

The Economics of Low Income Energy Assistance in New York:

No Wonder They Call Economics the “Dismal” Science



Trudi Renwick
Senior Economist
Fiscal Policy Institute
www.fiscalspolicy.org

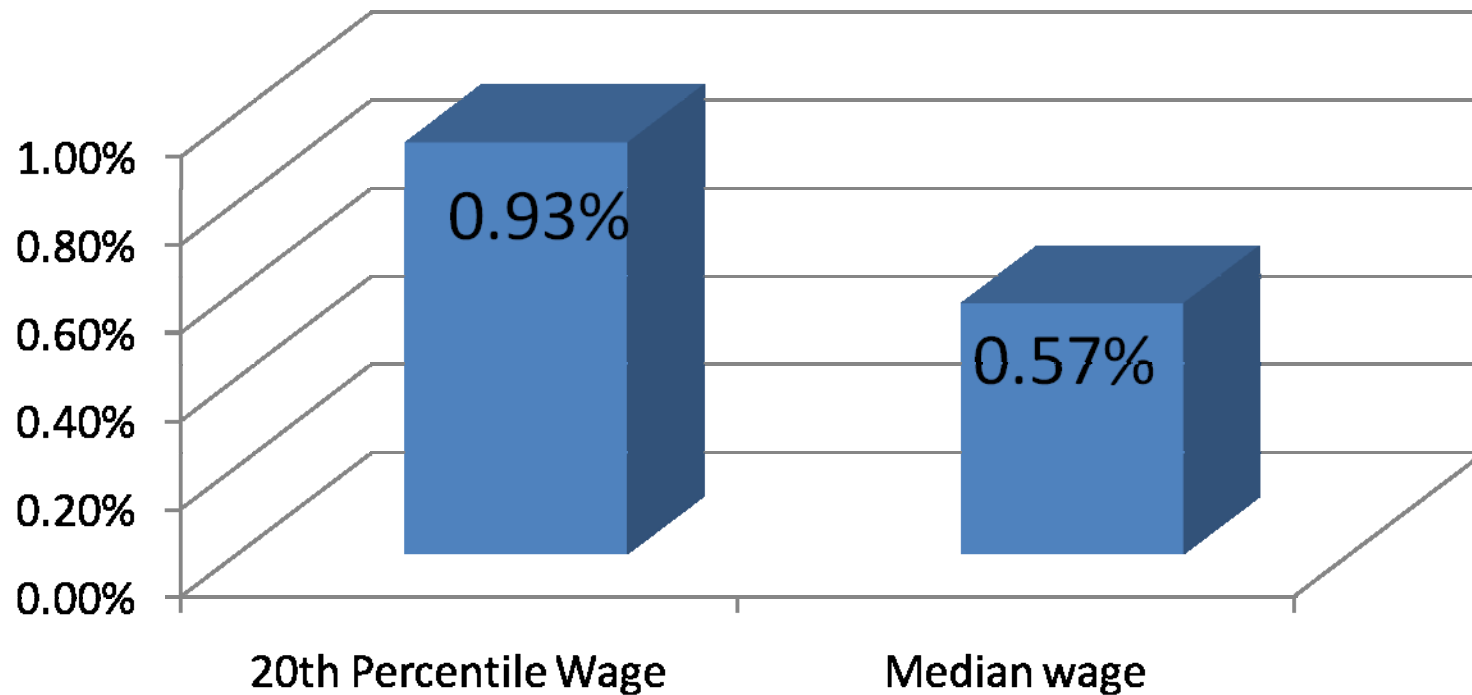


Gerald Norlander
Executive Director
Public Utility Law Project of NY
www.pulp.tc

Income growth for most New Yorkers has been anemic at best through the most recent economic expansion.

- Wage growth over the past decade in New York has been very modest
- Public assistance grant has not been increased in 18 years
- Disproportionate share of growth has gone to the households at the top of the income ladder
- Poverty rates high statewide, astronomical in upstate cities

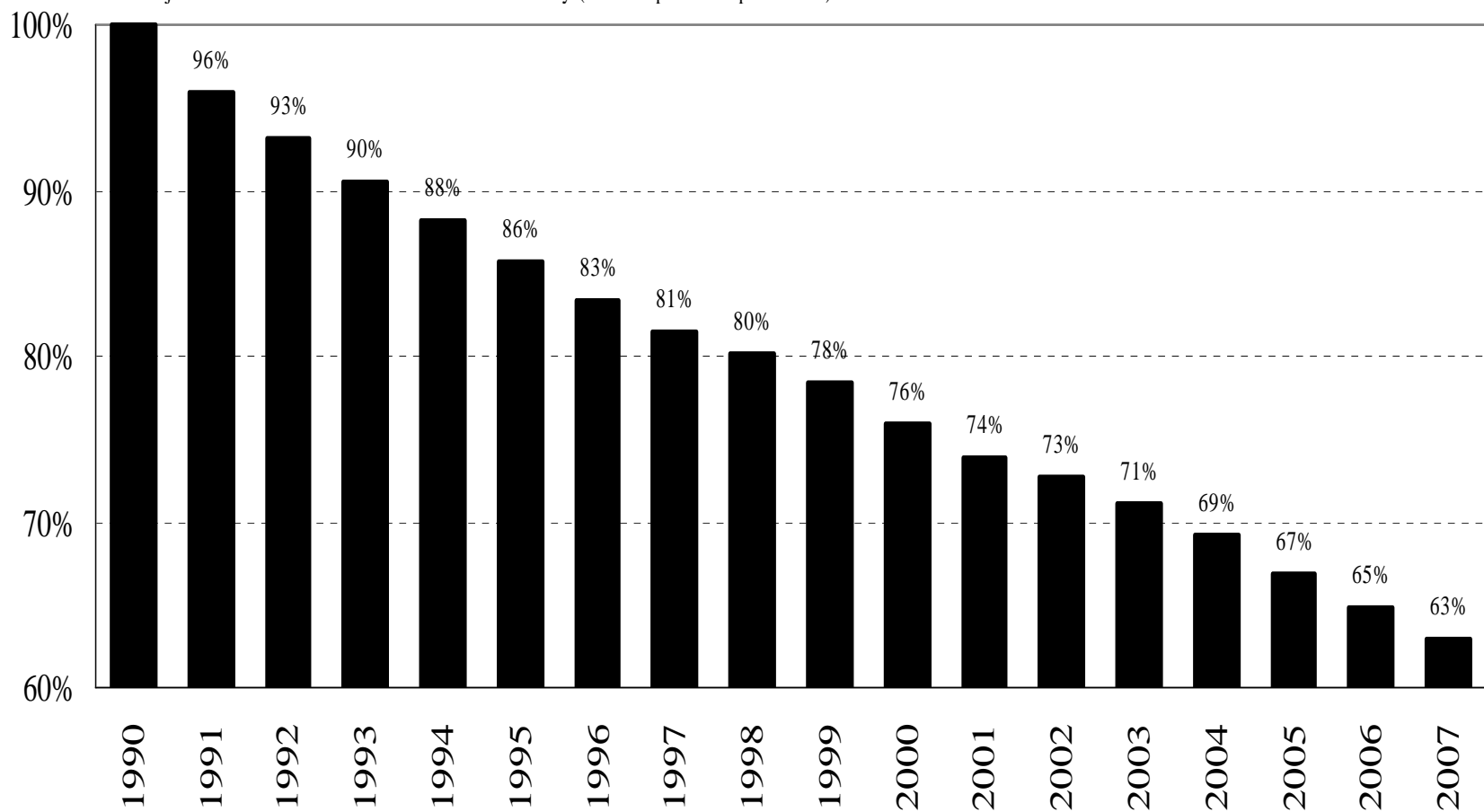
Over the past decade, wages at both the bottom and the middle of the wage scale on grew less than one per cent per year.



Annual Average Increase in Inflation-adjusted Wages: 1997 to 2007

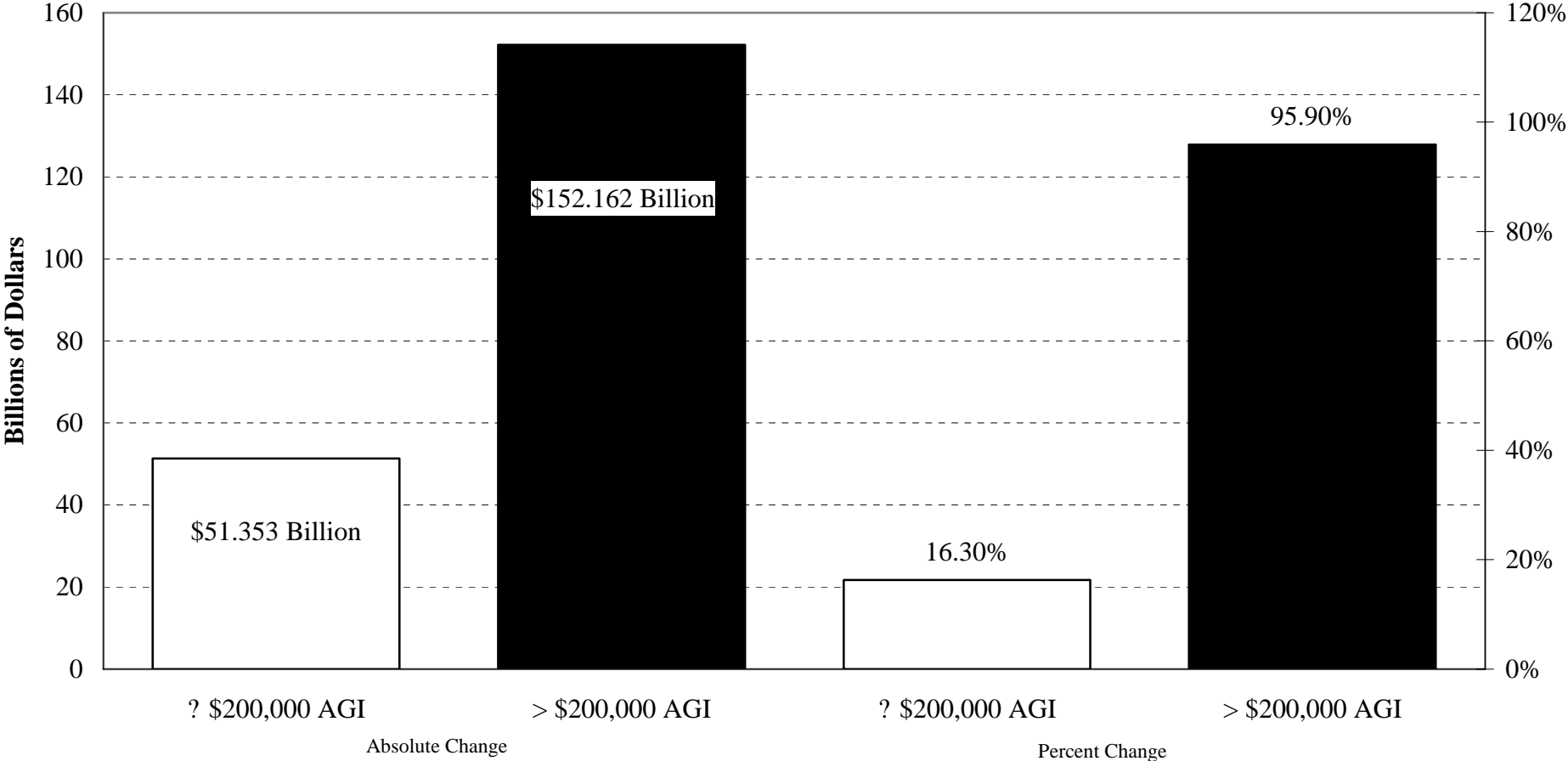
New York's Basic Cash Assistance Allowance has not been increased since 1990. It has lost more than a third of its purchasing power.

Inflation adjusted Basic Allowance for a Three Person Family (Pre Add plus HEA plus SHEA) as a Percent of 1990 Basic Allowance.



Income growth in the most recent expansion was particularly concentrated at the top.

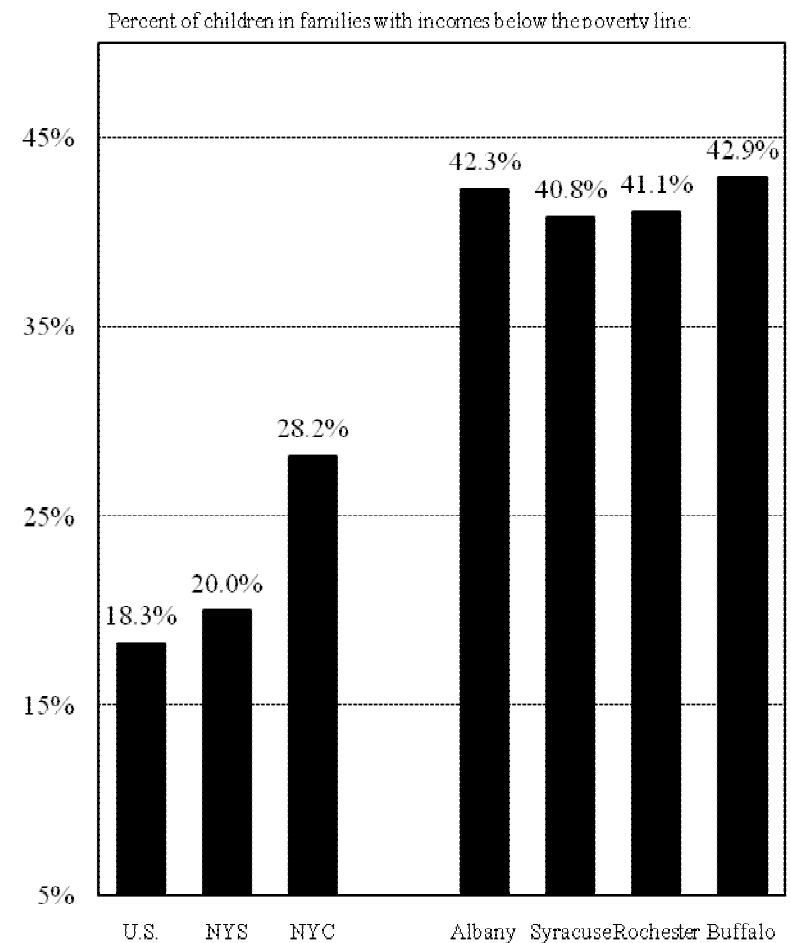
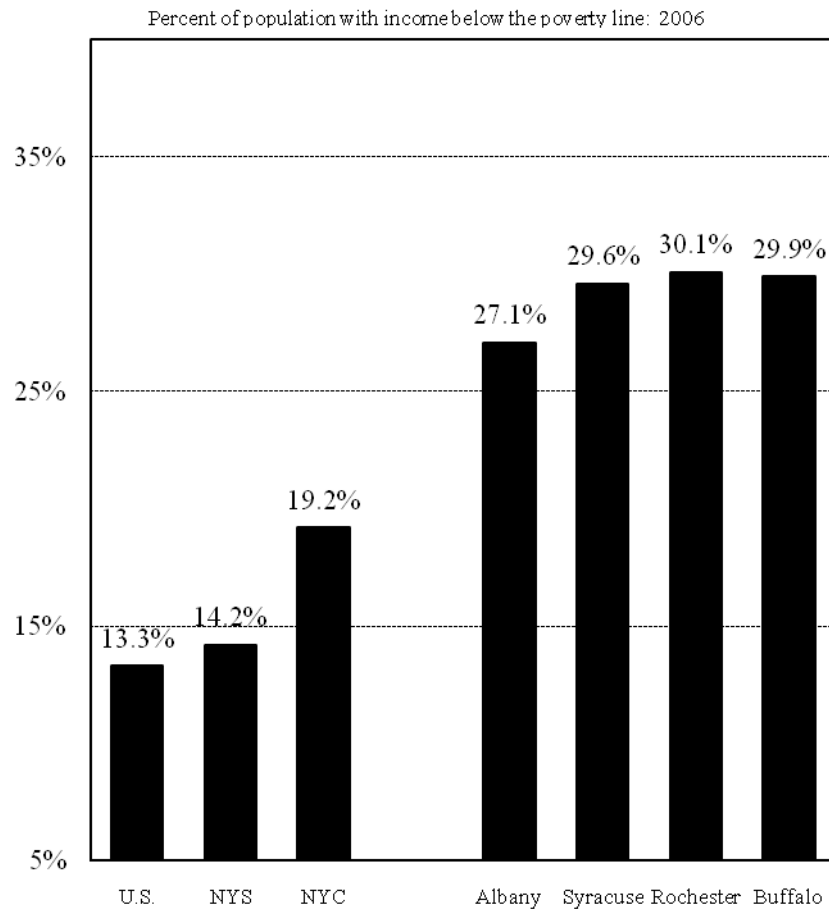
Change in New York State Adjusted Gross Income: 2003-2007



Source: New York State Division of the Budget.

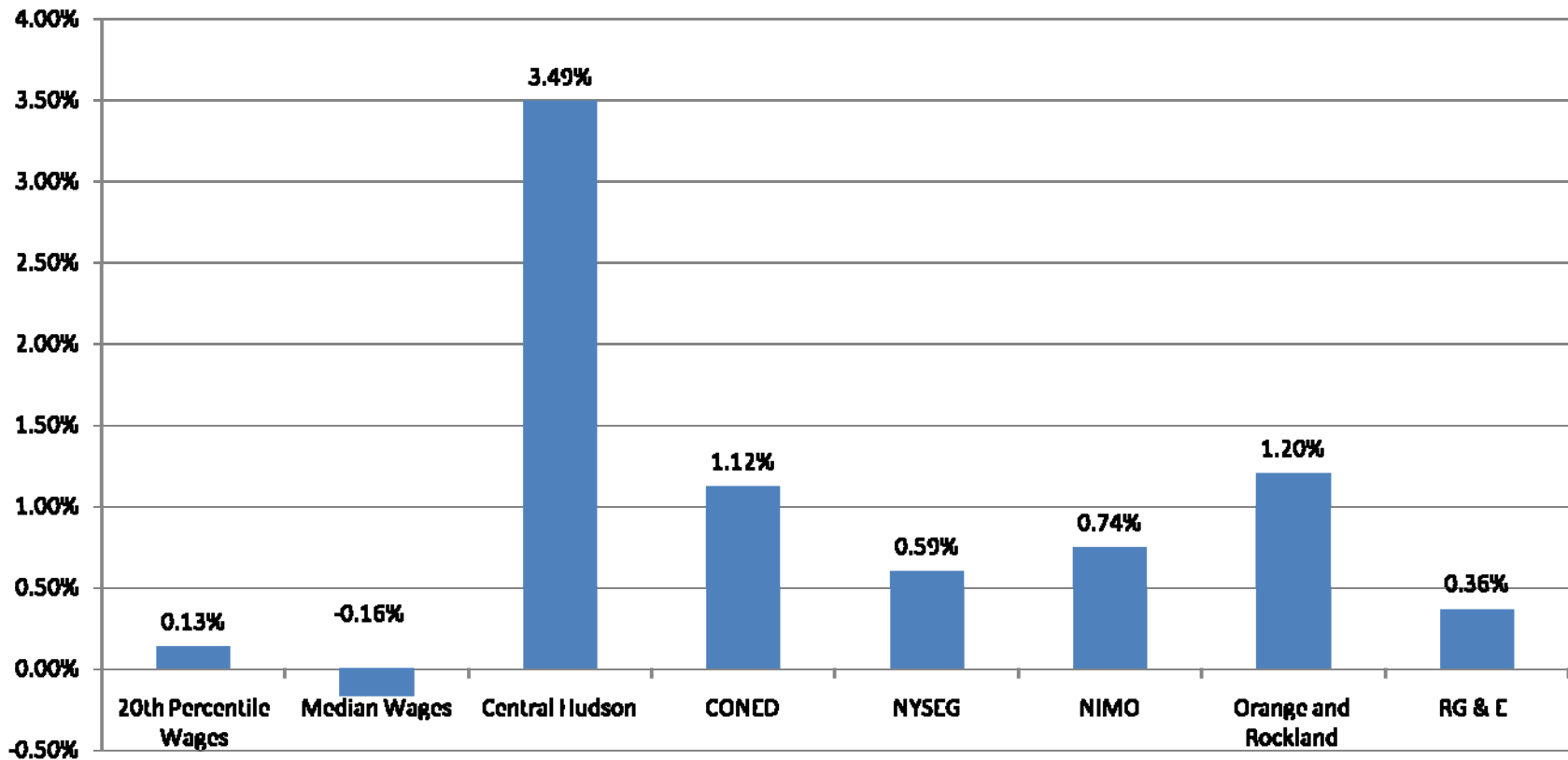
Poverty Rates are high throughout New York but particularly in the upstate cities.

Four out of ten children are living in poverty in Albany, Syracuse, Rochester and Buffalo.



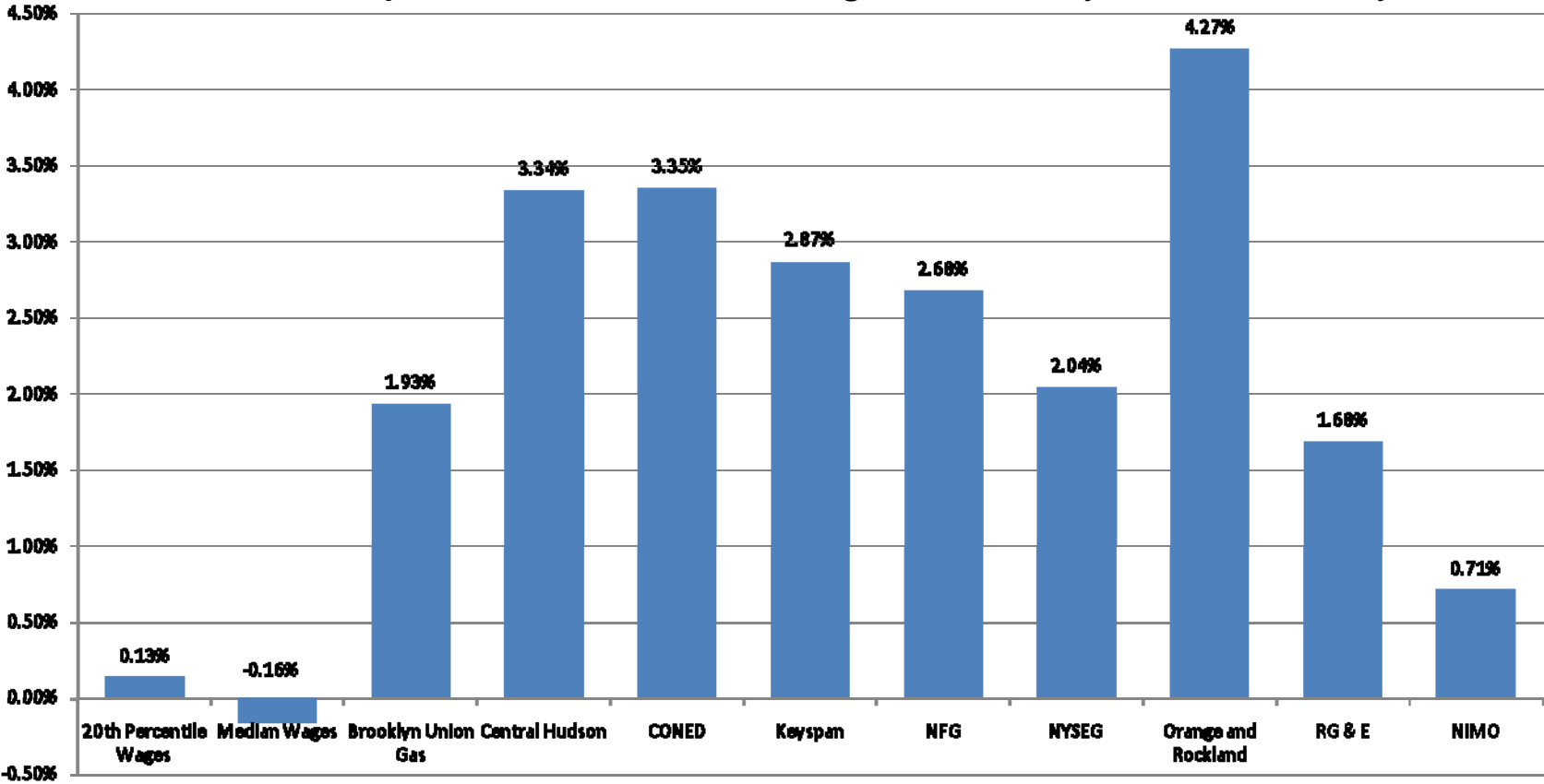
Unfortunately, over the past five years, electricity costs have grown faster than wages.

Average annual increase in cost of 250 kwh of electricity, adjusted for inflation using the CPI-U.

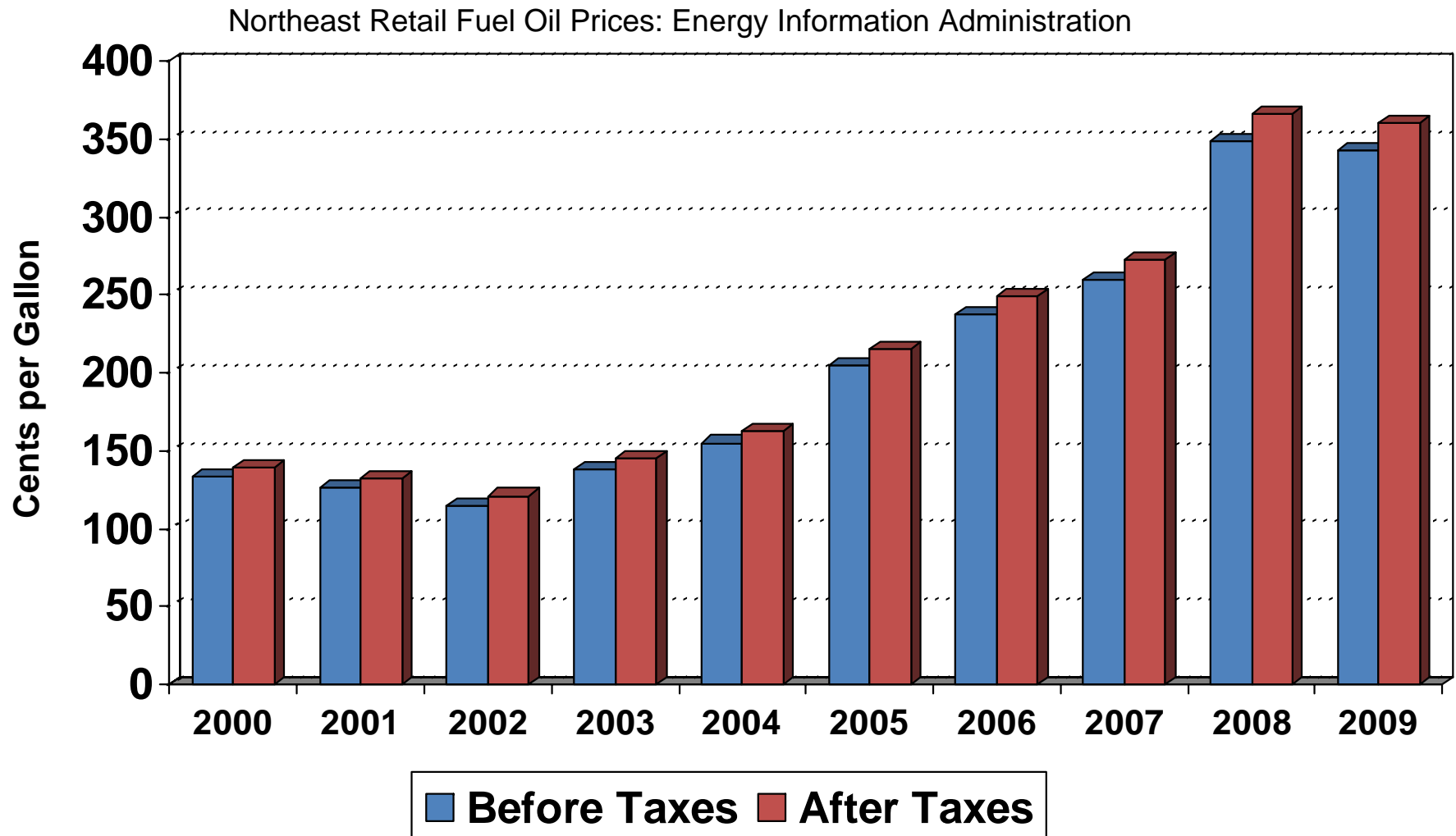


Natural gas prices have risen even more rapidly.

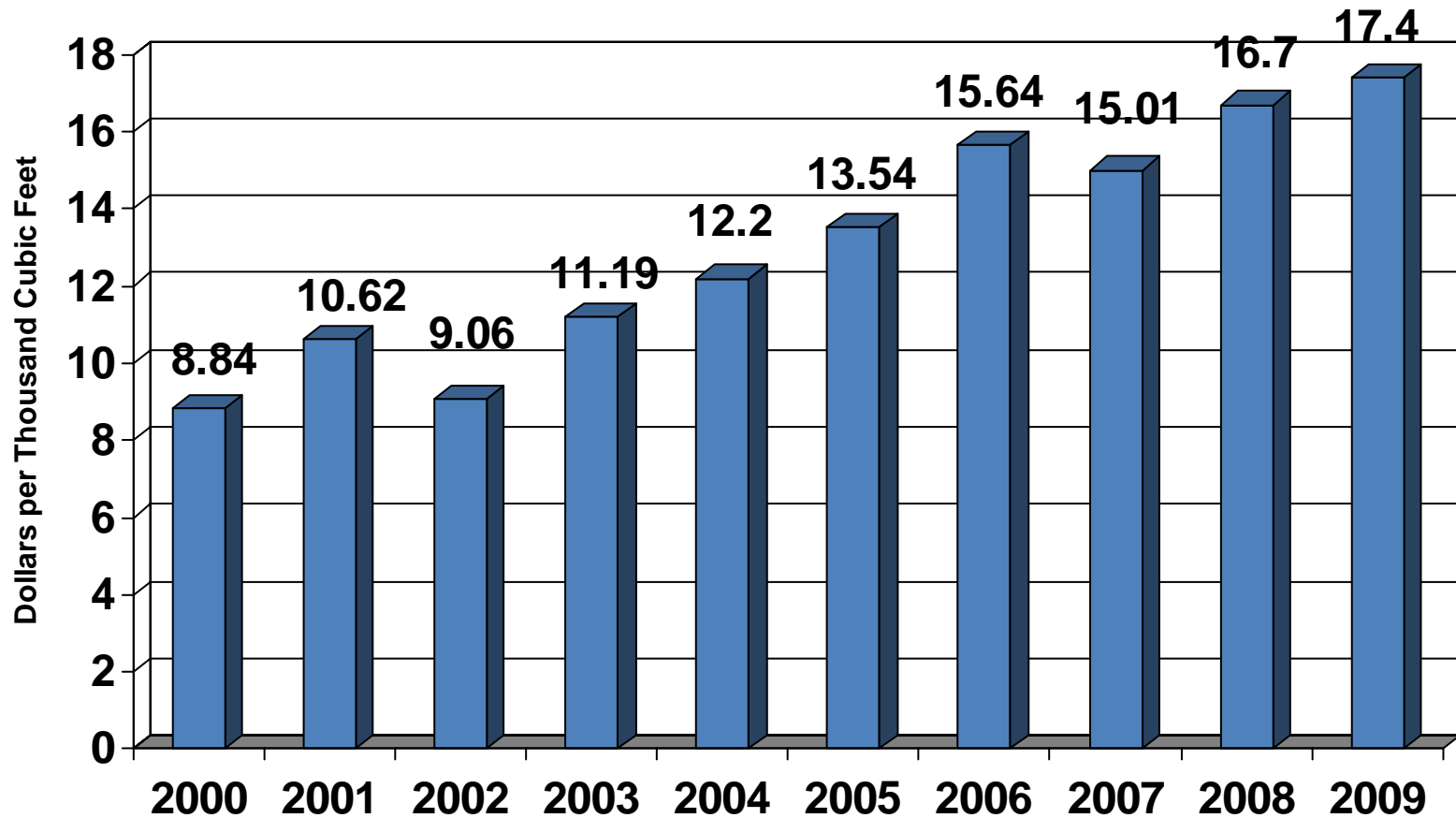
Inflation adjusted cost of 50 ccf of gas: January 2003, January 2008



Fuel oil prices have more than doubled since 2000.



Natural gas prices have also doubled.



Source: Energy Information Administration – Mid Atlantic residential natural gas prices.

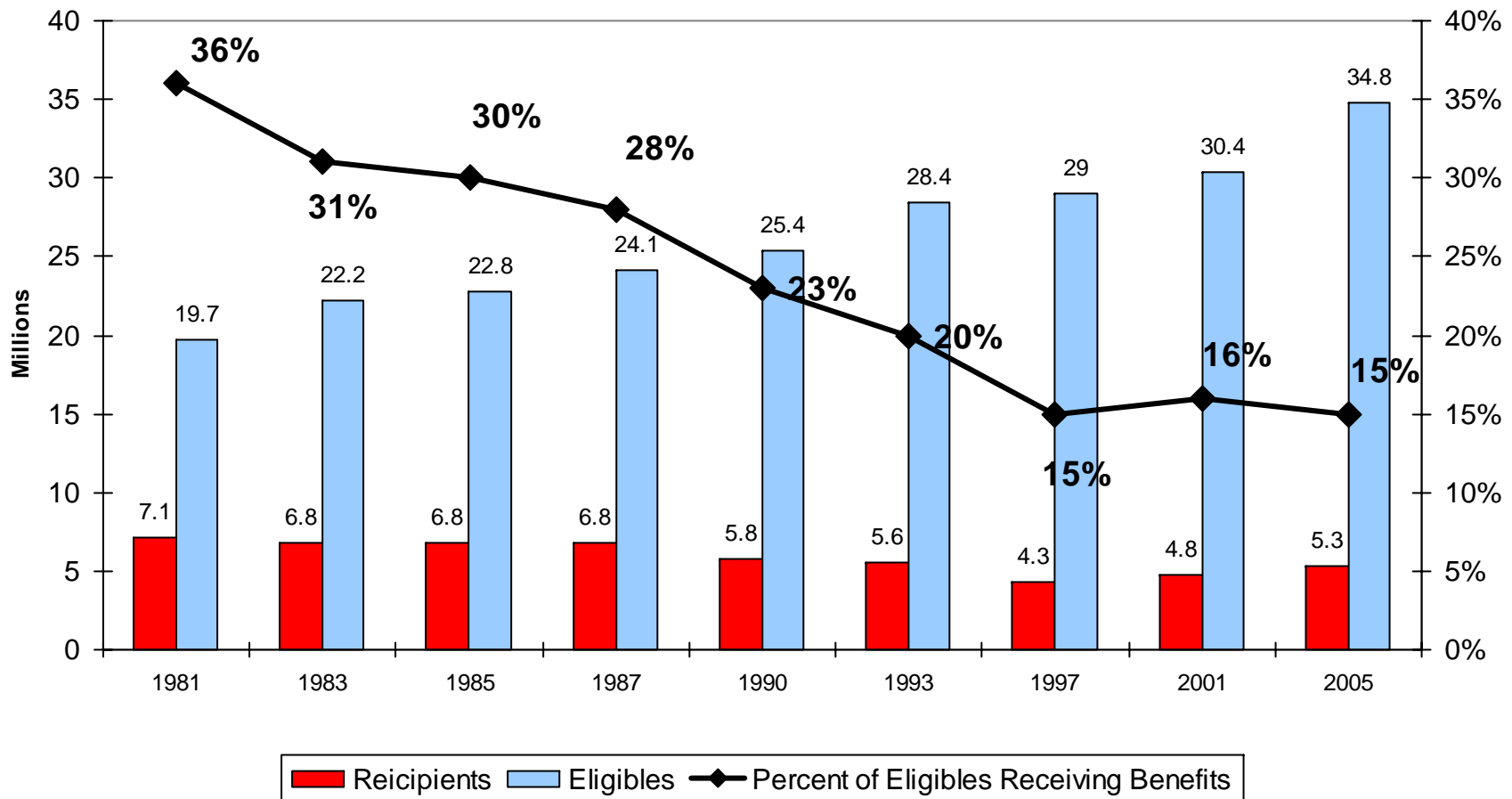
Energy assistance has not kept pace.

- Public assistance energy allowances
 - HEA/SHEA – last changed 1981/1986
 - Fuel for Heating Allowances – last changed in 1987
- LIHEAP – Supplemental and emergency appropriations for LIHEAP have helped over the past few years but have not kept pace with
 - (a) The rising cost of home heating fuels
 - (b) The growing ranks of the working poor

As low-income families' heating and cooling bills have risen, the energy-purchasing power of LIHEAP funding has eroded.

- According to the Center on Budget and Policy Priorities, LIHEAP funding in 2008 remains 43 percent below the levels in 2001, after adjusting for the rise in energy prices.
- LIHEAP funding increased significantly in 2008, but not to the level necessary to cover the 153 percent increase in energy prices since 2001.
- As a result, nationally the percent of eligible families receiving LIHEAP funds has been cut in half.
- The percentage of the total home heating bill for LIHEAP/LEAP eligible households covered by LIHEAP heating and winter crisis benefits decreased from 23 percent in 1981 to 8 percent in FY 2005.

Nationally, less than 15 percent of those eligible for LIHEAP benefits actually receive benefits.



Source: U.S. Department of Health and Human Services, *LIHEAP Home Energy Notebook, FY 2005* (May 2007).

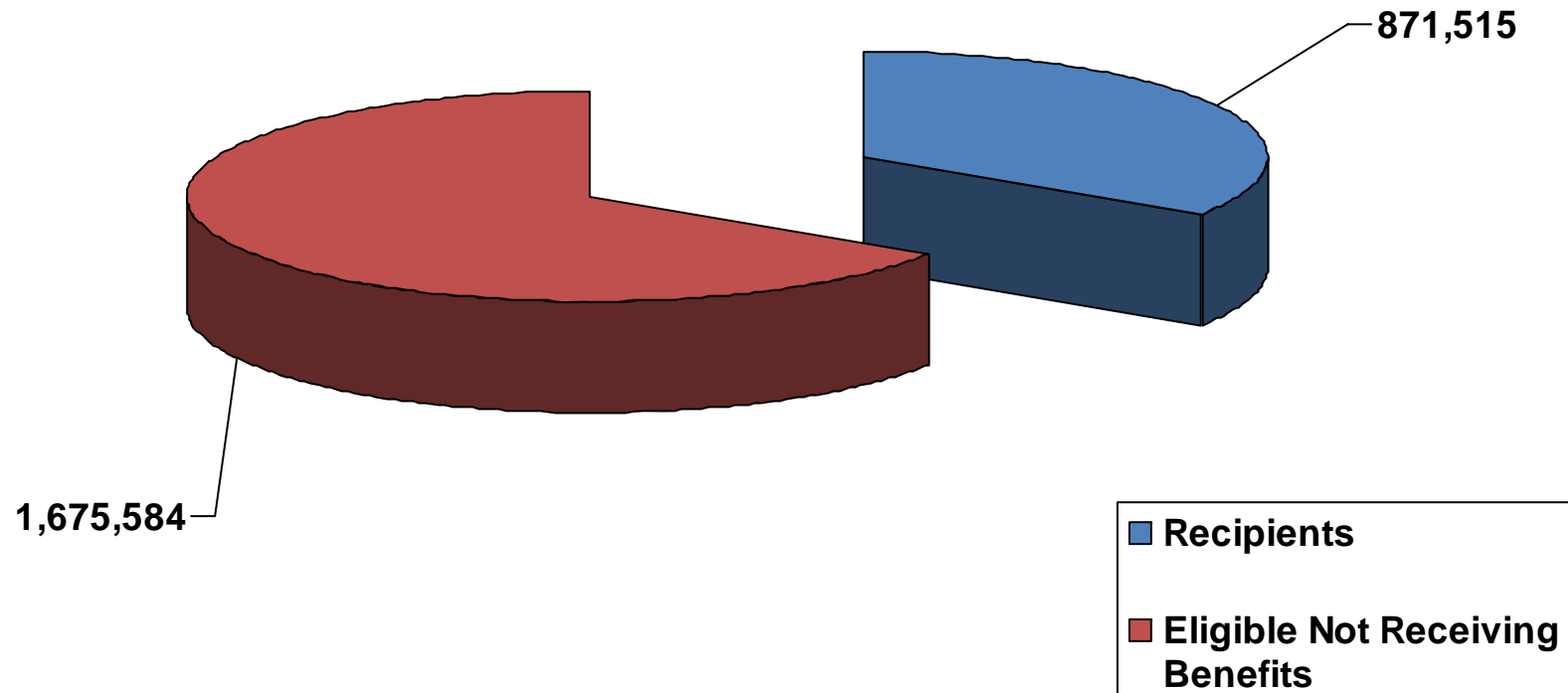
For example, this year New York recently received \$82.3M in additional 2008 federal LIHEAP contingency funds.

These additional funds were used to

- allow New York's 2007-08 HEAP program to operate until May 15, 2008
- provide for a second emergency benefit for those HEAP eligible households that have exhausted available HEAP benefits for this season and who are still in a crisis situation.
- the amount of the HEAP emergency benefit for non-utility fuels will increase from \$600 to \$700 for all non-utility emergency benefits

These contingency funds were critical for this year but are not assured for next year and are not sufficient to hold New York's low income families "harmless" in the face of spiraling fuel costs.

In New York, two out of three eligible households do not receive LIHEAP benefits.



Source: estimate of eligible from LIHEAP Home Energy Notebook for FY 2005: Appendix B. Number of recipients from OTDA statistics for September 2007.

Energy prices may go even higher than forecast for next year, and an economic recession will mean more New Yorkers will be seeking assistance.

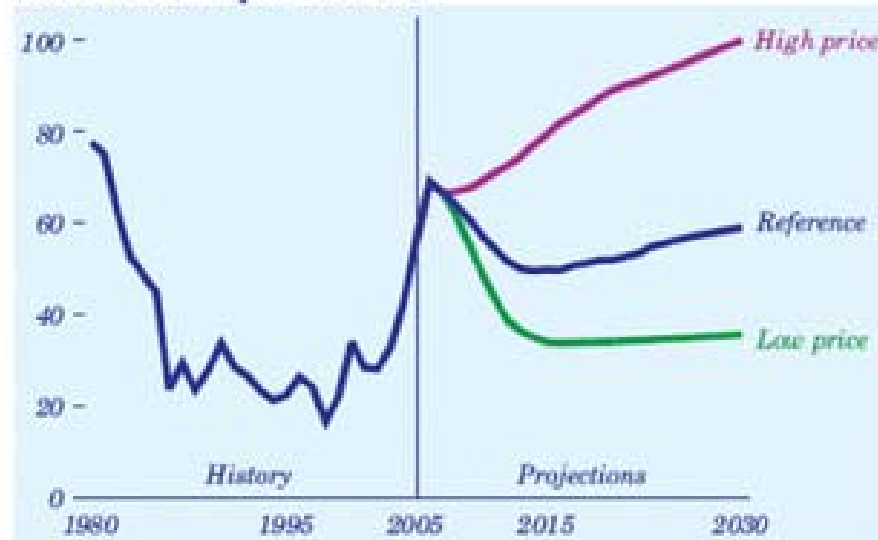
- EIA has consistently underestimated the increases in energy prices
- Higher prices = crisis for New York's low income families and crisis for energy assistance system in New York
- Recession will mean more unemployed, underemployed, discouraged workers and even more pressure on energy assistance system.

In fact, EIA has consistently underestimated the increases in oil prices. In 2007 it projected that world oil prices in the “high price” scenario might reach \$100 per barrel by 2030!!!!

AEO 2007: World Price Projection

Oil Price Cases Show Uncertainty in Prospects for World Oil Markets

*Figure 29. World oil prices, 1980-2030
(2005 dollars per barrel)*



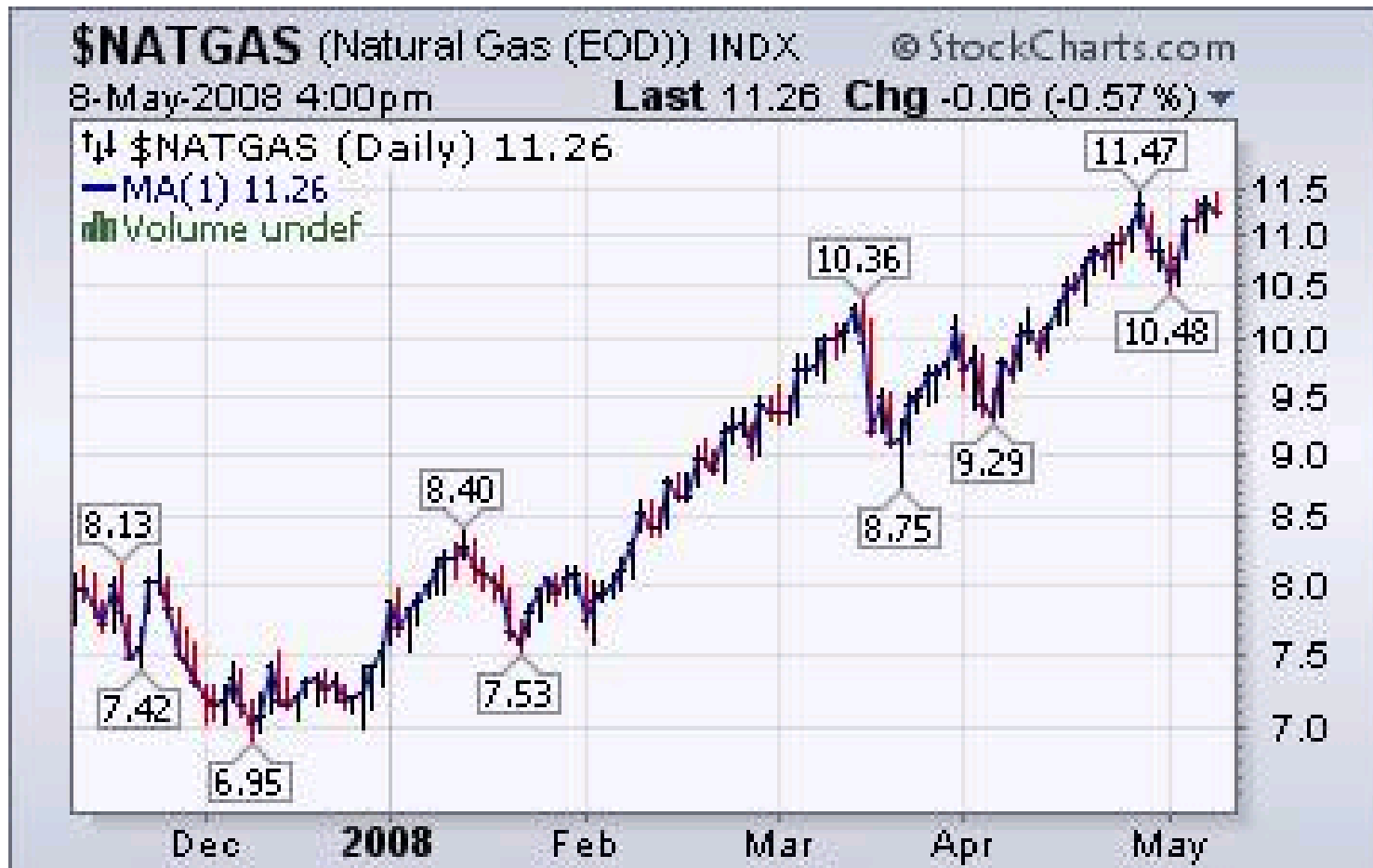
So they revised the 2008 forecast, predicting that oil would reach \$120 per barrel by 2030. ??

AEO 2008: World Price Projection

Figure 2. World oil prices are higher in all *AEO2008* cases.

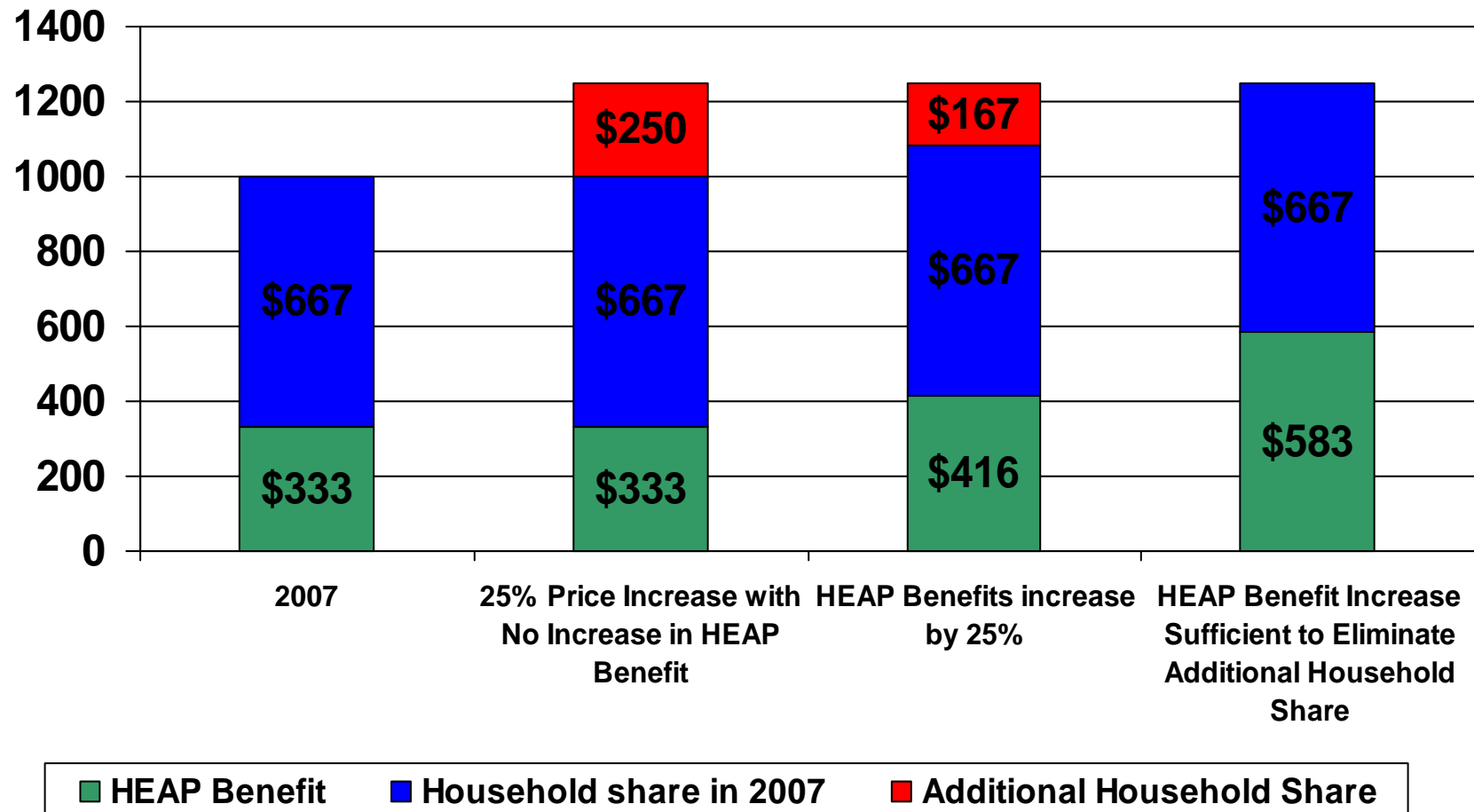


Recent natural gas price trends are considerable higher than EIA projections.



Source: http://www.marketoracle.co.uk/images/2008/financial-markets-18-5-08_image016.jpg

Even increases in HEAP benefits equal to the percentage increase in heating fuel prices will leave low income families paying significantly more for home heating next winter.



If all that were not enough, climate change policies present another challenge for low income households.

Four Key Numbers on Climate Policy, Low-Income Families, and the Budget

\$750 per year

Average increase in energy-related costs for the poorest fifth of the population from a modest (15 percent) emissions reduction

\$50-300 billion per year

Resources potentially generated by climate policies to help low-income consumers and address other climate-related needs

Approx. 14%

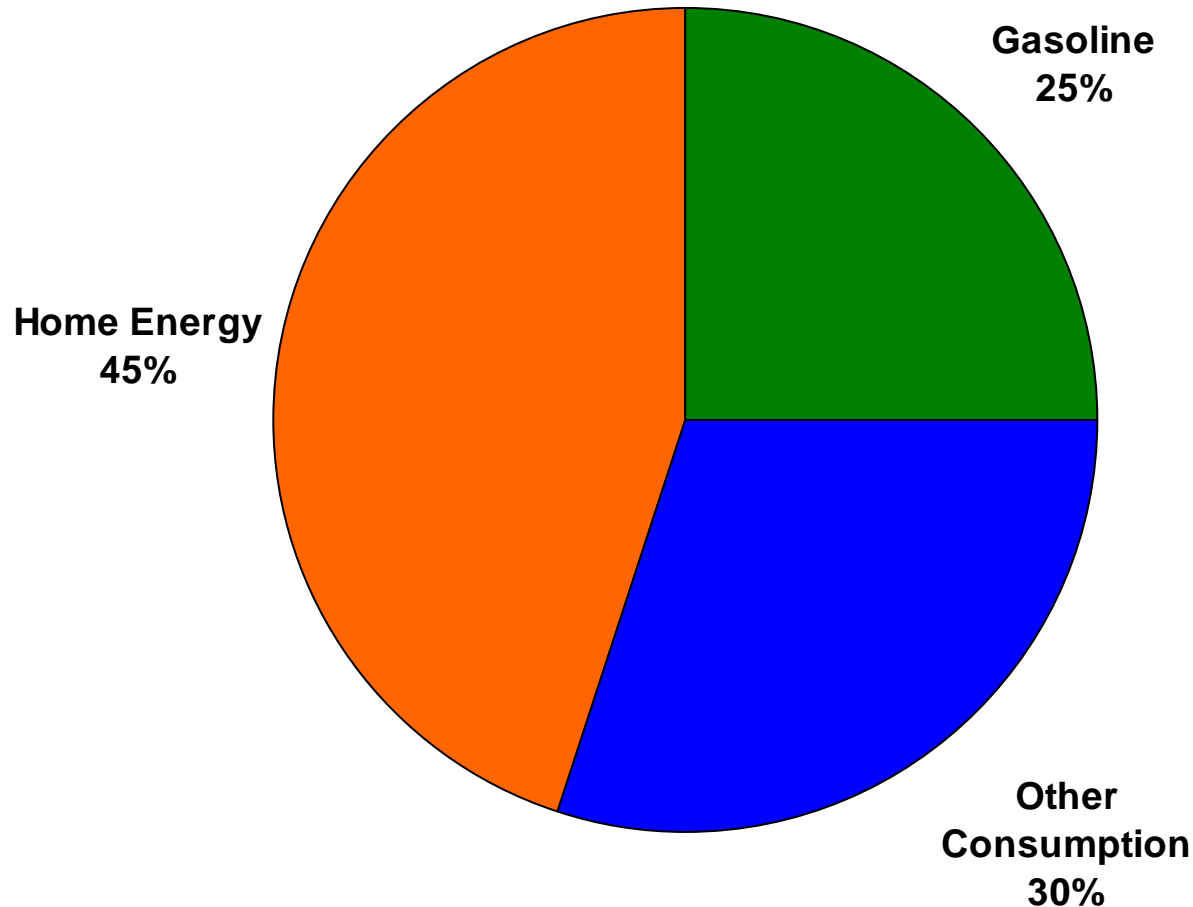
Share of those resources needed to fully offset the increased energy-related costs faced by low-income consumers

Less than 15%

Share of those resources needed to fully compensate energy companies (and other companies) for losses resulting from climate policies

Impact on the Budgets of Low-Income Households Goes Well Beyond Home Energy

Shares of Cost Increase for Poorest 20 Percent of Population by Product Category

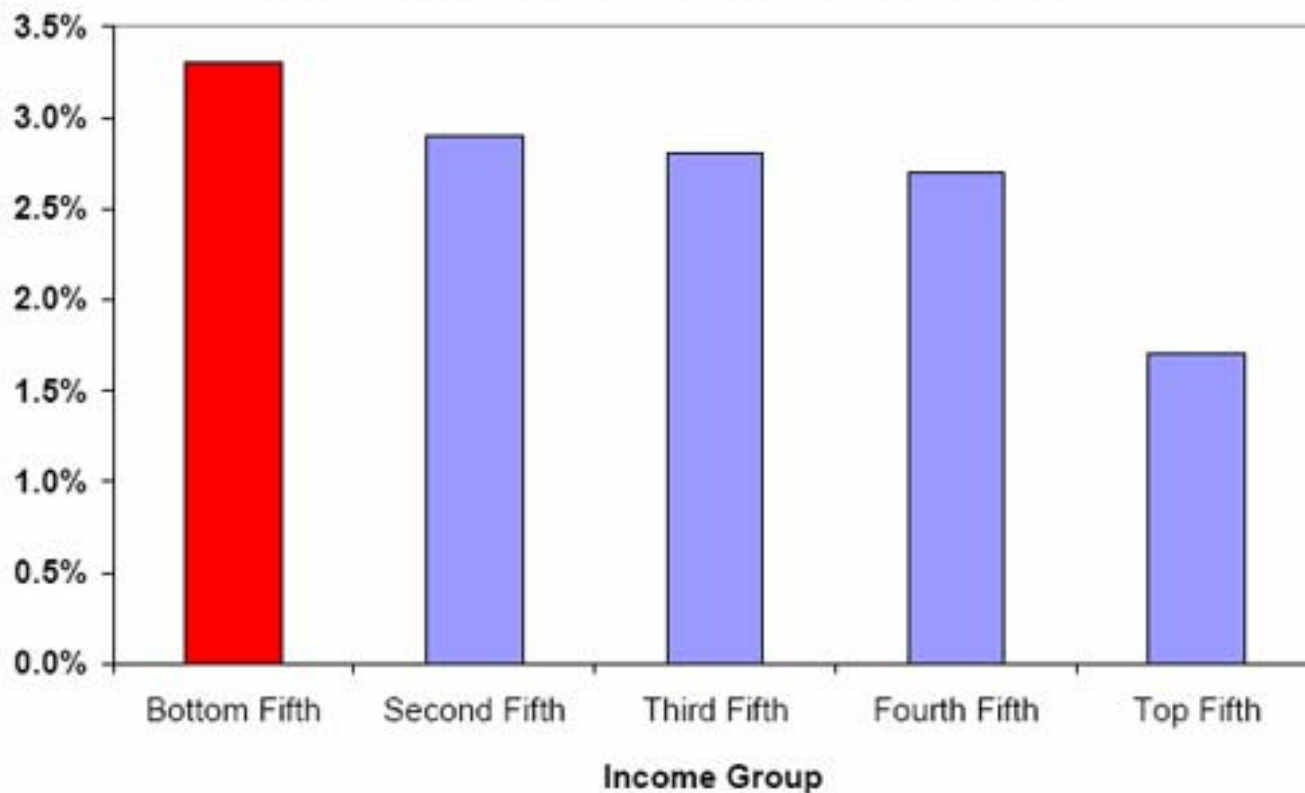


Source: CBPP calculations based on Consumer Expenditure Survey data and CBO methodology.

FIGURE 1

Poor Families Hit Hardest by Energy Cost Increases

Increase in Household Costs (as a Share of Income) Due to a 15 Percent Cut in CO2 Emissions



Source: Congressional Budget Office.

Assistance for low-income consumers should meet certain basic standards. It should:

- (1) fully offset the impact of higher costs on the bottom fifth of the population
- (2) reach as many in this vulnerable group as possible
- (3) cover increases in households' various energy-related expenses, not just their utility bills
- (4) reflect family size
- (5) operate through proven delivery mechanisms
- (6) phase up as emission controls phase in

Existing proposals do not meet these standards.

RGGI rules fall far short of these standards.

- The proceeds of the CO2 Allowance Auctions will be used by the Authority to promote and implement programs for energy efficiency, renewable or non-carbon emitting technologies, and innovative carbon emissions abatement technologies with significant carbon reduction potential, and for reasonable administrative costs incurred by the Authority in undertaking the activities described in Part 507 and for administrative costs, auction design and support costs, and program design and support costs associated with the CO2 Budget Trading Program, whenever incurred.
- At least annually, the Authority shall convene an advisory group of stakeholders representing a broad array of energy and environmental interests to advise it on how to best utilize said funds to achieve the goals of the Account

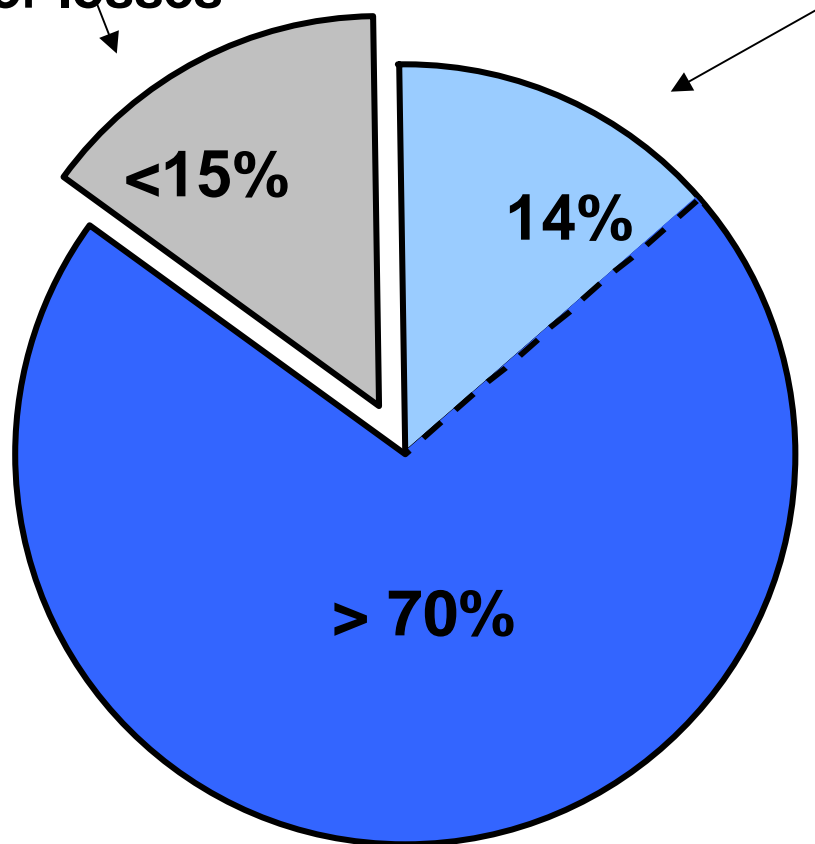
Most low-income households could be reached through an approach that relies on a combination of:

- the electronic benefit transfer systems states use to deliver some low-income assistance, which could be used to deliver a monthly “climate-change rebate,”
- the Earned Income Tax Credit, which could be expanded to help defray increased energy-related costs.
- Supplemental help could be given through the Low-Income Home Energy Assistance Program and the Weatherization Assistance Program.

Well-Designed Climate Policies Can Generate the Resources Needed to Address Crucial Priorities

Share needed to compensate companies for losses

Approx. share needed to hold low-income consumers harmless



Available to address other priorities, e.g.:

- Compensating workers in affected industries
- Investing in alternative energy R&D
- Providing relief to middle-income families

Source: Share needed to compensate companies for losses based on estimates cited by the Congressional Budget Office (CBO). Share needed to hold low-income consumers harmless reflects CBPP calculations using the Consumer Expenditure Survey, Current Population Survey, and CBO methodology.

• Offsetting effects on federal, state, and local budgets

And what is the cost of doing nothing?

- The tragic 2006 [death of six Chicago children in an apartment without electricity](#), where candles apparently had been used for months, illustrates a rather common situation.
- An August, 2006 fire [in a candle-lit Rochester, New York home](#) without electricity: Candles left burning caused an overnight fire. It was not an act of carelessness on the part of the homeowner, but one of necessity. [The homeowner] was laid off, and unable to keep up with bills. She spent the summer without electricity.
- The 2005 [death of a New York City child in a fire started by a candle](#) while power was shut off. It was reported that [the customer had made payment arrangements sufficient to be reconnected](#), the reconnection was scheduled for the next day, but the fire occurred during the intervening night:
"[A] Con Ed spokesman ... confirmed electricity to the apartment had been cut off at 1:45 p.m. Monday. Two hours later, [the customer] appeared at a local Con Ed branch to pay \$700 - almost half the outstanding bill. [A]n order to restore electricity within 24 hours was issued two hours later. Tragically, it was not in time - firefighters responded to the scene of the fatal fire at 10:45 p.m."

- In a 2003 [Syracuse, N.Y. incident](#), "A Syracuse mother and her three children, who have been using candles to light their home since the power was shut off earlier this month, escaped unharmed when a candle ignited a blaze in a second-floor bedroom Friday morning.... [A] NiMo spokesman said the company disconnects the power when a customer is unresponsive to letters, calls and offers of payment agreements. He said company officials had a phone conversation with the customer Thursday to discuss the bill.
- In 2005, after state laws were changed to make utility terminations easier, [four Pennsylvania residents without electricity died in a candle fire](#).
"[The]director of the [Pennsylvania] PUC's Bureau of Consumer Services, said what was missing in the new law was the old requirement that Penelec go to the house 48 hours before shut-off. That requirement meant that a utility employee had to personally notify the customer and to leave notice tacked to the door if no one was home. As things turned out, that change probably was critical. That, and the failure of [the customer] to demand a medical deferral from shut-off because of ... chronic-health problems. They said they didn't know they could get such a deferral.... Penelec programs a computer to determine nightly which customers' service should be terminated.... The idea is to reduce human error, and no manager signs off, he said."

In all these cases, service was shut off or denied to low income households due to non payment of past bills, illustrating how a lack of safe utility service can lead to life-threatening emergency situations.