Attachment D

On-Bill Financing Information for the Juneau Assembly/PWFC

What is OBF?

On-Bill Financing (OBF) is a mechanism where financing repayments for water or energy efficiency upgrades are made through an existing utility bill.[1] Utility bill payment history is often used as a creditworthiness criterion (12 months of on-time payments). Note that credit scores are also used in the financing determination, similarly to traditional loans.

There are three types of on-bill financing programs that commonly fall under the term "OBF":

- **On-bill financing (OBF):** The utility is the lender in an OBF program. The utility can use a variety of funding sources for this, but often the capital comes from the utility's (or municipality's) coffers. *The financing stays with the individual, not the property.*
- **On-bill repayment (OBR):** In OBR, the capital provider is a third party. The Utility is the biller, but the funding is backed by a third-party (e.g., a financial institution). *The financing stays with the individual, not the property.*
- **Tariffed on-bill (TOB):** In a TOB program, efficiency upgrades are financed not through a loan, but through a utility offer that pays for upgrades under the terms of a new, additional tariff. On-bill charges are associated with the meter at the address where upgrades are installed, and cost recovery charges are treated as utility bills. *The financing stays with the property, not the individual.*[2]

For the purposes of this memo, I will be referring to "OBF" for consistency and clarity, although Mr. Cohen's proposal would be more aligned with an OBR program.

Why OBF?

OBF programs are designed to reach more people than most traditional financing options for energy and water efficiency upgrades.

From EESI:

"On-bill financing is an exciting opportunity to expand residential energy efficiency and clean energy efforts into underserved markets. Many families are unable or unwilling to access traditional energy upgrade programs because they require upfront investments before tax

[1] Environmental and Energy Study Institute (EESI): EESI's On-Bill Financing (OBF) Project: An Access Clean Energy Savings Program; https://www.eesi.org/obf/main

[2] The American Council for an Energy-Efficient Economy (ACEEE): On-Bill Energy Efficiency; https://www.aceee.org/toolkit/2017/02/bill-energy-efficiency

incentives and/or rebates kick in. Likewise, many households are unable or unsure of how to access traditional financing programs to invest in energy upgrades.

On-bill financing can help overcome this, but the approach works best when projects are designed to be cash-flow positive and applicants are approved through non-traditional means (such as good utility bill payment history instead of credit scores). Some on-bill financing programs expand the potential participant pool further to renters and short-term owners by allowing for the repayment obligation to change hands when the property is sold or new renters move in, helping to break down split-incentive barriers."[1]

Why Utilities?

A majority of today's on-bill programs provide the loan funds directly from a utility, and the repayment risk resides with the same entity.

<u>From NRDC:</u>

"Merely billing a loan payment in connection with the utility bill could offer customers added convenience, but on-bill loans are also substantively different due to two factors:

- On-bill loans are tied to utility services. Many on-bill programs allow the utility to suspend service to customers who fail to make their loan payments.
- The loans account for the borrower's utility savings. Many on-bill programs require "bill neutrality." In other words, savings from the funded improvements are expected to equal or exceed the new on-bill loan payments. An energy auditor reviews the efficiency improvements and estimates the reduction in utility expenses expected after the project. In contrast, conventional lenders typically do not assess or consider the expected savings on utility bills from an improvement project."[3]

OBF and the State of Alaska

There are currently <u>no</u> OBF programs in Alaska.[4] While OBF has been used in many states for several decades, it wasn't until 2018 that the State of Alaska passed a statute (AS 42.05.750-756) defining the program for Alaskan utilities. [5]

Under AS 42.05.750-756:

- While it empowers utilities to shut off services due to non-payment, it does not require them to do so.

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[3] Natural Resources Defence Council (NRDC): <u>On-Bill Financing: Overview and Key Considerations for Program Design</u>; Philip Henderson, July 2013. https://www.nrdc.org/sites/default/files/on-bill-financing-IB.pdf

[4] Alaska Energy Transparency Project: <u>GVEA Prepares for Pilot On-Bill Financing Program</u>; Brian Kassof, April 2022: https://www.akenergytransparency.org/news/gvea-prepares-for-pilot-on-bill-financing-program

Golden Valley Energy Association (GVEA) in Fairbanks purportedly is looking into a pilot OBF project, but we were unable to find out more information on the current status of the project.

[5] Alaska State Legislature, AS 42.05.750 https://www.akleg.gov/basis/statutes.asp#42.05.750

- Despite a requirement for OBF obligations to be noticed to the recording district where the building is located, they are <u>not</u> liens on the property. They can be resolved and discharged at the time of sale, or they can continue to be paid by the next owner.
- Rental properties are only eligible if the landlord is responsible for the entire utility bill (i.e. renters cannot participate unless they have both the agreement of the landlord and pay the utility bill).
- Utilities cannot remove installed devices for non-payment.
- Interest may be charged for these obligations.
- Property owners must be offered warranties both on installation and the devices themselves.
    - If the Utility performs the installation, they must provide the warranties.
    - If the program goes through a third party (as in an OBR program), the warranties must be provided by the third party, and the Utility is not held responsible.