: 4,000
Gallons gas used: 400	Gallons gas used: 400	Gallons gas used: 100
Cost per gallon: \$3.00	Cost per gallon: \$4.00	Cost per gallon: \$4.00
Cost of trip: \$1200	Cost of trip: \$1600	Cost of trip: \$400

So, had they taken the trip this year, using their old habits (the Hummer) the trip would have cost them \$1600. But they actually used the new Prius, so the trip actually cost them only \$400. They avoided spending the difference between \$1600 and \$400 or \$1200. So their “cost avoidance” is \$1200.

But, what did they actually save. Last year the trip cost them \$1200, this year it cost \$400. Their savings is the difference of \$800.

The computer program that tracks our progress in energy management reports progress as cost avoidance, not actual savings. This is not meant to be misleading, but it may well be as it is often misunderstood. The energy dividends that will be returned to the schools each year are based on actual, documented *savings*. These savings will be calculated by taking the difference between last year’s utility expenses, and this year’s expenses. The program costs, consultant fees, and the Energy Educator’s salary will also be subtracted. One hundred percent of the remaining dollars will be returned to the schools in the form of block grants. This will be done on a per pupil basis.