On-Bill Repayment

With on-bill repayment (OBR), property owners borrow money for energy improvements and pay it back over time via their utility bills. Early programs were referred to as "on-bill finance" because the utility was expected to finance and originate the loans. Utilities were often uncomfortable in this role. Recent programs are more flexible and allow for the loan capital and origination to be provided by a third-party lender; the utility bill simply serves as the repayment vehicle.

There are two types of OBR programs: tariffs and loans. Loans are personal debt and must be paid off if the property is sold. Tariffs are an obligation assigned to the utility meter. If the property is sold, the new owner assumes responsibility for the payments.

OBR is unique in its ability to address the "split incentives" problem that occurs when a tenant pays the utility bills. Property owners have little incentive to pay for energy improvements if the tenant reaps the savings, and tenants have little incentive to invest in improvements to a building they do not own. With OBR, the savings and loan payments are on the same bill, thereby eliminating the split-incentives issue.

On-Bill Repayment Characteristics

Technology Focus	Energy Efficiency
Type of Measures Financed	Individual Product Installations or Whole-Building Upgrades
Target Sector(s)	Commercial & Industrial, Residential, Public, and Non-Profit
Compatible Funding Sources	Private Lenders, Bonds, or Public Funds
Security Required of Borrower	The Ability to Shut Off Utility Service in the Event of Non-Payment is Typically All the Security Required; Some Programs Require a UCC Filing
Repayment Mechanism	Utility Bill
Complexity to Implement	Complex
Role for State/Local Governments	Partner with Utility, Provide Loan Capital and/or Credit Enhancement Funds to Utility
Impact per Dollar of Public Funds	Moderate to High

Considerations for State and Local Governments

- When designing an OBR program, it is important to consider the effect of the source of capital on the interest rate paid by the borrower. When the capital for OBR loans come from a third-party source (e.g., a bank makes the loan), loan defaults can become an issue. If there is a collection, utilities (and sometimes regulatory authorities) often require that delinquent utility bills are paid first, with only the remaining funds going toward loan repayment. This can increase lender risk and may result in a higher interest rate. For this reason, interest rates may be lower if a state or local government or utility provides the loan capital.

- The ability to disconnect power in the event of non-payment can be a powerful incentive to pay and a strong form of security. However, utilities and governments may be reluctant to enforce this measure due to social and other concerns.
- Many utility partners may not have the type of billing systems in place that would allow for OBR, in which case a sizeable investment is often required to upgrade utility billing and collection systems before an OBR program can launch.

Advantages	Disadvantages
• OBR is the only financing vehicle that works successfully for rental properties where the tenant pays the utility bills (eliminating the split-incentives problem). • In the tariff version of OBR, the payments can be passed along to the new owner if the property is sold.	• Setting up an OBR requires utility cooperation. • May require legislation to authorize its use.

When to Use On-Bill Financing

OBR is well-suited for programs that plan to target renters or tenants. It is also one of the better programs for borrowers who don't have excellent credit, as the credit decision is based on utility payment history and not on the customer's credit score. OBR requires a utility company partner.

Example Programs / Case Studies

Midwest Energy How$mart (State of Kansas)

Midwest Energy offers its residential and small commercial customers an on-bill financing program for their energy-efficiency improvements. To take part in the How$mart program, customers must be up-to-date on their energy payments and have an energy audit performed on their building by a Midwest Energy auditor. If a customer decides to make the improvements identified in the audit, the audit is free and Midwest Energy pays the initial cost of the upgrades. Customers pay back the improvements in a surcharge on their utility bill after the upgrades are installed.

Interest rates for the program vary depending on whether a customer is residential or non-residential. How$mart offer loans with terms up to 15 years for residential customers and up to 10 years for commercial customers. Renters who wish to take part in the program must first have permission from their landlord.
www.mwenergy.com/howsmart.aspx

Long Island Green Homes (Babylon, NY)

The Long Island Green Homes program uses funds from the town's solid-waste reserve to finance energy efficiency and renewable energy projects. The program requires a building to undergo an initial energy audit, after which a certified contractor completes the work identified in the audit. Upon completion of the upgrades, the town pays the contractors directly and the property owner pays back the upgrade costs on a trash bill surcharge with 3 percent interest.
http://ligreenhomes.com/page.php?Page=home

Clean Energy Works Portland (Portland, OR)

The Clean Energy Works Portland program is a 500-home pilot available to residents of the city of Portland that provides easy access to low-cost financing for energy efficiency improvements. If a homeowner's property is selected through an application process, a home energy assessment is scheduled to be conducted by a certified Building Performance Institute contractor. An Energy Advocate will also be available to the homeowner to discuss the recommended improvement measures and financing options, as well as to walk the homeowner through the installation process.

There is no upfront cost to the homeowner. The cost of improvements is financed over a 20-year term that is repaid on the customer's utility bills. With a recent $20 million federal stimulus, Clean Energy Works Portland has expanded its mission and changed its name to Clean Energy Works Oregon.
www.cleanenergyworksoregon.org

Resources & Guidance

Alliance to Save Energy (ASE) On-Bill Financing Policy Brief
www.ma-eeac.org/docs/On-BillFinancingASEBriefMatthewBrown.pdf (PDF, 19 pp. 393K)

On-Bill Finance for the Small Business Market – Includes a comprehensive list of OBF programs nationwide
www.oregon.gov/ENERGY/LOANS/EEAST/docs/On-Bill_Finance_for_SmallBusinessMarket.pdf (PDF, 14 pp. 281K)