



OFFICE OF HOUSING

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

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MEMORANDUM FOR: Multifamily West Regional Center Director, Asset Management
Division Directors, and Operations Officer
All Contract Administrators for California properties
All Owner/Agents of Multifamily assisted housing properties
located in California

FROM: Brian A. Murray, Acting Director, Office of Asset Management and
Portfolio Oversight, HTG

SUBJECT: Treatment of Solar Virtual Net Energy Metering Credits on Tenant
Utility Bills

Purpose

The purpose of this memorandum is to provide guidance to HUD Multifamily Housing field staff and owners and management agents on the treatment of on-bill virtual net energy metering (VNEM) credits that may be received by tenants in HUD multifamily housing as a result of an owner's participation in California's Solar on Multifamily Affordable Housing (SOMAH) program.

Background

In 2015, the California legislature passed legislation (Assembly Bill 693) establishing a new incentive program making \$100 million a year over ten years available to incentivize the installation of solar energy systems benefitting affordable multifamily housing. The statute includes a requirement that tenants receive a direct economic benefit from these new systems, to be delivered in the form of VNEM credits on their utility bills.

Applicability

This memorandum applies to the following programs:

1. Project-based Section 8
 - a. New Construction
 - b. State Agency Financed
 - c. Substantial Rehabilitation
 - d. Section 202/8
 - e. Rural Housing Services (RHS) Section 515/8
 - f. Loan Management Set-Aside (LMSA)
 - g. Property Disposition Set-Aside (PDSA)
 - h. Rental Assistance Demonstration Project Based Rental Assistance (RAD/PBRA)

2. Section 202/162 Project Assistance Contracts (PAC)
3. Section 202 Project Rental Assistance Contracts (PRAC)
4. Section 202 Senior Preservation Rental Assistance Contracts (SPRAC)
5. Section 811 PRACs
6. Section 811 Project Rental Assistance (PRA)
7. Section 236 Subsidized Mortgages

VNEM Credits are Excluded from Annual Income

Office of Multifamily Housing, with the assistance of the HUD Office of General Counsel, has determined that VNEM credits allocated to tenants under the SOMAH program are an incidental benefit and must not be included as annual income to the household. While these credits appear on individual tenants' utility bills¹, VNEM credits do not meet the definition of tenant income as they result from the property owners' participation in the SOMAH program and have no relationship to tenants' electricity consumption. Moreover, these benefits stay with the unit and do not follow specific tenants when they terminate their residence in a participating property.

VNEM Credits are Excluded when Calculating Utility Allowances

VNEM credits are issued by the electric utility company to participating properties according to the amount and time of day of the electricity generated by the solar system and exported to the grid. Credits are then allocated in a two-step process: 1) between owner paid utilities, i.e. common areas, and tenant paid utilities, i.e. units; and 2) tenant credits are then distributed between tenant units. Allocations are made in accordance with a formula proposed by the solar system owner (i.e. the property owner) and approved by the utility company. For the purpose of this memorandum, "units" refer to all the physical spaces for which tenants pay electricity bills as contrasted with common areas, for which the owner is responsible for electric bills.

Because there is no connection between the tenant's actual electricity consumption and these credits, owners and management agents must disregard the solar credit when calculating utility allowances.

Owners and management agents should address all property-specific questions to the assigned contract administrator or Multifamily Account Executive. General policy questions may be sent to Annecia Durr, Subsidy Oversight Branch Chief at Annecia.durr@hud.gov.

¹ HUD-assisted properties that are master-metered for electricity are not eligible to participate in the SOMAH program.