



American Gas Association

Energy Analysis

POLICY ANALYSIS GROUP
400 N. Capitol St., NW
Washington, DC 20001
www.aga.org

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LOW-INCOME ENERGY CONSUMERS: THE NEED FOR ASSISTANCE CONTINUES

Introduction

Only about 15 percent of the 38 million eligible low-income households **received** federal aid through the Low Income Home Energy Assistance Program (LIHEAP) this year because of the persistent gap between available funds and the number of households that qualify for assistance. Only action by Congress that substantially increased financial assistance to low-income families for their energy bills in fiscal year 2006, combined with a mild winter that reduced household heating demand, averted a potential energy crisis for families faced with increased heating fuel costs last winter.

In response to high energy prices last winter, the federal government increased the amount of LIHEAP funding to an all-time high -- \$3.2 billion, a 40 percent increase from the previous year's level. The additional funding -- while still substantially less than the fully authorized LIHEAP appropriation of \$5.1 billion -- allowed assistance to go to 5.7 million households, an increase of 600,000 compared to the previous year.¹ This funding helped many families to manage home-heating bills that averaged 20 percent higher than the winter before -- despite weather that was nine percent warmer than normal.

If the winter of 2006-07 brings a normal or colder-than-normal weather pattern, heating bills this winter could approach or even exceed the record highs of last winter. Without continued assistance from government, utilities, and charities, many families could be left out in the cold this winter.

¹ *States Report Highest Level of Households Receiving Energy Assistance in 13 Years: Additional \$1 Billion Appropriated for LIHEAP Provides Essential Support*, National Energy Assistance Directors' Association, June 19, 2006, <http://www.neada.org>

Executive Summary

Even with a winter that was among the warmest on record and a 40 percent increase in LIHEAP funds, impoverished households continue to have trouble paying their energy bills:

- Each year about one million additional households become eligible for LIHEAP funds.
- This winter's heating bills could approach or exceed last year's record levels, particularly if the country experiences a cold winter.
- Congress is considering decreasing the amount of LIHEAP funding for the coming year.

Thus programs that help low-income households pay their energy bills are more critical than ever. Besides LIHEAP, state and local governments provide assistance through taxpayer-funded initiatives. Fuel funds and other charitable groups provide direct assistance, funded by donations, to those in need. **In 2005 (latest year available), energy utilities provided \$1.3 billion in assistance to low-income households in the form of discounts, fee waivers, efficiency/weatherization programs, and arrearage forgiveness funded by customers and stockholders.**

Despite these efforts, more is needed. While 5.7 million households benefited from federal energy assistance programs, **about 85 percent of those eligible did not receive LIHEAP heating assistance.**²

- Current LIHEAP funding levels are 59 percent higher than they were 25 years ago, but the consumer price index rose 126 percent during that time period.
- The number of low-income families eligible for LIHEAP has increased 90 percent since the program began.
- Despite ongoing conservation efforts, low-income households may be facing even higher heating and cooling bills because of current and projected high energy prices and the potential for normal or even colder than normal weather. For example, the U.S. Energy Information Administration (EIA) short-term forecast³ calls for residential gas prices to fall slightly but consumption to increase compared to last winter. Consumers may receive only marginal relief from last winter's record high bills under normal winter weather, but bills could be even higher this winter if weather is colder than normal. Electricity customers could face higher bills, as EIA is forecasting higher prices and consumption this winter for these customers.

² Estimate based on historical data from LIHEAP Home Energy Notebook for Fiscal Year 2004, US Dept of Health & Human Services, June 2006

³ Short-Term Energy Outlook, Energy Information Administration, U.S. Department of Energy, <http://www.eia.doe.gov/emeu/steo/pub/contents.html> September 2006

The federal government can take steps to lessen this burden and help keep households that are behind on their energy bills from getting disconnected. The Energy Policy Act of 2005 reauthorized LIHEAP through 2007 and increased the authorization for the basic grant to \$5.1 billion. **If funded at the full \$5.1 billion, LIHEAP could assist an additional 3.6 million households. This could provide assistance to 25 percent of those eligible for home heating aid.**

LIHEAP Overview

Program Description

LIHEAP was created under the Omnibus Budget Reconciliation Act of 1981 (OBRA) to help low and fixed income households pay their fuel and utility bills. LIHEAP funding is allocated by the Department of Health and Human Services (HHS) and administered by the states, with the states having maximum flexibility in directing program funds.

LIHEAP is one of the original seven block grants authorized by OBRA, and it has been modified through a series of reauthorizations and amendments since 1981. The LIHEAP program has evolved from providing only financial assistance to low-income households to today's efforts that include residential weatherization and home-energy repair. In addition, a small portion of LIHEAP funds are used as leveraging incentives – grantees that can supplement LIHEAP with non-federal assistance resources are eligible for these incentive rewards. Finally, some funds are targeted for the Residential Energy Assistance Challenge (REACH) program.⁴

LIHEAP is widely regarded as a model program. LIHEAP has been very cost effective and efficient for several reasons:

- States are given the flexibility to direct program funds as needed, allowing individual states to tailor programs according to the needs of its low- and fixed-income residents.
- States are required to maintain administrative expenses at or below 10 percent, ensuring that most of the monies go directly to needy households.
- LIHEAP serves as discretionary (in many cases one-time) assistance, providing a bridge that helps the working poor avoid welfare programs.

LIHEAP regulations provide two measures of household eligibility. First, a household is eligible if one or more occupants receive need-based government assistance such as Food Stamps, Temporary Assistance for Needy Families, Supplemental Security Income payments, and certain veterans' or survivors' payments. Second, a household is eligible if income is at or below 150 percent of the poverty level for their state or 60 percent of their state's median income.⁵ The states have flexibility in setting the eligibility guidelines. A table listing each state's requirements can be found on the LIHEAP Clearinghouse website (<http://www.liheap.ncat.org/tables/FY2006/POP06.htm>).

⁴ LIHEAP Report to Congress for Fiscal Year 2001, Administration for Children and Families, U.S. Department of Health and Human Services, Washington, DC, 8/7/2003

⁵ LIHEAP Report to Congress for Fiscal Year 2001

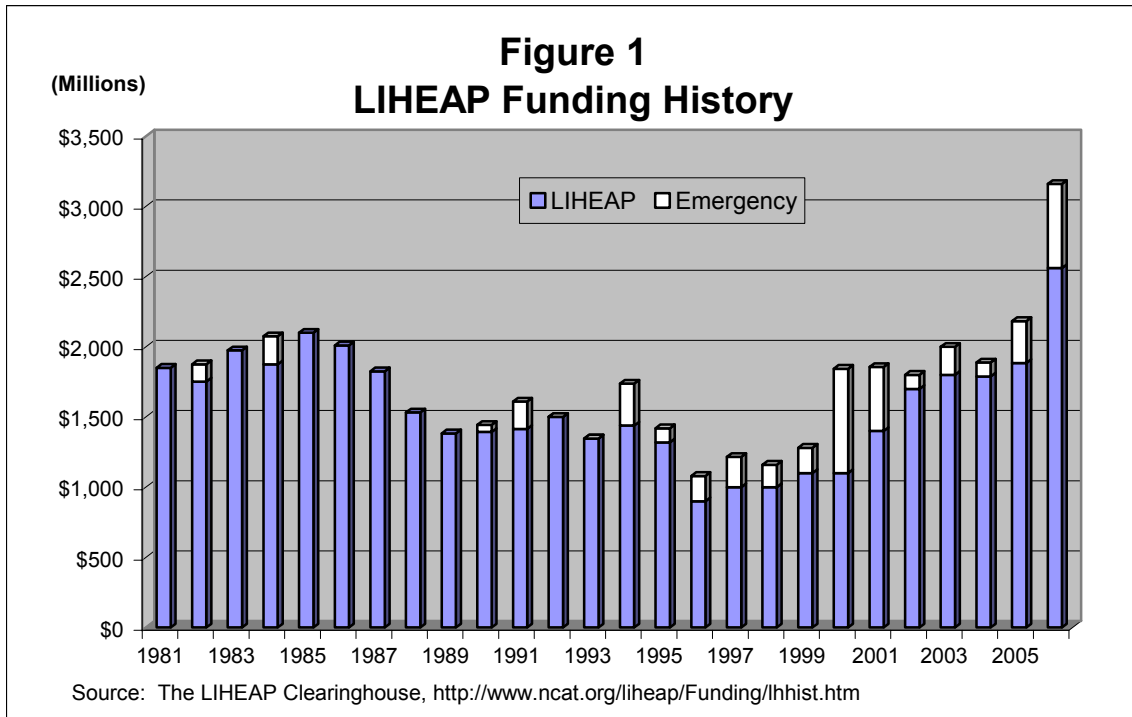
LIHEAP funding levels are insufficient to meet the needs of all eligible households, so the program is designed to help those lowest-income households that typically (1) pay a higher proportion of their income for home energy, and (2) have at least one member who is a young child, disabled, or elderly.

Funding History

There are two categories of LIHEAP allocations. Federal regular appropriations make up the bulk of the funding. In addition, the President can release federal supplemental emergency contingency (crisis) funding for:

- Households that have lost, or are in imminent danger of losing, their supply of home energy due to inability to pay their energy bills.
- Natural disaster relief.
- Home energy supply disruptions, shortages, or price spikes.
- Increases in unemployment or participation in government assistance programs.

Initial LIHEAP funding levels were set at 1.8 billion in 1981. Funding levels have varied since then, reaching almost \$3.2 billion in FY 2006 (Figure 1). However, this record amount is only 59 percent higher than those achieved 25 years ago. Had LIHEAP funding kept pace with inflation, annual appropriations would need to reach \$4.1 billion.⁶



⁶ Bureau of Labor Statistics, <ftp://ftp.bls.gov/pub/special.requests/cpi/cpi.txt>

Non-Federal Assistance Programs

LIHEAP has fostered a positive collaboration between the government, the utility industry, social service organizations, community advocates, and other state and local non-profit agencies. These organizations help supplement LIHEAP funding through assistance programs of their own. Combined, these programs provided \$2.0 billion of assistance, about the same as LIHEAP funding of \$2.1 billion in FY 2005 (Table1).

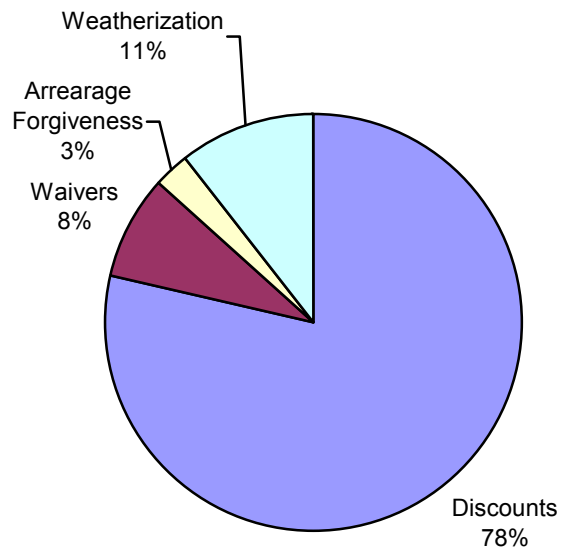
Utilities

Many utilities administer, sponsor, and promote programs to augment LIHEAP, and in 2005 utility programs generated \$1.3 billion in low-income customer assistance (see Table 1). Typically, local regulators approve (and in many cases initiate) or legislators create these programs. The costs for these programs are often recovered through an increase in the bills of all customers, but in some instances utility stockholders cover at least a portion of the costs. These programs do not include past-due customer debts that the utility eventually writes off as uncollectible. Types of utility programs include (see Figure 2, based on 2004 data):⁷

- Rate Assistance
 - Discounts – many utilities offer reduced rates for low-income households. These discounts accounted for 78 percent of total utility assistance.
 - Waivers – some utilities will waive a charge or portion of a bill, such as customer charges, reconnection fees, late charges, deposit fees, etc., to qualified customers. These programs accounted for eight percent of utility assistance.
 - Arrearage forgiveness -- in some instances utilities will forgive a portion, sometimes even all, of the past due amount of a qualified customer. Arrearage forgiveness accounted for three percent of utility assistance.
- Energy Efficiency/Weatherization programs – a number of utilities provide funding for home improvements and/or more efficient appliances that will reduce energy consumption on a long-term basis. Weatherization programs accounted for 11 percent of total utility assistance.

⁷ *The Growing Need to Help Low-Income Energy Consumers: Government, Charitable, and Utility Programs*, American Gas Association, Washington, DC, September 21, 2005

Figure 2
Utility Assistance Programs, FY 2004



SOURCE: LIHEAP Clearinghouse, <http://www.liheap.ncat.org/tables/FY2004/04stlvb.htm>

NOTE: Percentages based on LIHEAP Clearinghouse data on LIHEAP leveraging program reports, a subset of utility data found in Table 1

During the spring of 2006, AGA surveyed its membership on their programs to assist low-income customers. Specifically members were asked:

Does your company participate in the following programs for low-income customers:

- *Rate discounts*
- *Full/partial arrearage forgiveness*
- *Fuel funds*
- *Shareholder contributions*
- *Reconnect discounts*
- *Other*

More than 100 jurisdictions responded to the survey (a company may have more than one jurisdiction within its service territory). Of the 107 jurisdictions indicating that they had low-income customer programs:

- 45% offer rate discounts
- 35% forgive part or all of past arrearages
- 38% participate in fuel funds
- 50% have shareholder contributions to assist low-income customers
- 10% offer a discount on the reconnection fee to low-income customers that had been disconnected due to inability to pay
- 35% have other programs

The “other” categories include weatherization programs, universal service funds, special budget billings, and matching of customer donations. Most respondents (71%) had more than one program in place to assist low-income customers.

State & Local Governments

In addition to regulating utility assistance programs, state and local governments provide direct funding or allow tax breaks to assist households in paying or reducing energy bills. In 2005, state and local governments provided \$588 million for this assistance. The government funds these programs through general and special taxes as well as other sources, including:

- Legislatively mandated utility rate discounts
- Voluntary contribution through tax return check-off
- Unclaimed deposits and refunds
- Deed, registration, and stamp taxes
- Oil overcharge funds
- Court case settlements

Fuel Funds

These charitable programs are typically a partnership between fuel funds, community-based organizations (churches, charities, etc.), local government agencies, and utilities. Fuel funds are dedicated to raising and distributing money for energy bill-payment assistance. Churches and other community programs assist households with utility bills as part of their charitable work. These programs are funded primarily by donations. In many instances, the utility will solicit contributions (e.g., bill inserts), the government and community organizations will identify the households that can benefit, and the community organizations will distribute the assistance. In 2005, fuel funds and other charitable organizations accounted for more than \$97 million for energy assistance.

Other

Other parties that provide energy assistance to low-income households include church/community groups, landlords (weatherization improvements) and fuel suppliers (bulk fuel discounts and need-based discounts). These parties provided a total of \$34 million in energy assistance in 2005.

Growth in Assistance Funds

The LIHEAP Clearinghouse maintains a database of non-federal energy assistance efforts, with data provided through LIHEAP leveraging reports and other sources.⁸ While the database may not capture all of the assistance efforts,⁹ the data provide the most comprehensive picture of these programs.

Table 2 shows annual funding levels of the energy assistance programs from 2000 to 2005, the latest year data are available. Overall, the funding level increased almost 92 percent since 2000. Utility-related programs accounted for the bulk of the funding increase, growing 247 percent. Fuel funds increased their assistance levels 149 percent, and other programs stayed about the same. State and local programs increased their funding levels by 150 percent, and federal LIHEAP funding levels increased 49 percent (excludes significant increase in FY06 LIHEAP funds, as 2006 data are not yet available for non-federal sources) during that period. (See Appendix for a state-by-state breakdown of 2005 energy assistance by source.)

Table 1
Energy Assistance to Low-Income Households
(Millions)

Year	LIHEAP	State & Local	Utility	Fuel Funds	Other	Total
2000	\$1,470	\$232	\$380	\$51	\$39	\$2,172
2001	\$1,670	\$333	\$700	\$53	\$54	\$2,810
2002	\$1,800	\$437	\$771	\$67	\$41	\$3,116
2003	\$2,000	\$574	\$951	\$75	\$39	\$3,638
2004	\$1,889	\$579	\$1,174	\$87	\$47	\$3,776
2005	\$2,183	\$588	\$1,319	\$97	\$34	\$4,170

Source: LIHEAP Clearinghouse <http://www.liheap.ncat.org/>

⁸ The LIHEAP Clearinghouse, <http://www.liheap.ncat.org/Supplements/2004/supplement04.htm>

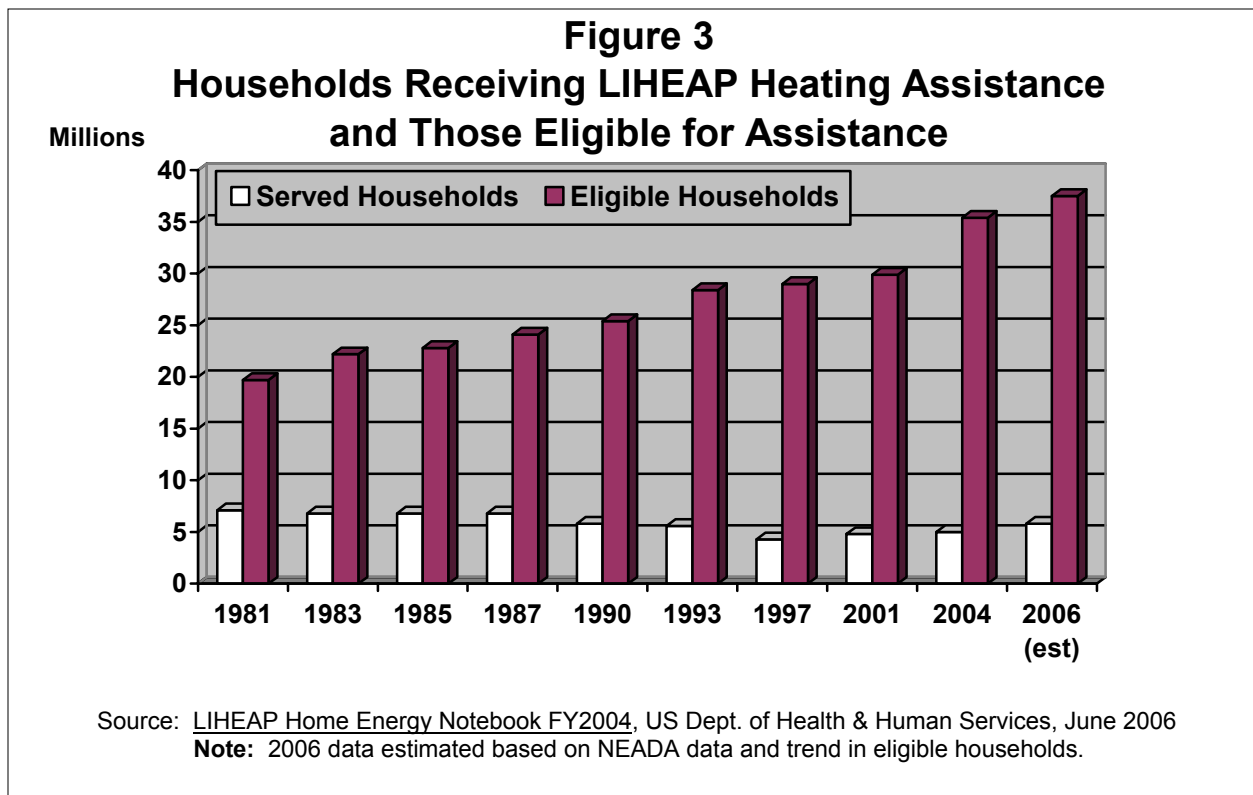
⁹ The LIHEAP Clearinghouse, <http://www.liheap.ncat.org/Supplements/2004/supintro.htm>

Continuing Need for LIHEAP

In FY 2006, states distributed LIHEAP funds to 5.8 million households.¹⁰ While this number is higher than some past years, it is roughly 20 percent less than the number of households assisted in 1981.

Unmet need

The number of households assisted is currently lower than levels achieved in the 1980's and the number of households eligible for LIHEAP assistance has risen steadily. In 1981, almost 20 million were eligible for LIHEAP assistance, and the needs of more than 12 million (64 percent) households went unmet. By 2006, 38 million households were eligible,¹¹ and the needs of 32 million (85 percent) went unmet (see Figure 3).



Two factors contribute to this increasing unmet need. First, the number of low-income households that are eligible for LIHEAP has grown 90 percent since 1981.¹² Second, heating bills have increased, not due to increased use but rather higher energy prices – between 1981 and 2005 natural gas residential prices have risen almost 300 percent, fuel oil increased 72 percent, and electricity increased 52 percent.¹³

¹⁰ NOTE: While post-2004 number of households assisted is not available through government sources, the National Energy Assistance Director's Association (NEADA) has estimated that the number of households assisted by LIHEAP was 5.8 million. <http://www.neada.org/>

¹¹ Estimate based on historical data from LIHEAP Home Energy Notebook for Fiscal Year 2004, US Dept of Health & Human Services, June 2006

¹² American Housing Survey, U.S. Department of Census, Washington, DC, various years

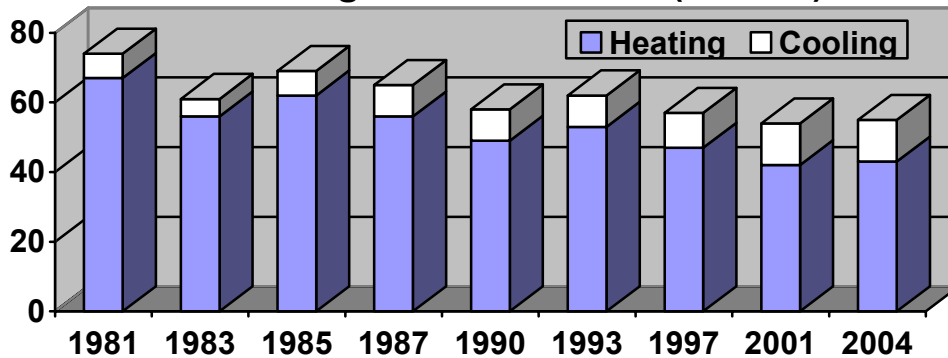
¹³ Monthly Energy Review, Energy Information Administration, <http://www.eia.doe.gov>

Impact of higher energy prices

Low-income households have made efforts to reduce their energy consumption (see Figure 4). Despite these conservation efforts, rising costs of energy over that time period caused energy bills to rise, particularly heating bills. From 1981 through 2004, overall energy expenditures for space heating and cooling for these LIHEAP-eligible households increased 37 percent. Heating costs, the predominant portion of the total energy bill, increased 22 percent (see Figure 5).

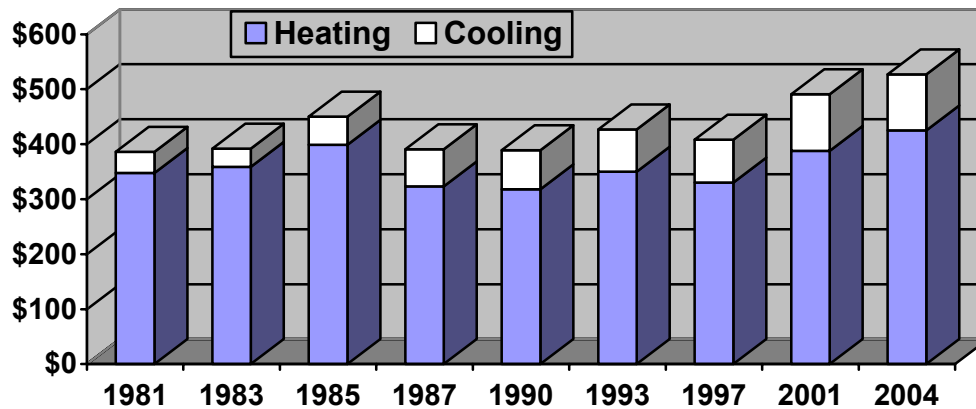
The amount of energy used for space conditioning by these families declined 26 percent since 1981, in part due to conservation efforts funded independently or through LIHEAP and utility programs. Low-income households reduced their space heating energy use by 36 percent since 1981. These gains were slightly offset by an increase in cooling energy consumption, a result of the increased use of air conditioning appliances.

Figure 4
Average Residential Heating and Cooling Use for LIHEAP-Eligible Households (MMBtu)



Source: [LIHEAP Home Energy Notebook for FY 2004](#), US Dept. of Health & Human Services

Figure 5
Average Residential Heating and Cooling Costs
for LIHEAP-Eligible Households



Source: LIHEAP Home Energy Notebook for FY 2004, US Dept. of Health & Human Services

The current outlook for winter heating bills¹⁴ portends a critical problem for low-income energy consumers, particularly if the weather returns to normal or even colder than normal temperatures.

- Fifty-three percent of low-income homes heat with natural gas.
 - Residential natural gas prices averaged about \$6.30 per thousand cubic feet (Mcf) during the 1990s, and the price rose to \$14.54/Mcf in the winter of 2005-2006.
 - EIA forecasts that prices will be \$13.34/Mcf during the winter of 2006-2007, a slight decrease from last year.
 - Winter bills could be only slightly lower than the records set last year due to an expectation of a return to normal weather patterns, compared to the significantly warm winter this past year.
 - These heating bills could even exceed last year's records if colder than normal weather sets in.
- Heating oil prices also increased significantly in recent years, with 2006-2007 prices expected to be more than 25 percent higher than last winter.
- The price of electricity, the second most common energy source for space heating, is also expected to increase. Electricity bills could be ten percent higher in the US this coming winter.

¹⁴ Calculations base on data from: *Short-Term Energy Outlook*, Energy Information Administration, U.S. Department of Energy, <http://www.eia.doe.gov/emeu/steo/pub/contents.html> September 2006

Meeting the Growing Need

Congress acknowledged the need for additional LIHEAP funding when it increased the authorization for LIHEAP from \$2 billion to \$5.1 billion in the Energy Policy Act of 2005. However, this does not guarantee funding will actually increase, as the funds must be allocated in each year's budget, and Congress must appropriate the funds. If funded at the full \$5.1 billion, LIHEAP could assist 3.6 million more households. This could allow assistance to go to 25 percent of those eligible for home heating aid, compared to the current level of 15 percent.

Appendix
State-by-State Energy Assistance to Low-Income Households, FY 2005
(Millions)

	<u>LIHEAP</u>	<u>State & Local</u>	<u>Utility</u>	<u>Fuel Funds</u>	<u>Other</u>	<u>Total</u>
Alabama	\$19,995,394		\$ 1,741,198	\$2,572,693		\$24,309,285
Alaska	\$11,897,061	\$ 6,476,632				\$18,373,693
Arizona	\$8,382,844	\$ 5,102,668	\$ 12,299,302	\$1,749,340	\$ 7,151	\$27,541,305
Arkansas	\$13,515,235			\$14,438,110	\$ 58,193	\$28,011,538
California	\$92,376,439	\$ 218,885	\$ 563,774,765	\$8,376,521	\$ 6,359,260	\$671,105,870
Colorado	\$32,396,048	\$ 13,839,532	\$ 2,700,000	\$3,148,535		\$52,084,115
Connecticut	\$46,835,121		\$ 17,876,183	\$808,661	\$ 1,872,578	\$67,392,543
Delaware	\$6,247,571					\$6,247,571
Dist. of Col.	\$6,660,055					\$6,660,055
Florida	\$29,597,326					\$29,597,326
Georgia	\$22,504,103	\$ 5,594,655		\$564,141		\$28,662,899
Hawaii	\$2,162,147					\$2,162,147
Idaho	\$12,843,907					\$12,843,907
Illinois	\$117,223,086	\$ 60,404,737		\$3,678,917		\$181,306,740
Indiana	\$53,879,298	\$ 5,536,308	\$ 12,891,220	\$542,967	\$ 1,733,691	\$74,583,484
Iowa	\$38,877,917	\$ 6,211,850	\$ 4,814,744	\$696,311	\$ 343,365	\$50,944,187
Kansas	\$17,390,833					\$17,390,833
Kentucky	\$28,129,031					\$28,129,031
Louisiana	\$29,809,240		\$ 1,567,420	\$5,132,916		\$36,509,576
Maine	\$31,786,730	\$ 737,782	\$ 7,986,492		\$ 2,764,012	\$43,275,016
Maryland	\$34,234,051	\$ 31,383,895	\$ 4,331,844	\$4,771,025	\$ 1,699,670	\$76,420,485
Massachusetts	\$91,953,410	\$ 7,500,000	\$ 63,859,965	\$680,549	\$ 3,012,626	\$167,006,550
Michigan	\$113,224,690	\$ 26,972,793	\$ 23,299,283	\$6,874,289		\$170,371,055
Minnesota	\$84,024,025	\$ 13,858,097	\$ 10,053,808	\$773,871	\$ 1,661,489	\$110,371,290
Mississippi	\$27,331,359		\$ 194,990		\$ 1,598,170	\$29,124,519
Missouri	\$48,065,621			\$8,381,146		\$56,446,767
Montana	\$15,062,387		\$ 5,061,606	\$1,763,730	\$ 435,852	\$22,323,575
Nebraska	\$19,027,971	\$ 15,363,912	\$ 1,516,094	\$464,948		\$36,372,925
Nevada	\$3,971,489					\$3,971,489
New Hampshire	\$18,262,356	\$ 17,404,872	\$ 953,398	\$292,904	\$ 749,266	\$37,662,796
New Jersey	\$84,148,577	\$ 181,914,332	\$ 31,071,113	\$360,646		\$297,494,668
New Mexico	\$10,719,997			\$570,000	\$ 17,834	\$11,307,831
New York	\$278,374,182	\$ 83,030,948	\$ 19,191,065	\$928,077	\$ 7,675,084	\$389,199,356
North Carolina	\$41,348,978					\$41,348,978
North Dakota	\$17,204,151					\$17,204,151
Ohio	\$104,703,667		\$ 217,353,764			\$322,057,431
Oklahoma	\$16,164,654		\$ 2,467,979			\$18,632,633
Oregon	\$25,450,232					\$25,450,232
Pennsylvania	\$145,460,193		\$ 269,835,603	\$7,673,574		\$422,969,370
Rhode Island	\$15,182,795		\$ 5,354,679			\$20,537,474
South Carolina	\$14,611,843					\$14,611,843
South Dakota	\$14,162,440					\$14,162,440
Tennessee	\$28,283,285					\$28,283,285
Texas	\$46,160,503	\$ 47,792,184	\$ 3,644,166	\$3,824,854		\$101,421,707
Utah	\$15,010,226		\$ 1,715,278			\$16,725,504
Vermont	\$13,751,056	\$ 5,676,717	\$ 49,344	\$261,546	\$ 925,304	\$20,663,967
Virginia	\$41,718,344	\$ 2,853,486	\$ 110,458	\$1,225,062		\$45,907,350
Washington	\$41,593,279	\$ 3,884,696	\$ 18,534,672	\$15,508,896	\$ 3,193,797	\$82,715,340
West Virginia	\$18,480,713					\$18,480,713
Wisconsin	\$75,309,266	\$ 46,534,782	\$ 14,422,812	\$1,233,414	\$ 154,227	\$137,654,501
Wyoming	\$6,113,505					\$6,113,505
Total	\$2,131,618,631	\$588,293,763	\$1,318,673,245	\$97,297,643	\$34,261,569	\$4,170,144,851

Source: LIHEAP Clearinghouse <http://www.liheap.ncat.org/>

NOTE: Programs that raise funds through utilities and their customers are classified as utility programs