

US Department of Energy:

On-Bill Financing and Repayment



On-bill financing and on-bill repayment programs provide two options for property owners to pay for investments in clean energy upgrades through their utility. While electric utilities and natural gas companies typically run on-bill programs, there is an opportunity for state and local governments to capitalize on new on-bill loan funds and/or provide credit enhancement for existing on-bill funds. Depending on the programs available in a given jurisdiction, some government entities may also be able to take advantage of on-bill programs to finance projects for their own facilities.

On-bill financing allows the utility to incur the cost of the clean energy upgrade, which is then repaid on the utility bill. **On-bill repayment** options require the customer to repay the investment through a charge on their monthly utility bill as well, but with this option, the upfront capital is provided by a third party, not the utility. Additionally, on-bill repayment allows for a streamlined process as utilities already have a billing relationship with their customers, as well as access to information about their energy usage patterns and payment history. In some on-bill repayment programs, the loan is transferable to the next owner of the home or building.

On-Bill Financing and Repayment Program Challenges

There are two issues that state and local governments should be aware of when considering providing support to an on-bill program: (1) changing the billing system to allow for on-bill repayment appears to be difficult for some utilities; and (2) repayment allocation (i.e., who is paid first) is an issue when customers partially pay their bills. When using a third-party source of capital for the program, the utility usually covers the gas or electric charge first, increasing the risk to the lender, which is why credit enhancement is useful to attract private capital.

Despite these challenges, on-bill financing and repayment programs offer some of the most elegant solutions to energy financing as the savings are on the same bill as the repayment. On-bill programs work best when there is a cooperative utility.

ADVANTAGES

- Savings are paired directly with repayment on the same bill
- Can be structured to meet the needs of different markets
- Provides a secure revenue stream because failure to pay can be tied to disconnection
- Can use past bill repayment as a proxy for credit

DISADVANTAGES

- Utilities are often reluctant to take on role of financing entity; potential exposure to consumer lending laws and alterations to billing systems are required
- Can be complicated to set up
- If transferability is not allowed, businesses or homeowners must pay off entire loan upon sale of property, which could result in not all of the energy savings being realized