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Study: Repayment for Energy Efficiency Improvements through Utility Bills a Growing Trend

Patrick Kiker ^[1]
Washington, D.C.

On-Bill Financing Extends Opportunities for Energy Efficiency Investments to Historically Underserved Markets such as Multifamily Housing and Small Businesses

Washington, D.C.—On-bill financing, an innovative tool that allows customers to pay for energy efficiency investments through their utility bills, is becoming more widely available across the country and extending opportunities to historically underserved markets, according to a new study ^[2] released today. The study, *On-Bill Financing for Energy Efficiency Improvements: A Review of Current Program Challenges, Opportunities, and Best Practices*, was released by the American Council for an Energy-Efficient Economy (ACEEE) and profiles 19 existing on-bill financing programs in 15 states. The study finds that these programs are poised to address financing gaps that have not been historically addressed by other energy efficiency financing mechanisms.

On-bill financing generally refers to a financial product that is serviced by, or in partnership with, a utility company for energy efficiency improvements, and repaid by customers on their monthly utility bills. In many cases, energy savings are sufficient to cover the monthly payments for the financing so that the total monthly charge on utility bills is less than or equal to the pre-investment amount. Programs can be tailored to meet the needs of industrial, commercial, and residential customers.

“The great thing about on-bill repayment is that it can serve a broad array of markets with diverse needs. It is a versatile financing tool that can be combined with a variety of different sources of capital and implementation strategies,” observed Casey Bell, lead author of the report.

“On-bill financing programs can leverage a utility’s unique relationship with energy

customers improving access to funding for energy efficiency investment, especially for historically underserved markets such as rental, multifamily buildings, and small businesses,” said ACEEE Executive Director Steven Nadel. There is also potential for traditionally credit-constrained customers to gain access to financing through modified underwriting that takes bill payment history into account.

Energy efficiency loan programs are a low-risk investment according to a recent [ACEEE report](#) [3], and on-bill financing is no exception. Default rates for on-bill programs are frequently less than 2%. There is evidence to suggest that customers tend to prioritize the payment of utility bills, which contributes to low default rates, and some program administrators are exploring the potential of bundling on-bill loans with other financial products and creating a secondary market for capital. Creating a secondary market could help bring programs to scale, since many of these programs have participation rates of less than 1% of eligible customers.

On-bill programs are still generally in their infancy. These programs are facing some challenges to adoption and scalability, including funding the upfront costs for utilities with a need to modify their billing systems, a perception by some that utilities need to behave like a financial institution to participate in on-bill financing, and the need for more information on the performance of energy efficiency financing as an asset class.

“As the number of on-bill programs grows, we anticipate many opportunities to learn from experience,” said Bell. Important considerations for augmenting and implementing on-bill programs include understanding underlying financial incentives, and applicable laws and regulations, as well as how risks are distributed amongst stakeholders.

This report is the third in an ACEEE series on energy efficiency financing. Prior reports include *Energy Efficiency Finance 101: Understanding the Marketplace* [4] and *What Have We Learned from Energy Efficiency Financing Programs?* [3] This report can be downloaded at <http://aceee.org/research-report/e118> [2].

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The American Council for an Energy-Efficient Economy acts as a catalyst to advance energy efficiency policies, programs, technologies, investments, and behaviors.

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