FREQUENTLY ASKED QUESTIONS: ON-BILL FINANCING

How will this program benefit members of the cooperative?

Members who participate in an on-bill energy efficiency finance program benefit from both lower energy bills (electric and/or gas) as well as more comfortable homes, particularly in the winter months.

What is the cost to members?

Participants pay nothing upfront for the energy efficiency improvements. Instead, they repay the electric cooperative over a period of 5-15 years. After the upgrade the member will pay less on their annual energy bills, even though they are now paying a new fee to repay the cooperative for the efficiency improvements.

How can electric cooperatives fund an on-bill finance program?

There are a number of options available to electric cooperatives and other electric utilities to fund an on-bill finance program. For electric cooperatives, in-house capital (cash on hand) may be used, at least at the onset. Another option is to apply for a loan guarantee through the US Department of Agriculture's (USDAs) Energy Efficiency and Conservation Loan Program (EECLP), or for a loan or grant through the USDA's Rural Economic Development Loan and Grant Program. The National Rural Utilities Cooperative Finance Corporation is also now providing eligible electric cooperatives with low-interest loans that may be used to fund an on-bill finance program. Private lenders are also becoming more active in energy efficiency financing. Each of these options comes with both pros and cons, and the cooperative must decide which option works best for its members.

Will the cooperative have to raise rates in order to fund the program?

Because federal funding and in-house capital are available for funding on-bill finance programs, and because, only the members who participate in the program are charged a new fee to repay the cooperative for home efficiency improvements, there is no need for the cooperative to fund the program by raising rates or collecting a new fee from all of its members.

Will the program require participating members to take on new debt?

On-bill finance programs typically do not require members to take on new debt because the cost of the investment is tied to the electric meter instead of the member. Therefore, the repayment obligation may be transferred from one owner or occupant to the next and as a result, no new debt is incurred for members who choose to participate in the program.

Why is it the electric cooperative's responsibility to provide financing?

There is no requirement that mandates that an electric cooperative develop an on-bill finance program. However, with rising energy costs, there is a need to improve energy efficiency and help reduce energy bills for rural consumers. On-bill financing is the most impactful and cost-effective means for achieving that. Recognizing this, many electric cooperatives are now providing their members with financing for much needed home energy efficiency improvements.

Doesn't our electric cooperative already offer energy efficiency programs?

Most cooperatives do offer tools, programs, incentives and/or financing for energy efficiency. While these programs are beneficial, they do not help all members equally and often do not address the underlying problems that result in high energy bills in the first place. Fixing these problems is costly, and presents a financial barrier to implementing efficiency improvements for hundreds to thousands of cooperative members. An on-bill finance program removes this barrier by providing access to capital for all income classes to implement home efficiency improvements.

How is this any different from weatherization assistance already offered?
On-bill financing and federal weatherization programs achieve similar results of improving the efficiency of participating homes through comprehensive energy improvements. However, federal weatherization programs are only accessible to qualifying low-income residents and are extremely underfunded. On-bill finance programs have the potential to leverage millions of dollars a year to provide home energy improvement funding for all income classes.

Are other electric cooperatives offering this type of program?
Yes. There are over thirty on-bill energy efficiency finance and repayment programs in place across the United States, many of which are offered by electric cooperatives. This includes the new Upgrade to $ave program being offered by Roanoke Electric Cooperative in North Carolina.

How does an on-bill finance program benefit the electric cooperative?
A key aim of electric cooperatives is to maximize member satisfaction; therefore, anything that benefits members benefits the cooperative. Financial benefits for the cooperative vary; however, a significant amount of administration time is spent each year handling high bill complaints and instances where a member cannot pay their bill, so investing in home energy improvements can help reduce the administrative costs of addressing these problems. Additionally, large-scale efficiency investments help improve the efficiency and stability of the electrical grid by reducing peak demand during hot summer and cold winter months.

Why would an electric cooperative want to take on a lender role?
For a cooperative, "lending" money to a member in order to finance efficiency improvements is financially risky because any losses due to member non-payment must be borne by the cooperative, which may then result in increased rates or fees for members in order to recoup those losses. This understandably makes cooperatives hesitant to act as a "lender." However, the "loans" are in reality "investments" by the cooperative, resulting in lower demand, reduced power purchase costs, and an enhanced ability of members to pay their electric bills. On-bill finance programs also have an extremely low default (loss) rate, so the financial risk of offering such a program is extremely low. Given the substantial benefits that an on-bill finance program provides to members, the financial risk to the cooperative is justified, considering the risk is minimal.

How will the cooperative cover the cost of any defaults/losses?
There are two basic ways that a cooperative or other electric utility covers the cost of default/losses. The cooperative can both absorb the loss directly and pay it with in-house capital or implement a member fee to cover the cost. A better alternative would be to have a loan loss reserve fund specifically for cases of default/loss. A loan loss reserve may be funded using existing capital that the cooperative has on hand, state or federal grants or loans, interest rates applied to energy efficiency project costs, or any number of ways.

What happens if a member moves/wants to sell their house before the "loan" is paid off?
There are two main program design options from which a cooperative may choose in order to address a change in occupancy or ownership, and what this means for repayment of an efficiency investment. The first is to require that the member repay any remaining "loan" balance upon moving out or selling their property. While a few electric utilities have selected this option, newer on-bill finance programs tie the repayment obligation to the meter instead of the member, and merely transfer the repayment obligation from one owner/occupant to the next. This latter option allows renters to participate in the program, while also enhancing the attractiveness of the program by offering "debt-free" financing to interested members.

Can the cooperative shut off electricity for non-payment of the energy efficiency charge?
The authorization to do so depends on the state in which the utility operates and, by extension, how the utility is regulated. In Kentucky, for instance, utilities must receive approval from the state Public Utilities Commission to shut-off a customer's power if they do not pay a non-energy-related charge. In North Carolina, it is less clear whether electric cooperatives would need to obtain legislative or regulatory approval to shut-off power for non-payment of an extra efficiency charge. This question is being looked into currently.