

Alaska Energy Transparency Project
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On-Bill Financing:

What it is:

On-Bill Financing (OBF) is a program that allows utilities, such as electrical cooperatives, to assist customers in making energy upgrades to their home or business. These upgrades can cover items that increase a home or business' energy efficiency (more efficient appliances, heat pumps) or the installation of solar panels or other types of renewable power generation.

In an OBF program, the utility loans the customer the money needed to make the desired upgrade. Loan repayments are then included as a part of the customer's monthly utility bill until the loan is repaid. Over 110 utilities across the United States currently offer OBF programs.

Why is it useful:

On-Bill Financing increases equitable access to energy upgrades by making them possible for people who lack sufficient savings and/or may have difficulty qualifying for a loan from a traditional lender. Some OBF programs are open to renters, greatly expanding the number of utility customers who can make energy upgrades.

The idea behind OBF is that the monthly savings in energy costs created by the energy upgrade will offset monthly loan repayments. This means that the customer should see little or no increase in their monthly bill while the loan is being repaid, and continue to see savings afterwards. Most OBF loans are made at no- or low-interest. By reducing overall energy consumption or helping people install renewable energy systems such as solar panels, OBF programs also have positive environmental impacts.

SAVING AND REPAYING "ON THE BILL"



Average first-year results for the 125 participants in South Carolina cooperatives' "Help My House" on-bill financing pilot program

Source: John-Michael Cross, Policy Associate at the Environment and Energy Study Institute.
<https://www.eesi.org/presentations/view/on-bill-financing-for-rural-communities>

Additional Factors:

On-Bill Financing requires the utility to have a sufficient pool of capital to loan to its members. Many utilities are eligible for no-interest loans from the USDA's Rural

Energy Savings Program (RESP) to provide funds for OBF programs. In some cases, a third party lender (such as a Green Bank) can provide the capital.

There needs to be some mechanism to estimate the potential savings an upgrade will provide, to ensure that loans are cost effective for the consumer. In many cases, utilities create a list of approved contractors authorized to install upgrades.

Some utilities are hesitant to provide this service because of concerns about the cost and challenges of administering the loans. The danger of defaults on loans is also a possible concern, although a customer's reliability in paying their utility bills in the past is generally a good indicator of whether or not they will default on the loan. Shared risk pools also exist to limit utilities' potential exposure to defaults. Depending on how a program is structured, a failure to repay the loan can lead to a cutoff in service, which also decreases the likelihood of defaults.

Different types of programs:

Somewhat confusingly, the term "On-Bill Financing" is used at different times to refer both to a category of utility sponsored loans AND a specific type of these loans. The broader definition contains three types of programs.

1. *On-Bill Financing*—this is when the utility itself loans funds to their customers for upgrades.
2. *On-Bill Repayment*—when the loan is provided by a third party lender, but repayment is still made through the monthly utility bill.
3. *On-Bill Tariff*—in this type of program, the funds advanced by the utility are not defined as a loan, but as an "equipment improvement," and repayment is made through a service fee on the monthly bill. On-Bill Tariffs are useful in extending funds to renters (since they are usually tied to the location where the improvement is made, not the customer) and do not affect customers' credit scores. If a customer moves, subsequent customers inherit both the service fee and the savings created by the upgrade.

Frequently used associated terms:

Bill Neutrality—this approach requires that the cost of a loan be completely offset by the anticipated savings an upgrade would provide a customer, so that they would see no change in their average utility bill.

Customer Obligation vs. Meter Obligation—these terms signify who is responsible for repaying a loan made through OBF.

Customer Obligation--the individual customer receiving the loan is responsible for its repayment, even if they sell the property. If portable, (an appliance), the customer can take the improvement with them upon repaying the debt. In some cases, the debt can be assumed by a new owner. Most commonly used for On-Bill Financing and On-Bill Repayment.

Meter Obligation—responsibility for repaying the debt is attached to the property where the improvement is made, even if the customer at that property changes. Meter Obligation is more friendly to renters and is usually used for On-Bill Tariffs.

Energy Audit—a study conducted by a trained professional to assess if the savings associated with an energy upgrade will offset the cost of the loan.

On-Bill Financing in Alaska:

In 2018, House Bill 374 was passed, providing a legal framework for Alaskan utilities to introduce On-Bill Financing programs.

In recent years GVEA is the only Alaskan utility that has taken steps to introduce an On-Bill Financing program. In 2020, GVEA's Board approved funds for a \$200,000 pilot project. As of March 2022, the pilot project was still being developed. The committee formed by GVEA to draft a proposal has recommended that it pursue an On-Bill Tariff program, which the committee believes is not subject to HB 374's rules. The new tariff would instead require approval by the Regulatory Commission of Alaska (RCA).

Additional Information:

Southeast Energy Efficiency Alliance "Understanding OBF"

<https://www.seealliance.org/initiatives/low-income-financing/>

FAQ at Environment and Energy Study Institute:

<https://www.eesi.org/obf/coops/faq>

National Resource Defense Council Overview on OBF Programs

<https://www.nrdc.org/sites/default/files/on-bill-financing-IB.pdf>

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