

# On-Bill Financing 101

## Helping Homeowners and Businesses Fund Energy Projects

On-bill financing offers a way for utilities to aid customers in financing energy efficiency improvements, such as upgrading HVAC systems, furnaces, lighting or weatherization. With on-bill, the utility acts as the lender and incurs the upfront costs of efficiency upgrades, which is then repaid through the customer's utility bill. Financing may come from federal funds, through grants or similar dedicated programs, philanthropic investments, commercial banks or other sources.<sup>i</sup>

### Step 1

Lender loans money to home or business owner to cover upfront costs of energy efficiency upgrades.

### Step 2

Customer makes improvements that save energy and lower their utility bill.

### Step 3

Customer pays back lender via a small monthly charge on the utility bill.

**On-Bill Financing** is an umbrella term for a financing program whereby a charge is added to a customer's utility bill. There are many on-bill programs, but due to the differing utility and regulatory structures among states, no two programs are exactly the same. The program can be run as a loan, tariff or service agreement, and can serve residential or commercial customers. Most programs require "bill neutrality", which ensures the on-bill payments are equal to or less than the amount saved from the efficiency upgrades. On-bill financing with bill neutrality helps reduce customers' upfront energy efficiency improvement cost barriers while lowering utility bills through reduced energy consumption.

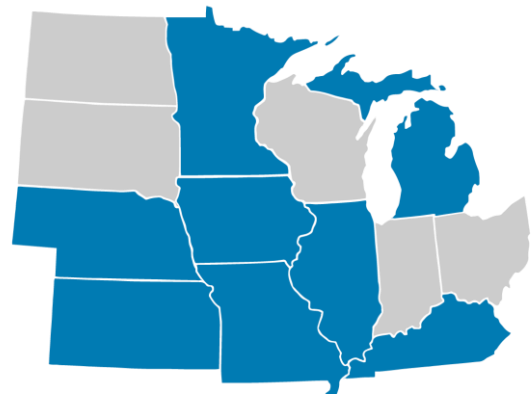
### Programs Across the Midwest

On-bill financing is rapidly increasing in popularity across the nation and within the Midwest. Within MEEA's 13-state territory, there are eight states with active programs, pilot programs or programs in the planning stages. These states are Illinois, Iowa, Kansas, Kentucky, Michigan, Minnesota, Missouri and Nebraska.

Some of these programs are well-established, while others are in their nascent stages. For example, Michigan's on-bill program was created under legislation that passed in 2016 and is quite active. The legislation supports residential properties with the funding provided by a commercial lender. The first on-bill program within Michigan was created by the City of Holland.<sup>ii</sup>

Minnesota's on-bill programs have taken a while to develop. Established in 2007, Minnesota's Conservation Improvement Program (CIP) authorizes on-bill and other actions taken to advance the financing mechanism within the state. For example, CenterPoint Energy is in the process of designing a program, and the City of Minneapolis is exploring a model for on-bill financing.<sup>iii</sup>

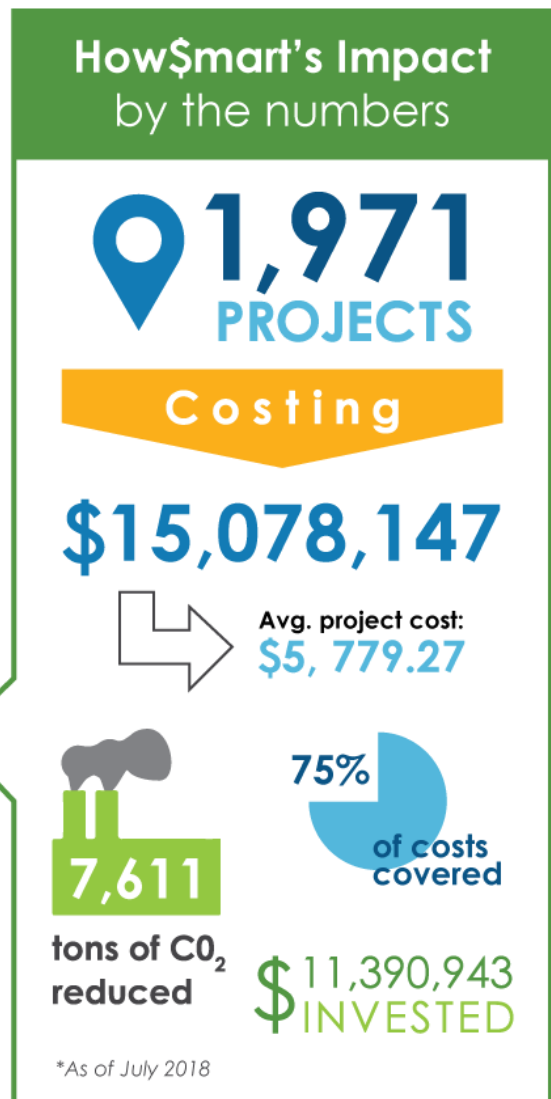
States with On-Bill Financing



## Pay As You Save Program

There are many different types of on-bill programs throughout the nation, including Pays As You Save (PAYS). PAYS financing is an on-bill program where the loan is paid through a tariffed charge on the utility bill. The financing is attached to the building, so if it the unit sold, the charge and benefits remain for the new owner until all costs are recovered. Unlike other financing programs, PAYS offers some safeguards that end customer payments if an upgrade fails.<sup>iv</sup>

Currently there are a number of states across the Midwest that are in the process of piloting a PAYS program. On example is the **How\$mart** program in Kansas. The program allows Midwest Energy utility customers to finance efficiency upgrades through a financing mechanism based on the PAYS concept, in which the charge on the utility bill is less than the projected savings.<sup>v</sup> There has been continued demand for the How\$mart program, and as of July 2018, 1,971 projects have been completed, and over \$11 million had been invested.



## Sources

<sup>i</sup> Colby, J. et al., 2018. "PAYS Feasibility Study". Cadmus.

<sup>ii</sup> Holland Energy Fund. *Eligible Measures List*.

<https://hollandenergyfund.com/wp-content/uploads/2016/11/Eligible-Measures-List-11.22.16-1.pdf>

<sup>iii</sup> Jossi, Frank, 2018. "Minneapolis studying on-bill financing for efficiency projects". *Energy News*.  
<https://energynews.us/2018/06/04/midwest/minneapolis-studying-on-bill-financing-for-efficiency-projects/>

<sup>iv</sup> Energy Efficiency Institute Inc. *What is PAYS*.

<https://energynews.us/2018/06/04/midwest/minneapolis-studying-on-bill-financing-for-efficiency-projects/>

<sup>v</sup> Energy Efficiency Institute, Inc. 2013. *Status Report for programs based on the Pay As You Save (PAYS) system*.  
[http://www.eeivt.com/?page\\_id=28](http://www.eeivt.com/?page_id=28)