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On-Bill Financing

A Tool for Small Business

by Jane E. Obbagy

A number of programs have been created across the United States to help small business engage in energy efficiency to reduce costs and carbon emissions. This article notes several of those programs and examines in more detail on-bill financing, one incentive tool to help small business invest in and install energy-efficient equipment.

On-bill financing has been in place for several years, and the success stories are compelling. However, only a handful of utilities offer it to small business. As the success stories are more widely shared and more pressure is placed on government and the private sector to increase energy efficiency in light of the problems associated with climate change, this incentive program will most likely be further developed and adopted by an increasing number of utilities.

Small Business Energy Statistics

According to the president's *Small Business Agenda: Helping Entrepreneurs Prosper*, small businesses create

two out of every three new jobs and account for nearly half of America's overall employment.

In a July 2006 survey by the National Small Business Association (NSBA), 93 percent of respondents said rising energy costs had affected their business (more than 40 percent indicated the impact has been significant). Moreover, 76 percent of respondents indicated that reducing energy costs would increase profitability.

Data from the U.S. Department of Energy's (DOE) Commercial Buildings Energy Survey indicate that if small businesses were to improve energy efficiency, the United States would be in a position to reduce carbon dioxide (CO₂) emissions by 93.8 to 140.7 million tons per year.

Energy-Efficiency Options

Small businesses interested in reducing their energy requirements should initiate the process by first acquiring the energy-efficient technological information relevant to their operations, deciding which of those options can be most practicably adopted, and then determining which financing opportunities are within reach.

A variety of simple and inexpensive options are available to assist small businesses save money and energy. These include:

- Replacing incandescent lightbulbs with compact fluorescent lamps.
- Changing air filters regularly, especially during peak heating and cooling times.
- Using ceiling fans to increase air movement and comfort levels.
- Tuning-up heating, ventilating, and air-conditioning (HVAC) systems.
- Installing programmable thermostats to automate HVAC systems.

There are other more costly energy-efficient technologies that require financing for most small businesses. Energy-related technologies that provide the best opportunities to reduce costs and carbon emissions for commercial and residential activities are frequently related to *replacement*: lighting; office equipment; HVAC equipment and maintenance; refrigeration; and hot water. According to some studies, HVAC systems account for more than one-third of the electric energy used in U.S. commercial buildings.

Energy-Efficiency Assistance Programs

A number of programs are available to assist small businesses in overcoming the financial obstacles associated with installing energy-efficient measures and understanding the options made available by government and non-government entities.

- EPA's Small Business Energy Star program provides technical support and information. By making resources available, small businesses have the opportunity to explore alternatives in energy-efficient products, services, financing, and tools to calculate the costs and payback periods of various products and updates.
- DOE's Rebuild America program is a network of community partnerships to help small business save money by saving energy. Rebuild America partners have access to energy-efficient products, services, and financing options.
- Utilities across the country have various programs in place. These include posting specific types of energy savings information on utility websites, printing and distributing brochures outlining the types of assistance available and actions that

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could be taken to reduce energy costs, offering rebates, and conducting free energy reviews.

The Cost Dilemma

While there is a desire among small businesses to install energy-efficient equipment that offers significant cost savings, acquisition of upfront capital is the main barrier. In fact, according to the NSBA survey, the majority of small businesses indicated that lack of resources and cash flow were the primary obstacles to installing equipment or implementing energy-efficient measures to make their businesses more energy efficient.

Enter On-Bill Financing

On-bill financing is a utility-based method of providing financing through monthly power bills for small business

energy-efficiency improvements. With on-bill financing, energy-efficiency projects are accomplished with no upfront capital required of the small business installing a project, and savings are “shared” until the loan is repaid. Although limited in use across the country, existing on-bill financing programs feature common components:

- No up-front out-of-pocket costs and 0 percent financing (sometimes in combination with a modest rebate).
- Loan repayment is based on estimated energy savings.
- Customers pay about the same per month as they did before participating; energy-efficient improvement savings are “shared” with the utility.
- Once improvements are paid off, all savings are reflected in lower monthly bills.

The on-bill financing concept may have originated when the New Hampshire Public Utilities Commission directed the New Hampshire Electric Cooperative and Public Service Company of New Hampshire to develop a pilot energy-efficient products program based on a concept known as Pay As You Save (PAYS). PAYS was an effort to overcome certain market barriers to consumer investment in energy-efficient measures.

Success Stories

For small business, cost savings related to reduced energy usage associated with purchasing and installing more energy-efficient equipment are meaningful and range from 25 percent to 35 percent. Here are a few examples:

- The owner of Edge of the Woods natural food store in New Haven,

Utility Programs

Utilities who offer on-bill financing programs for small business include the following:

Company	Program Description
Southern California Gas Company—On-Bill Financing Program	The program targets (1) nonresidential customers (including governments); and (2) owners of multifamily units, who do not reside on premises. The program offers 0 percent financing from \$5,000 to \$50,000 for qualifying natural gas equipment: furnaces; heat recovery; incinerators; kilns; ovens; washers; tumblers; tunnels; and greenhouse heaters.
San Diego Gas and Electric—(SDG&E) On-Bill Financing Program	Under SDG&E’s program, funds are to be used for the purchase and installation of qualifying energy-efficient measures (e.g., heating and air conditioning, refrigeration). The maximum length of a loan is 5 years. The minimum loan amount is \$5,000; the maximum loan amount is \$50,000. Loans are per meter, per customer. There is a 5-year or better payback based on projected annual energy savings.
United Illuminating—Small Business Energy Advantage	The program works in a step-by-step fashion starting with a no-obligation energy-use evaluation resulting in recommendations for energy savings actions. If action is taken (e.g., installing refrigeration controls that will reduce the run time for compressors, evaporator fans and door heaters on walk-in and reach-in coolers and freezers, or shut-offs for standalone vending machines), qualified customers have up to 30 months of interest-free financing. The monthly amount appears as a line item on the energy bill; however, it is offset by new monthly energy savings. After the loan is paid back, the bill is reduced by the energy savings amount.
Connecticut Light and Power (CL&P)—Small Business Energy Advantage	CL&P’s program provides turnkey, energy-saving products and services. There are no up-front customer costs. CL&P will pay substantial incentives for retrofit lighting measures and other eligible energy-efficient measures. The program offers a 0 percent financing option to qualified customers.
National Grid—Small Business Services Program	The program targets lighting, water heating, and refrigeration systems. National Grid pays up to 75 percent–80 percent of the costs of the project. The loan portion of the investment is put on the customer’s monthly electric bill. The customer either pays in one lump sum and the amount is discounted by 15 percent, or pays the remainder with up to 24 months’ interest free financing.

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Connecticut, reduced his store's electric use by 98,000 kilowatt-hours (kWh) in the first 6 months after installing energy-efficient lighting and refrigeration controls under the Small Business Energy Advantage Program. The reduced energy consumption translated into electric bill savings of \$9,500.

- The Fabric Place in Cromwell, Connecticut, saved more than \$14,000 and 154,430 kWh annually by retrofitting 566 fixtures, installing occupancy sensors, and replacing incandescent lamps with compact fluorescents under CL&P's Small Business Energy Advantage Program.
- National Grid's Small Business Services Program has saved more than 2.5 million megawatt-hours and \$65,700 since 1989. For example, the Fall River Florist Supply in Fall River, Massachusetts, reported annual savings of \$4,584 through the installation of energy-efficient cooler controls that reduced energy usage by 4,341 kWh per month or 52,094 kWh per year.

From Global to Local

Energy is integral to all dimensions of business. Over the next few years there will be a substantial increase in the demand for electricity. This will likely be accompanied by rising energy prices, particularly if the cost of fossil fuel extraction continues to rise. Moreover, there is increasing public pressure on industry to respond to climate change predictions by reducing energy demand through the use of more energy-efficient systems in buildings and operational activities.

Response to changes in energy supply, demand, and use is taking many forms. Public and private funds are being allocated to advance energy efficiency on a global and regional basis. Carbon trading is on the rise, an indication that investors and the public accept the notion of a carbon-constrained world.

On-bill financing is yet another example of efforts being made to move energy efficiency into the mindset of everyday business thinking and decision making. The momentum for on-bill financing programs is growing.

States such as Pennsylvania, Nevada, and Oregon have investigated the feasibility of sponsoring programs. Interest is also apparent at the federal level as seen in March 2007 testimony on on-bill financing before the Senate Committee on Small Business and Entrepreneurship.

For busy business managers, on-bill financing provides a relatively easy process to follow and implement. Based on cases seen so far, the gains are real and supportive of investment and policy trends to encourage energy efficiency. The recommendation here is to check with your utility on whether this option is available. If it is, it may help make energy efficiency a more realistic component of business success in our rapidly changing energy landscape.

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