



Rate Reduction Incentives (RRI) Training for Public Housing Authorities



What Will You Learn?

After reviewing this video, you should be able to:

1. Know what the Rate Reduction Incentive (RRI) is
2. Learn how to calculate rate reduction savings
3. Identify documentation required for inclusion in the Rate Reduction Incentive submittal
4. Understand HUD's review process for Rate Reduction Incentive

**This presentation was developed by Matt Pesce, P.E., Principal, Facility Strategies Group, LLC, in coordination with HUD.*



What is the Rate Reduction Incentive

- Incentives to promote energy conservation and rate reduction are promulgated in regulations at 24 CFR 990.185
- These regulations include the use of energy savings for energy financing projects, also known as energy performance contracts
- This section also includes regulations for utility rate reductions



What is the Rate Reduction Incentive

- Regulations at 24 CFR 990.185 (b) state:
 - “If a PHA takes action beyond normal public participation in rate-making proceedings, such as well-head purchase of natural gas, administrative appeals, or legal action to reduce the rate it pays for utilities, then the PHA will be permitted to retain one-half the annual savings realized from these actions.”
- These regulations are further refined and clarified, including the required process for submission, in policy Notice PIH 2019-24 or the most current published Notice
- Unless the PHA requests and is approved to capture savings from rate reduction efforts, all savings associated with these efforts accrue to HUD



Why Submit Rate Reduction Incentive?

- Funding for the upcoming year depends on HUD-52722:
 - Line 15: Payable consumption (75% 3-year rolling base consumption + 25% current year consumption)
 - Line 17: Actual 12-month average utility rate for the current fiscal year
 - Line 18: Baseline utilities expense level is the payable consumption times the current rate
- The current rate already reflects lower costs associated with the agency's actions to reduce utility rates.
- Without adding an approved benefit back to the subsidy eligibility (Line 23), HUD retains the reduction

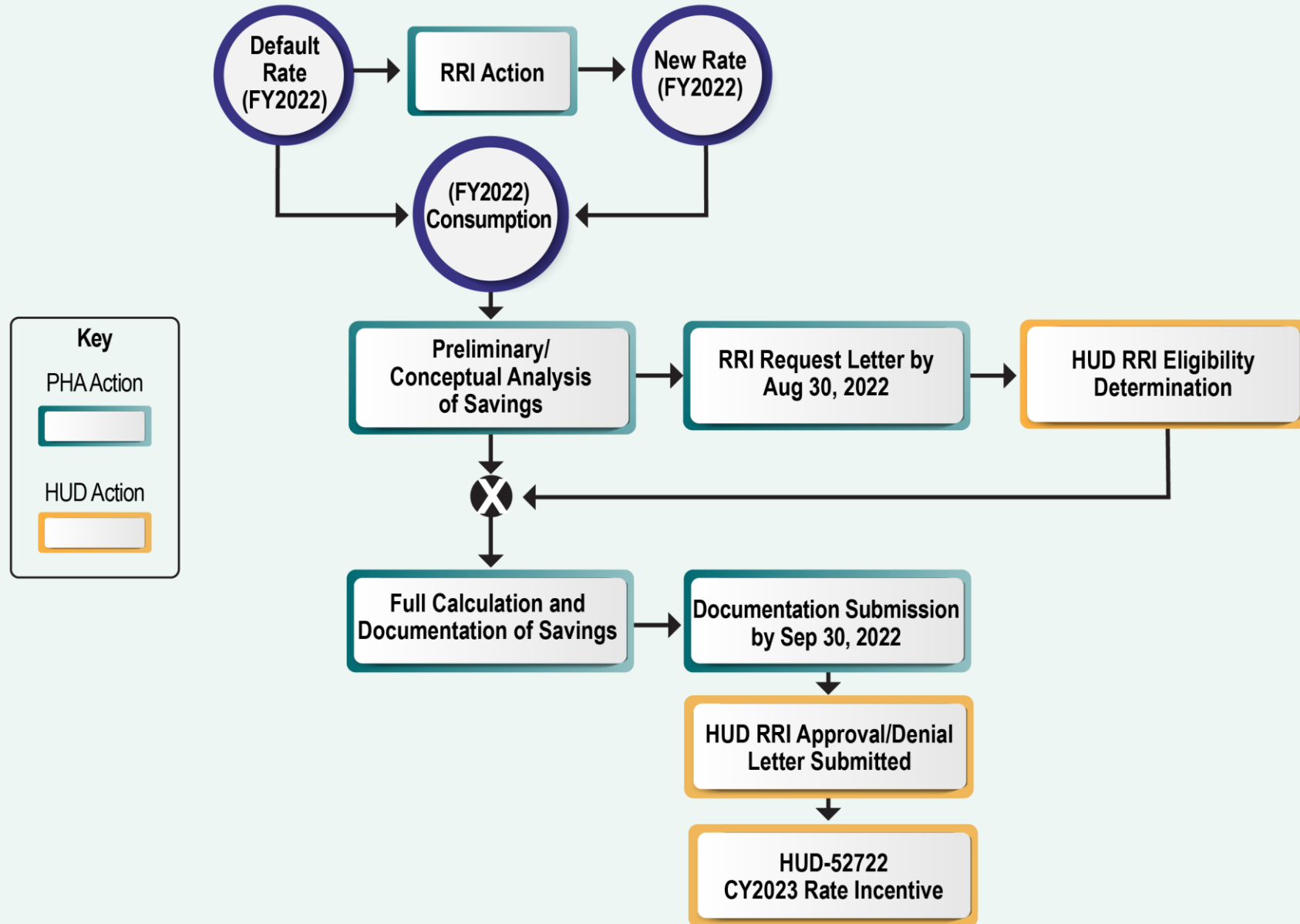


Key Deadlines

- **August 30: Last day to submit an RRI Approval Request**
 - Example: RRI in the 2023 funding year, Request must be submitted by August 30, 2022.
 - Request communicates the efforts undertaken by the PHA and describes how savings will be calculated
 - If a multi-year RRI has been approved; this initial request is not required; submit calculations by 9/30
- **September 30: Last day to submit calculations of rate savings and claimable RRI**
 - Example: To claim RRI in the 2023 funding year, documented savings must be submitted by September 30, 2022.
 - The savings documentation provides a traceable calculation that allows HUD to independently verify savings
- **Supporting calculations are required every year they are requested and sent to PIH_EPC_Policy@hud.gov**



RRI Process Flow Chart





RRI Process and Guidance

- **Notice PIH 2019-24**
 - Outlines approval process and describes types of actions that qualify for RRI
- **Plan the review and submission of rate savings within the PIH 2019-24 framework**
 - Preparatory work: review rate saving efforts, applicable contracts, and default utility rates for each utility to determine potential RRI eligibility
 - Submit RRI Request by August 30th
 - Receive RRI preliminary approval notification from HUD
 - Submit calculations, supply or negotiated rate contracts, utility rate documentation, and received RRI notice of eligibility from HUD by September 30th
 - If fully approved, claim an “Energy Rate Incentive” for each AMP on HUD-52722 for the amount specified in the RRI approval letter from HUD.



Preparing the RRI Request: Key Considerations

- A separate RRI Request must be submitted for each rate-saving action affecting each utility
- The PHA is normally allowed to claim 50% of actual rate savings at each AMP
- AMPs concurrently affected by both an EPC and rate reduction action may claim 100% of rate savings for the affected utilities if the RRI is executed at the same time as an EPC for the same AMPs and same utility
 - The PHA should review their portfolio for these interactions while assembling the RRI Request Letter and request 100% of savings at applicable AMPs.



Preparing the RRI Request: Key Considerations

- Cost savings from on-site renewable energy are also considered a form of rate reduction, eligible to claim 50% of savings
- Start this analysis as soon as data is available for the utility period ending June 30 for the funding year subsidy request
- Understand how the default rates impact the cost of its 12-month consumption in the reporting period in order to assess whether savings were achieved and to describe the calculation methodology in the RRI Request



Preparing the RRI Request: Key Considerations

- In the case where a PHA enters an EPC later for the same AMP where they had previously received RRI approval, the PHA would only receive 50 percent of the savings.



Special Case: Rate Reduction Approved in Previous Year

- The HUD Approval letter may state that the action is eligible for RRI for several years:
 - Example: a PHA is eligible to claim RRI savings for this action through December 31, 2025 provided that it continues to be a party to this contract and that the action continues to produce measurable savings
 - If the same contract is in place for the same AMPs described in the approval letter, the PHA is not required to resubmit the RRI Request by August 30th (or anytime thereafter)
 - However, the PHA is still required to submit documentation of rates and savings by September 30th before claiming RRI on HUD-52722.
- When a multi-year approval is provided, it remains the housing authority's responsibility to submit the annual savings calculations



Items to Include in the RRI Request

- PHA Name and Code
- AMPs included in RRI Request
 - Identify which AMPs are claiming 50% vs 100% savings
- Action Description
 - The nature of the contract or application that the PHA signed to get on the preferred rate, as well as any special efforts in analysis, negotiation, or equipment upgrades that were required
- Calculation Methodology
 - Identify default rate components that will be documented over the course of the reporting period and applied to the actual consumption in order to recreate the default cost to compare it to the actual billed cost for each account



Example RRI Request

“SunnySide Housing Authority (SSHA) is submitting an RRI Request to claim incentive from special efforts taken to reduce natural gas rates effective during the July 2021 through June 2022 reporting period. Per the requirements of Notice PIH 2019-24, the following information is included in the request:

- PHA Name and Code: SunnySide Housing Authority (SS005)
- AMPs included in the RRI Request are shown in Table 1
- Action Description: SunnySide Housing Authority (SSHA) negotiated a long-term supply contract with Gas Direct that resulted in lower natural gas costs for the FY2022 reporting period. The negotiated contract locks the supply cost of natural gas at a fixed rate per therm for a period of 3 years. This action qualifies SSHA for RRI eligibility under Scenario 5-6 of HUD Notice PIH 2019-24



Example RRI Request (continued)

Methodology:

- The negotiated contract has eliminated supply charges from the local utility bills from Southern Energy. In lieu of these supply charges, SSHA now receives supply bills from Gas Direct. The default supply charges over FY2022 will be documented and applied to the monthly metered consumption for the applicable rate classes:
 - Southern Energy SC3: Multiple Dwelling – Heating Firm Sales
 - Southern Energy SC2: General Firm Sales, Rate I
 - Southern Energy SC2: General Firm Sales, Rate II

The actual billed cost will then be subtracted from the default supply cost to determine rate savings.



Example RRI Request (continued)

SSHA will claim 50% of the rate savings for AMPs receiving Traditional RRI and 100% of rate savings for AMPs receiving RRI-for-EPC, as indicated in Table 1:

AMP Number	AMP Parent Name	Traditional RRI	RRI-for-EPC
SS006010030P	SEDGEFIELD		X
SS006010050P	AUTUMN PARK	X	
SS006010070P	APPLE SQUARE	X	
SS006020160P	CEDAR SOUTH	X	
SS006020180P	CEDAR NORTH		X
SS006020190P	MAPLE	X	
SS006020200P	HIGHBRIDGE	X	
SS006020230P	OAK CIRCLE		X



Examples Eligible Actions for RRI

- **Negotiated rate with the utility**

- Example: PHA has electric heating and is planning to switch to natural gas for cost savings. PHA submits an application to their local electric utility detailing the cost competitiveness of natural gas and agree to a negotiated rate under a new Service Classification of the tariff.

- **Energy efficiency investments for the purpose of switching rates**

- Example: A water utility offers a special rate to customers that use WaterSense labeled products and comply with other requirements. PHA installs WaterSense fixtures across their portfolio specifically to attain eligibility for the preferred rate and the utility approves their application.

- **Commodity purchases in deregulated markets**

- Example: Gas prices are at a historical low and PHA enters into a long-term agreement with a natural gas marketer to lock in the current rate for sale of at least 100,000 therms annually. The former Supply charges on their utility bill are substituted with lower charges billed directly .



Examples of Actions Not Likely Eligible for RRI

- **Rate savings that occur from reducing utility consumption under the default rate class**
 - Example: PHA pays a demand charge of \$20/kW and an energy charge of \$0.08/kWh. They install LED lighting and reduce their monthly peak kW readings, thereby reducing the total average cost per kWh consumed. However, they did not decrease any specific components of the rate class.
- **Selecting the most competitive rate from the utility**
 - Example: A utility offers a Time-of-Use rate that encourages consumption in off-peak hours. PHA reviews their consumption profile and determines the Time-of-Use rate will decrease their costs relative to the flat rate. Choosing the best rate among publicly available options is not considered a “special or significant action” towards RRI.



Notes on Eligibility

- Full list of eligible and ineligible RRI actions are detailed in Section 5 and 6 of PIH 2019-24
- A PHA may have a unique situation that isn't described exactly by the HUD Notice; the PHA should describe the action in detail and its associated cost savings as part of the RRI Request process
 - PHAs may seek clarification on PIH 2019-24 by directing inquiries to the Office of Public Housing, Energy Branch: PIH_EPC_Policy@hud.gov
- AMPs are only eligible for 100% savings using RRI-for-EPC when they have entered the repayment period; AMPs with active EPCs still in the construction phase are only eligible to claim 50% of rate savings



What to Include in Documentation Package

- **Traceable calculation (typically in Excel)**
 - Build-up of default rates cross-referenced with utility tariffs and statements
 - Actual rates cross-referenced with bills or rate contracts
 - Monthly consumption by utility account and aggregated by AMP for the utility period ending June 30 prior to the budget year
 - Calculation of cost savings and RRI
- **Executed supply contract and/or price agreement**



RRI Example for Supply-Side Rate Savings

Default Rate Structure

	Market Supply Charge		Merchant Function Charge (\$/kWh)	Clean Energy Surcharge (\$/kWh)	GRT (%)	Total Rate
	Energy Charge (\$/kWh)	Adjustment Factor (\$/kWh)				\$/kWh
Jul-21	\$ 0.1235	\$ 0.0170	\$ 0.0010	\$ 0.0045	2.50%	\$ 0.1497
Aug-21	\$ 0.1274	\$ 0.0185	\$ 0.0012	\$ 0.0043	2.50%	\$ 0.1552
Sep-21	\$ 0.1352	\$ 0.0172	\$ 0.0012	\$ 0.0045	2.50%	\$ 0.1620
Oct-21	\$ 0.1274	\$ 0.0185	\$ 0.0011	\$ 0.0042	2.50%	\$ 0.1549
Nov-21	\$ 0.1287	\$ 0.0180	\$ 0.0011	\$ 0.0046	2.50%	\$ 0.1562
Dec-21	\$ 0.1183	\$ 0.0183	\$ 0.0010	\$ 0.0045	2.50%	\$ 0.1457
Jan-22	\$ 0.1326	\$ 0.0176	\$ 0.0011	\$ 0.0042	2.50%	\$ 0.1594
Feb-22	\$ 0.1170	\$ 0.0172	\$ 0.0011	\$ 0.0043	2.50%	\$ 0.1431
Mar-22	\$ 0.1339	\$ 0.0176	\$ 0.0011	\$ 0.0042	2.50%	\$ 0.1607
Apr-22	\$ 0.1313	\$ 0.0187	\$ 0.0013	\$ 0.0051	2.50%	\$ 0.1604
May-22	\$ 0.1287	\$ 0.0176	\$ 0.0011	\$ 0.0054	2.50%	\$ 0.1566
Jun-22	\$ 0.1261	\$ 0.0183	\$ 0.0009	\$ 0.0050	2.50%	\$ 0.1541



Account Metered Usage (kWh)
9,521
10,765
10,910
9,930
9,381
9,060
10,843
9,793
10,829
10,170
10,879
10,101

Total: 122,182



Default Cost for Account
\$ 1,425
\$ 1,671
\$ 1,768
\$ 1,539
\$ 1,465
\$ 1,320
\$ 1,728
\$ 1,401
\$ 1,740
\$ 1,631
\$ 1,703
\$ 1,557

\$ 18,948



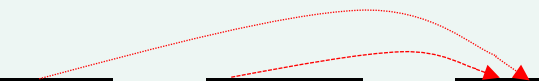
Actual Account Bills
\$ 932
\$ 1,054
\$ 970
\$ 861
\$ 820
\$ 799
\$ 1,009
\$ 904
\$ 957
\$ 1,033
\$ 946
\$ 911

\$ 11,198



Rate Savings	RRI (50% of Rate Savings)
\$ 493	\$ 247
\$ 616	\$ 308
\$ 798	\$ 399
\$ 677	\$ 339
\$ 645	\$ 323
\$ 521	\$ 260
\$ 719	\$ 360
\$ 497	\$ 248
\$ 783	\$ 391
\$ 598	\$ 299
\$ 757	\$ 379
\$ 646	\$ 323

\$ 7,750 \$ 3,875





RRI Formulas

- Formulas are defined in Notice PIH 2019-24
 - The traditional RRI formula can be written as:
 - Total Savings= (Default Cost) - (Actual Cost) = ((Default Rate)- (Actual Rate)) X (Consumption)
 - The EPC-specific formula allows the authority to capture 100% of the available rate reduction
- The rates in these formulas are average rates based on total cost / consumption.



Final Step – Claiming RRI

- Upon RRI Action Eligibility Determination, the RRI Action Savings Calculations will be reviewed and HUD will issue an approval/denial letter for the calculations.
- PHA will enter the RRI amount from the RRI Approval Letter in the 52722 Form via the OpSub Web Portal.
 - Proceed to enter the actual (billed) consumption and costs into HUD-52722 to calculate actual average utility rate (line 17)
 - If no comments are returned on the calculation, enter the calculated RRI into line 23.



Final Step – Claiming RRI

Section 7 – Actual Utility Costs and Average Rate

16	Actual utility costs (12-month period 7/1/ __ to 6/30/ __)							
17	Actual average utility rate (Line 16 ÷ Line 01)							

Section 9 – Calculation of Utilities Expense Level

22	Utilities expense level adjusted for inflation/deflation – whole dollars (Line 20 x Line 21)							
23	Energy rate incentive							
24	Utilities expense level – whole dollars (Line 22 + Line 23)							
25	Eligible unit months (from the original form HUD-52723, Column B, Line 15 plus Line 17 minus Line 04)							
26	Utilities Expense Level – PUM (Line 24 ÷ Line 25)							



Knowledge Check

1. Rate Reduction Incentive (RRI) can only be used for solar projects

X False

2. Requests for RRI must be provided by October 31 of each year

X False

3. HUD does not require documentation of the PHA's actions in reducing rates

X False

4. A PHA with an energy performance contract may be eligible for 100% of the RRI savings

✓ True

5. The RRI eligibility is placed on form HUD-52722 in Section 9 Section Line 17

X False



Information Resources List

- **24 CFR 990.185**
<https://www.hud.gov/sites/documents/24CFR990-185.PDF>
- **Notice PIH-2019-24**
<https://www.hud.gov/sites/dfiles/PIH/documents/PIH-2019-24.pdf>
- ***HUD's Public Housing Energy Clearinghouse***
https://www.hud.gov/program_offices/public_indian_housing/programs/ph/phecc/eperformance



Thank you and Contact Information

Thank you for your attention and commitment to your authority's mission and to energy conservation!



Questions or comments regarding this presentation should be directed to:

PIH_EPC_Policy@HUD.gov