

Rate Reduction Incentives (RRI) Training

Slide 1: Title Slide. Welcome to HUD's training on the Rate Reduction Incentive developed in partnership with HUD's Office of Public Housing, Energy Branch.

This presentation was developed in conjunction with HUD by Matt Pesce. Matt is the principal for Facility Strategies Group, LLC, a consulting engineering firm specializing in energy efficiency, sustainability, and renewable energy projects.

Slide 2: What will you learn? After reviewing this video, you should be able to:

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

Slide 3: What is the Rate Reduction Incentive. Regulations that establish the Rate Reduction Incentive are part of a series of rules established at 24 CFR 990.185 that includes all of HUD's energy savings incentives including those for Energy Performance Contracts, or EPCs, 2 CFR Part 200 and 24 CFR 965 Subpart C.

Slide 4: What is the Rate Reduction Incentive (continued). Regulations at 24 CFR 990.185 (b) are specific to rate reduction. The PHA must take an action beyond "normal public participation" in the use of published utility rates such as contract negotiations with utility providers and additional procurement processes necessary to establish lower rates.

The regulations are further defined in HUD's policy PIH Notice 2019-24 or the most current published notice.

Creating a reduction in utility rates is insufficient for your agency to capture the benefits; the PHA must request and be approved by HUD to capture the utility rate savings. The rate reduction action taken by your agency must conform to eligibility requirements in HUD's PIH Notice 2019-24.

Slide 5: Why Submit the Rate Reduction Incentive? The utility rate incentive, like all utilities, is included on the Form HUD-52722. Three lines that precede the rate incentive and must be considered with a rate reduction calculation are Lines 15, 17, and 18. The Rate Reduction incentive amount is shown on line 23.

Line 15 shows the calculated payable consumption level. This amount results from comparing the three-year rolling baseline to the current year's consumption. There is an embedded incentive within the payable consumption level calculation shared with the housing authority for reducing its current consumption relative to the average of the prior three years.

Line 17 is the average utility rate for the current period, i.e., the twelve-month period that ends June 30 and is six months prior to the start of the budget year.

Line 18 is the base utilities expense level in dollars. It is the utility expense prior to adjusting for surcharges, applying an inflation factor, or adding the approved benefit for utility rate incentives.

Line 23 is the Rate Reduction Incentive. It is calculated “off-line” and added to the Form HUD-52722. It is supported by calculations.

Slide 6: Key Deadlines. The Rate Reduction Incentive must be requested by August 30 of each year. This can be a simple letter listing the various asset management projects and utility type(s) anticipated to be part of the request as well as a description of the action. If the RRI action covers more than one fiscal year, the PHA should request a multi-year eligibility determination.

September 30 is the last day to provide the supporting calculations and documentation for both single and multiyear RRI requests. These are firm deadlines.

Supporting calculations are required every year they are requested and sent to the PHA’s local Field Office and the email address on the screen: PIH_EPC_Policy@hud.gov

Slide 7: RRI Process Flow Chart. This graphic shows the flow of the Rate Reduction Incentive submittal process.

The default rate is the rate that would have otherwise been used to determine utility costs. The new rate is the rate in effect resulting from the housing authority’s rate reduction actions. The default and new rates are applied to the utility data for the current year. In this case the current year is 2022 and the calculations are prepared for the calendar year 2023 budget.

Preliminary calculations are performed in the time between the last bill received in June 2022 and the August 30 notification deadline.

Slide 8: RRI Process and Guidance. PIH Notice 2019-24 outlines the approval process and describes the types of actions that qualify for Rate Reduction Incentives. The process involves two key steps:

1. RRI Eligibility Determination and
2. RRI benefit approval based on calculations.

Even if HUD has initially determined that the RRI action appears eligible and the agency prepares and submits the Rate Reduction Incentive calculations, it is still possible that the RRI request may be ultimately denied once HUD has reviewed the calculations and supporting documentation more thoroughly.

In addition, HUD will typically send a preliminary approval to a PHA by email as opposed to a formal signed and dated letter.

Slide 9: Preparing the RRI Request: Key Considerations. A separate Rate Reduction Incentive request must be submitted for each rate saving action that affects each utility.

A PHA may be allowed, when approved by HUD, to claim 50% of the actual rate savings achieved. A PHA may also be allowed to claim 100% of the savings when the same asset management project or AMP has both a Rate Reduction Incentive and an Energy Performance Contract or EPC on the same utility.

Both the RRI and EPC approval letters from HUD must indicate that the PHA is pursuing both approvals in conjunction with each other. Some exceptions may be permitted for RRIs and EPCs approved prior to the date of PIH Notice 2019-24.

Slide 10: Preparing the RRI Request: Key Considerations. Cost savings from on-site renewable energy are considered by PIH Notice 2019-24 as a type of rate reduction. This allows agencies to request utility rate reductions from solar. An example calculation is provided in Notice 2019-24 Appendix I.

PHAs should start this analysis as soon as data is available for the utility period ending June 30 for the fiscal year subsidy request.

The PHA should 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.

Slide 11: Preparing the RRI Request: Key Considerations. Where a PHA enters into an EPC later for the same AMP where they had previously received RRI approval, the PHA would only receive 50 percent of the savings.

Slide 12: Special Case: Rate Reduction Approved in Previous Year. In some cases, a Rate Reduction Incentive may be approved to cover a period of several years, a multiyear approval. The housing authority is still required to annually submit savings calculations and the necessary support documentation throughout the term of the RRI action.

If a PHA is requesting a multiple year RRI eligibility determination based on the RRI Action up to the allowable term of the action/commodity contract and the PIH Notice, the PHA must submit the supporting documentation for the eligibility determination. The PHA must submit savings calculations by September 30th in order to get an RRI Approval Letter for that action in the year that they wish to claim it on the HUD 52722 and every year to the term of their eligibility.

If a PHA already has a multiple year RRI eligibility determination, they only need to submit the savings calculations by September 30th in order to get an RRI Approval Letter for that action in the year that they wish to claim it on the HUD 52722.

Separately, if another incentive is added from a performance contract, the agency should notify its local HUD office that it will be requesting 100% of savings.

Slide 13: Items to Include in the RRI Request. A Rate Reduction Incentive request must include the housing authority's name and Code, asset management project or projects included in the request, a description of the action that resulted in the reduced utility rate, the calculation methodology, and whether the housing authority will be requesting 50% or 100% of savings.

Slide 14: Example RRI Request. Here is an example of a RRI request.

SunnySide Housing Authority is submitting a Rate Reduction Incentive request. It has provided information on its name and agency Code, asset management projects included in the request (shown on a following slide), and a description of the action resulting in the reduced utility rate, SunnySide negotiated a long-term supply contract for natural gas with Gas Direct.

Slide 15: Example RRI Request (continued). The contract with Gas Direct replaces the supply charges that were previously included in the local utility bills. The default supply charges must be calculated for comparison to the negotiated supply charges, which are the basis of the actual utility costs.

The rate savings are calculated using the difference between the default supply cost and the actual billed costs.

Slide 16: Example RRI Request (continued). Each asset management project, or AMP, number and name are identified. Those with traditional Rate Reduction Incentive, and those that overlap with Energy Performance Contracting would be separately identified.

Slide 17: Examples of Eligible Actions for RRI. Possible eligible actions for Rate Reduction Incentive include negotiating a lower rate with the utility, making specific and recurring capital investments in equipment to achieve a lower utility rate, and negotiating a contract with a gas marketer to buy blocks of energy at a lower rate.

Slide 18: Examples of Actions Not Likely Eligible for RRI. Possible ineligible actions for Rate Reduction Incentive include rate reductions resulting from more efficient equipment that reduces consumption but not utility cost or simply selecting an available tariff that results in a lower utility cost.

Slide 19: Notes on Eligibility. A more complete list of eligible and ineligible actions is provided in the PIH Notice 2019-24.

Where a PHA has a unique situation that isn't described by the HUD notice, the agency should describe the action in detail with supporting documentation with its Rate Reduction Incentive request.

PHAs can ask for clarifications by sending an email to the Office of Public Housing, Energy Branch at 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.

Slide 20: What to Include in Documentation Package. Supporting documentation must be provided with the Rate Reduction Incentive request.

Typically, supporting documentation will include a traceable calculation provided in an Excel workbook that provides calculated default rates, actual rates, monthly consumption values, baseline consumption (if claiming a Rate Reduction Incentive with Energy Performance Contracting), and calculation of cost savings and rate reduction.

Any fully executed supply contracts and if applicable, the original HUD Rate Reduction Incentive approval letter and/or Energy Performance Contract approval letter should also be provided.

Slide 21: RRI Example for Supply-Side Rate Savings. In the left block, the default rate structure is applied. There are typically base energy charges, adjustment factors that can vary by month, and various other riders to the tariff for efficiency programs, decommissioned nuclear plants, and any other costs that have been negotiated between the utility and the state's public utilities commission.

This default rate or prevailing rate is then applied to the actual usage to determine what the default cost would have been had the agency been on the default rate. This is compared to the actual bills to determine the rate savings.

If approved, the housing authority receives 50% of the difference between the default and actual costs.

Slide 22: RRI Formulas. In calculating the rate reductions, formulas are defined in PIH Notice 2019-24.

For a typical or traditional Rate Reduction Incentive, the formula uses the current consumption. The rate differences are then applied.

Rates are calculated as average rate by taking the total cost and dividing it by the total consumption.

The EPC-specific formula allows the authority to capture 100% of the available rate reduction.

Slide 23: Final Step - Claiming RRI. HUD reviews the request and supporting documentation and requests information, or clarifications as needed.

Once HUD validates documented savings, it issues a final approval or denial letter. That letter includes the approved amounts that the PHA is eligible to claim on their 52722.

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.

Slide 24: Final Step - Claiming RRI (continued). This is a screen shot of Section 7 and Section 9 of the Form HUD-52722. The actual average rate is Line 17. The Rate Reduction Incentive is Line 23.

Slide 25: Knowledge Check. Let's do a brief knowledge check on the information just presented.

1. Rate Reduction Incentive (RRI) can only be used for solar projects. This is false, as we have just learned that RRI can be used for a variety of projects.
2. Requests for RRI must be provided by October 31 of each year. This is False, the due date is August 30.
3. HUD does not require documentation of the PHA's actions in reducing rates. This is False; documentation is required.
4. A PHA with an Energy Performance Contract may be eligible for 100% of the RRI savings. This is a True statement.
5. The RRI eligibility is placed on form HUD-52722 in Section 9, Line 17. This is False; you should use Line 23.

Slide 26: Information Resources. For further information regarding RRI, please review the HUD regulations and PIH Notice.

Slide 27: Closing Slide. Thank you for reviewing HUD's training on the Rate Reduction Incentive. You may email any comments or questions regarding this presentation to PIH_EPC_Policy@HUD.gov