

# ON-BILL FINANCING OVERVIEW

Board of Public Utilities

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# Overview



Introduce the concept of On-Bill Financing



Discuss potential benefits for DPU and customers



Request BPU guidance on next steps

# What is On-Bill Financing?

## On-Bill Financing Overview

- On-bill financing allows customers to finance energy upgrades through their utility bill rather than personal credit required by traditional loans
- On-bill financing programs are used by utilities across over 30 U.S. states

## Key Characteristics

- On-bill financing can solve one of the biggest barriers to electrification: upfront cost
- Payments appear as a line item on the utility bill (familiar payment mechanism)
- Financing often tied to the meter/property
- Projects focus on energy efficiency and electrification

## Typical Eligible Upgrades

- Heat pumps
- Insulation and air sealing
- Electrical panel upgrades
- Efficient water heating

# Benefits of On-Bill Financing

## Strategic Alignment with County goals

- Incentivizing the transition from natural gas to electrification
- Helping customers invest in upgrades that improve efficiency and resiliency

## Incentives for customers

- We are currently prohibited by the anti-donation clause to provide traditional incentives to encourage energy efficient retrofits. However, On-bill financing provides a funding source for customers while remaining in compliance with the anti-donation clause
- Provides low-interest loans (0% - 5%)
- No increase to the individual property owners debt-to-income ratio, there is no personal debt acquired

# Energy Upgrade Financing Gap



Many households cannot easily finance large energy upgrades



Heat pump installations often exceed \$15k–\$20k

Many households are cash-flow constrained

On-bill financing can solve one of the biggest barriers to electrification: upfront cost



On-bill financing allows customers to pay for upgrades gradually through their utility bill

Low interest loans

No personal debt acquired

# Why Utility Conservation Financing Matters

Los Alamos County has several infrastructure hurdles:

- ~86% of Los Alamos's households rely on natural gas for heating
  - Natural gas usage accounts for roughly 32% of the County's total community greenhouse gas emissions.
- Many homes built 1950s- 1970s have poor insulation, single-pane windows, and aging gas furnaces.

# Governance & Capitalization

- **Capital Partner:** Identify capital pool for the program
  - Identify grant program and other financing opportunities
- **Program Administrator:** New Mexico Climate Investment Center or a third-party partner could manage:
  - Contractor vetting
  - Project qualification
  - Application processing
  - Loan servicing and inspections
- **Utility Role:** DPU would provide the billing mechanism, program coordination & DPU would not act as the lender

# Administrative Process

- Customer submits application through program administrator
- Eligibility review based on program design
- Collaborate with qualified contractors
- Project installation completed and verified
- Contractor payment disbursed by the capital provider
- Loan repayment begins through the utility bill
- Customer receives education on maximizing efficiency benefits

# Repayment Mechanism

- Loan would be repaid through a charge on the utility bill (5-10 years)
- Programs typically demonstrated low default rates
- The goal is projects are designed so energy savings offset loan payments where possible
- Obligation can be settled at time of sale of property

# Example of On Bill Financing for Mini Splits

Mini Splits		
Electricity Rate (\$/kWh)		\$0.1463
Proposed Natural Gas Rate (\$/Therm)		\$0.4500
Gross Installation Cost		\$18,000.00
Federal Tax Credit (25C) <i>Must be income qualified</i>		\$2,000.00
HEEHRA/HEAR Rebate <i>Must be income qualified</i>		\$1,750.00
Net Financed Amount		\$14,250.00
Current Situation		
Annual Gas Usage (Therms)		900
Annual Gas Cost		\$405.0000
Cooling (Swamp Cooler)	\$0.0000	No
Cooling (Window units)	\$292.6000	Yes
With Mini Splits		
Annual Electricity Usage (kWh) for Heating		9767
Annual Electricity Usage (kWh) for Cooling		1500
Est. Annual Electric Increase		\$1,648.31
Interest Rate (Annual)		
		4.00%
Repayment Term (Years)		
		7
Monthly Tariff Payment		
		\$194.78
Monthly Gas Cost Savings(Avg)		\$33.75
New Net Monthly Electric Cost (Avg)		\$112.98
Monthly Tariff Repayment		\$194.78
NET MONTHLY CASH IMPACT		-\$274.01

# Examples of On-Bill Programs

- **Traverse City Light & Power – Michigan:**
  - Launched in 2020
  - Loans from \$5k-\$30k
  - Term: up to 10 years
  - Interest rate: 3%
- **Ipswich Electric Light Department (ELD) – Massachusetts:**
  - **Launched in 2023**
  - Interest rate: 0% on-bill loan where the monthly charge is less than the estimated money saved from the energy efficient upgrades
- **City of Tallahassee Utilities – Florida:**
  - Est. 1983.
  - Interest rate: 5% interest financing for more than 25 energy-efficiency measures and solar PV.
  - Terms: Up to 7 years for most measures, and up to 10 years for solar measures
- **Fort Collin’s Epic Homes program**
  - Integrates directly into existing billing systems and utilizes a CDFI to handle loan administration and credit checks.
  - Capitalized through a mix of internal reserves, bank loans, and grants with on-bill interest rates around 5%

# Potential Barriers

- Identifying capital partners
- Developing revolving loan fund
- Ensuring contractor pricing remains competitive
- Program administration capacity
- Robust program participation is necessary for program success
- Must have buy-in from contractors

# Key Program Focus Areas

- Los Alamos has long, cold winters and relatively mild summers, which means most home energy use goes toward heating rather than cooling
- Summer temperatures have been gradually increasing, and more residents are beginning to install air conditioning for comfort
- The most beneficial upgrades are technologies that address both heating and cooling needs:
  - Cold-climate heat pumps that provide both heating and cooling
  - Insulation and air sealing to reduce heat loss in winter and heat gain in summer
  - Electrical panel upgrades to support electrification

# Staff Recommendations

- Staff propose developing a program and pursuing grant funding to stand up the program
  - The program components could include:
    - Energy audits to identify the most effective upgrades
    - Heat pumps for heating, ventilation and cooling
    - Heat pump water heater
    - Insulation and air sealing
    - Energy-efficient windows and doors
    - Wiring and electrical panel upgrades where needed

# Summary

- On-Bill Financing is a proven financing model used by utilities nationwide
- Helps overcome upfront cost barriers
- Supports beneficial electrification & conservation and helps spur the transition away from natural gas

# Next Steps

To move forward, we recommend the Board of Public Utilities take the following actions:

- Direct staff to stand up the program to include:
  - Memorandum of Understanding with New Mexico Climate Investment Center and Coalition of Sustainable Communities New Mexico to explore program design and secure a capital allocation
  - Apply for supporting grants
  - Develop on-bill financing program

# ESB Questions & Concerns

- Are we the first in NM to participate in On-Bill Financing?
- Regarding tax credits & rebates:
  - In general, there are income eligibility qualifications.
  - Some rebates only certain brands are eligible; there are very specific criteria.
- What is the time frame from application to product implementation?
- Would a contractor lien be placed on the home?
- Will you be checking home equity?
- How are you securitizing the loan?
- Who is underwriting the loan?
- What happens if the borrower defaults? Is it foreclosure?
- What happens if the borrower suffers from a job loss?
- What if the housing market goes up-side down?
- What happens if the home burns?
- Who is responsible for collections?

# ESB Questions & Concerns

- What is the participation rate in other places with On Bill Financing?
  - Tallahassee has a 18% participation rate.
- Could eligible products include solar and batteries? (Could be helpful especially with time of use)
- Traverse City received \$1.8M in funding.
- Regarding Energy Audits – They are good because its good opportunity to educate homeowners on energy efficiency. It can also be used as a tool to qualify projects. It can demonstrate Return on Investment.
- On Bill Financing will provide better comfort, improve electrical safety, and improve lives.
- Ensure the borrower understands risk of not paying the monthly bill.
- Concerns were raised regarding the anti-donation clause and the proposed approach of working directly with the Climate Investment Center rather than pursuing a competitive process.

**Thank you!**  
**Questions?**

