K12.2

EB-2015-0049 & EB-2015-0029

Benefits of On-Bill Financing

A. The potential benefits of an on-bill financing program include the following:

1. **Facilitate low interest financing by lowering risk profile:** (a) On-bill financing can allow for lower financing costs for energy efficiency improvements by charging the loan repayments directly to the utility bill. This lowers the risk profile of the loan because the borrower will be incentivized to repay the loan to maintain gas service. (b) Financing costs can be further lowered by attaching the loan to the property so that it will persist beyond the current owner. This further lowers the risk of loan default as new owners of a property will be required to pay the overdue gas bills. (c) Financing costs can also be lowered by partnering with financial institutions through a competitive procurement processes.

2. **Further lower interest rates through subsidy where appropriate:** On-bill financing can allow for even lower interest rates through a subsidy in appropriate situations.

3. **Enable capital-starved consumers to adopt conservation measures:** On-bill financing can give residential and commercial consumers without access to low-cost financing a means to undertake cost-effective conservation measures.

4. **Reduce consumer efforts needed to adopt conservation measures:** On-bill financing can greatly reduce the efforts needed by consumers to research and undertake conservation measures. For example, (a) the utilities or allied contractors can provide a "one-stop-shop" for information regarding conservation measures, financing assistance, and installation, (b) utilities or allied contractors can assist with the necessary paperwork, (c) consumers can trust and rely on information from the utility, and (d) the loan application paperwork would be more straightforward as compared to mortgage-related loans.

5. **Increase consumer convenience:** On-bill financing can increase convenience by eliminating the need to make and monitor separate loan repayments.

6. **Reduce cash-flow concerns:** On-bill financing can avoid consumer concerns about future cash flow problems by ensuring that the benefits (reduced gas costs) and the costs (financing charges) are incurred at the same time on the same bill.

7. **Reduce uncertainty relating to relocations:** Some consumers may be reluctant to invest in conservation out of a concern that they may move houses/locations and may not be able to recapture the cost of conservation measures. This risk can be eliminated by allowing for the on-bill financing to be attached to the gas bill, not the property owner.

8. **Allow for adoption of conservation by renters:** Some commercial or residential renters may pay the gas bill but be reluctant to invest in conservation measures as they are not

owners. The landlords, in turn, may have insufficient incentives to invest in conservation as they do not pay the gas bill. On-bill financing may help overcome this mismatch by allowing for measures to be implemented at no cost to the owner.

9. **Improved promotional opportunities:** On-bill financing can allow for improved promotional opportunities for conservation. For example, (a) on-bill financing can allow utilities to promote "no money down" conservation upgrades, (b) on-bill financing can allow utilities to offer consumers a way to decrease their monthly gas costs with no upfront costs, and (c) utility communications to consumers can be leveraged to promote on-bill financing.

10. **Highly cost-effective:** On-bill financing can be highly cost-effective. For example, on-bill financing can improve uptake of conservation measures at a very low cost by (a) lowering the risk profile of energy efficiency loans and thus interest rates (see paragraph 1 above) and (b) by correcting certain market failures (see below).

11. **Correct market failures and facilitate market for conservation measures:** On-bill financing is highly cost-effective in part because it corrects a number of market failures that would otherwise result in the adoption of a sub-optimal amount of conservation measures. For example, on-bill financing can (a) greatly reduce transaction costs,[1] (b) address incomplete information,[2] (c) address the disincentive to invest by owners who may wish to move (an externality),[3] (d) address the disincentive to invest by renters (an externality),[4] (e) reduce the risk profile of energy efficiency loans,[5] and (f) allow consumers to adopt conservation measures that result in benefits not currently included in the TRC test, such as improved comfort from better heating or a desire to reduce one's own greenhouse gas emissions.

12. **Increase uptake of existing conservation programs by consumers:** On-bill financing can be used to increase the uptake of existing conservation programs by providing the benefits listed above (e.g. access to capital, improved consumer convenience, etc.).

13. **Enable the adoption of conservation measures *not* covered by existing programs:** On-bill financing can enable the adoption of conservation measures not covered by existing programs by providing the benefits listed above.

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[1] Transaction costs that can act as a barrier to the adoption of financed conservation measures include the following: (a) time needed to research the wide range of conservation and financing options that are available, (b) complicated loan application procedures, (c) calculating the overall bill impact of the conservation measures and financing costs, (d) researching the trustworthiness of contractors, and (e) other paperwork and research. On-bill financing can greatly decrease these transaction costs (see, for example, paragraph 4 above).

[2] Many consumers are not aware of financing and conservation measures available to them. On-bill financing can address this.

[3] See paragraph 7 above.

[4] See paragraph 8 above.

[5] See paragraph 1 above.

B. On-bill Financing vs. Promotion of Existing Bank-Offered Energy Efficiency Loans

One potential alternative to on-bill financing is for a utility to promote the existing energy efficiency loans offered by other financial institutions. However, this "cross-promotion" alternative would not result in a large number of the benefits listed above. In particular, it would not result in the benefits listed in paragraphs 1, 2, 4, 5, 6, 7, 8, 9, 11, 12, and 13.