

# FLASH ALERT

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## HUD Updates Guidance on Rate Reduction Incentive in Public Housing (RRI)

HUD has issued updated guidance on the **Rate Reduction Incentive**. [PIH 2019-24](#) explains that the Rate Reduction Incentive in Public Housing (RRI) provides an opportunity for a PHA to share 50% of the savings from special actions undertaken by the agency to reduce utility rates. This notice does not discuss Energy Performance Contracts and other actions designed to reduce utility **consumption**; this notice is regarding actions designed to reduce utility **rates**. Through the operating subsidy submission on HUD Form 52722, HUD normally adjusts the PHAs funding to the actual utility rate. This results in the operating subsidy being reduced if utility rates are reduced. The RRI allows the PHA to retain half of the reduction, without the subsidy being reduced.

Note that the opportunity to retain 50% of the savings requires HUD approval. Refer to the notice [here](#) for details.

### Actions Eligible to Receive an RRI Include:

1. Special rate negotiated by and for the PHA
2. Wellhead purchase of natural gas
3. Power Purchase Agreement (PPA) using a third-party energy supplier
4. Energy efficiency investments that lead to lower utility rates
5. Investments to allow for fuel switching capability in order to participate in an interruptible utility rate
6. Commodity purchases of regulated utilities in a deregulated market that result in a lower utility rate
7. Active commodity trading
8. On-Site renewable energy
9. Other (see the notice for details)

**Actions Not Eligible to Receive an RRI Include:**

1. Energy investments that lower utility consumption but not the rate (unit cost)
2. Selecting the best available utility rate
3. Combining or removing utility meters in a manner that prohibits the PHA from individually metering tenant level consumption
4. Fuel switching to obtain a better rate when new equipment is not required

**ITEM TO NOTE:** If you are in a state that allows you to choose your own energy supplier, you might have the opportunity to keep 50% of the savings through the RRI incentive. This is shown in the list above as #6 "commodity purchases of regulated utilities in a deregulated market that result in a lower utility rate" (under the list of actions that do qualify for RRI). There are multiple states that have deregulated markets where you can choose an alternate supplier, including Pennsylvania where our main BDO PHA Finance offices are located.

**Additional Details:**

- ▶ Each PHA property has a default utility provider that maintains the local electricity lines and/or natural gas distribution system. The default provider operates as a regulated monopoly and is the only provider physically capable or legally allowed to provide utility delivery services to a PHA property.
- ▶ The charge for this service is listed on the utility bill as either the transportation or delivery portion of the electricity or natural gas bill.
- ▶ PHAs do not take specific steps to procure transmission and distribution utility services from the default utility provider, as there is only one provider capable and legally allowed to provide service to the PHA property.
- ▶ In addition to utility service delivery, the default provider also provides the energy supply or commodity.

- ▶ When a customer initiates utility service with the customer's local utility provider, the local utility provider is the default commodity provider. PHAs do not need to undergo a procurement action to purchase commodity from the default provider when they initiate utility service. PHA properties that are physically located in a deregulated utility market have the option to procure energy commodity from a provider other than their default local provider. A PHA that chooses to exercise this option must follow Federal procurement guidelines (2 CFR Part 200 and HUD Handbook 7460.8 REV 2, dated 2/2007). If a PHA exercises this option and reduces its utility rate, then that PHA may be eligible for an RRI.
- ▶ As a best practice, a PHA that chooses to procure a commodity separately from its default provider is encouraged to continuously review the financial costs and benefits of the procurement action to ensure that the procurement action continues to be financially advantageous to the PHA.
- ▶ This RRI activity does not apply to non-regulated fuels including, but not limited to, fuel oil, diesel fuel, propane, or kerosene. Since there is no default provider, the PHA is always required to follow Federal competitive procurement procedures (2 CFR Part 200) when purchasing these fuels.
- ▶ The PHA may be eligible to receive an RRI approval for up to five years for each procurement action.

If you are in a deregulated state, you should explore this and talk with your Field Office regarding what you need to do to qualify. You will need to be able to quantify the savings for example. This would mean tracking the rate you are actually paying with the lower cost provider, versus the rate you would pay if you were buying the supply from the default provider, in order to quantify the savings.

**PHAs with Energy Performance Contracts (EPC)**

If your PHA is in an EPC, you may be able to retain 100% of the savings. Make sure to read that section of the notice if you are already in an EPC.

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**ABOUT BDO PHA FINANCE**

BDO PHA Finance, a division of BDO USA, LLP, provides accounting and management consulting services to Public Housing Authorities (PHAs) nationwide. We are proud to be making a difference for the housing authorities that serve communities throughout the United States.