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## Home Energy Affordability Gap Grows in 2004

### NOTE TO READERS

#### ON-LINE DELIVERY

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## Annual Study Shows Growth in Home Energy Affordability Gap in 2004

In an effort to quantify the gap between “affordable” home energy bills and “actual” home energy bills, Fisher, Sheehan & Colton (FSC) has developed a model that estimates the “home energy affordability gap” on a county-by-county basis for the entire country.

Introduced in April 2003 (using 2002 energy prices), FSC found in that initial Home Energy Affordability Gap analysis that the annual “affordability gap” reached roughly \$18.2 billion and that federal fuel assistance provided through the Low-Income Home Energy Assistance Program (LIHEAP) covered just a fraction of that gap.

In May 2005 (using 2004 energy prices), FSC released the third annual Home Energy Affordability Gap analysis. FSC found that the shortfall between actual home energy bills and affordable home energy bills had increased to \$20.1 billion, an increase of eleven percent (11%) in just three years.

With the May 2005 Home Energy Affordability Gap, FSC also introduced The Home Energy Affordability Gap Index. The Home Energy Affordability Gap Index uses the year 2002 as its base year. In that year, the Index was set equal to 100. A current year Index of more than 100 thus indicates that the Home Energy Affordability Gap has increased since 2002. A current year Index of less than 100 indicates that the Home Energy Affordability Gap has decreased since 2002. A Home Energy Affordability Index is presented for each state (plus the District of Columbia) as well as for the nation as a whole.

## **National Results**

Existing sources of energy assistance do not adequately address the energy affordability gap in the total United States. Actual low-income energy bills exceeded affordable energy bills in the total U.S. by more than \$20.1 billion at 2004 fuel prices. In contrast, the U.S. received a gross allotment of federal energy assistance funds of \$1.759 billion for Fiscal Year 2004.

The Home Energy Affordability Gap Index in the total U.S. was 110.7 for 2004. This Index indicates that the Home Energy Affordability Gap has increased 10.7% between 2002 and the current year.

The U.S. LIHEAP allocation has lost ground relative to its Home Energy Affordability Gap. From 2002 to 2004, the total Home Energy Affordability Gap increased by \$1.948 billion. In comparison, the federal LIHEAP allocation to the U.S. increased \$89.4 million.

## **New England Census Division**

Actual low-income energy bills exceeded affordable energy bills in the New England division by \$1.199 billion at 2004 fuel prices. In contrast, the New England division received a gross allotment of federal energy assistance funds of \$171.3 million for Fiscal Year 2004.

The Home Energy Affordability Gap Index in the New England census division was 118.9 for 2004. This Index indicates that the Home Energy Affordability Gap has increased 18.9% between 2002 and the current year.

The New England division's LIHEAP allocation has lost ground relative to its Home Energy Affordability Gap. From 2002 to 2004, the total Home Energy Affordability Gap increased by \$190.4 million. In comparison, the federal LIHEAP allocation to the New England division increased \$8.7 million.

## **Mid-Atlantic Census Division**

Actual low-income energy bills exceeded affordable energy bills in the Mid-Atlantic division by \$3.484 billion at 2004 fuel prices. In contrast, the Mid-Atlantic division received a gross allotment of federal energy assistance funds of \$412.7 million for Fiscal Year 2004.

The Home Energy Affordability Gap Index in the Mid-Atlantic census division was 102.8 for 2004. This Index indicates that the Home Energy Affordability Gap has increased 2.8% between 2002 and the current year.

The Mid-Atlantic division's LIHEAP allocation has lost ground relative to its Home Energy Affordability Gap. From 2002 to 2004, the total Home Energy Affordability Gap increased by \$95.7 million. In comparison, the federal LIHEAP allocation to the Mid-Atlantic division increased \$21.0 million.

## **South Atlantic Census Division**

Actual low-income energy bills exceeded affordable energy bills in the South Atlantic division by \$3.695 billion at 2004 fuel prices. In contrast, the South Atlantic division received a gross allotment of federal energy assistance funds of \$177.5 million for Fiscal Year 2004.

The South Atlantic division's LIHEAP allocation has lost ground relative to its Home Energy Affordability Gap. From 2002 to 2004, the total Home Energy Affordability Gap increased by \$454.6 million. In comparison, the federal LIHEAP allocation to the South Atlantic division increased \$9.0 million.

The Home Energy Affordability Gap Index in the South Atlantic census division was 114.0 for 2004. This Index indicates that the Home Energy Affordability Gap has increased 14.0% between 2002 and the current year.

### **East South Central Census Division**

Actual low-income energy bills exceeded affordable energy bills in the East South Central division by \$1.499 billion at 2004 fuel prices. In contrast, the East South Central division received a gross allotment of federal energy assistance funds of \$76.6 million for Fiscal Year 2004.

The Home Energy Affordability Gap Index in the East South Central census division was 111.8 for 2004. This Index indicates that the Home Energy Affordability Gap has increased 11.8% between 2002 and the current year.

The East South Central division's LIHEAP allocation has lost ground relative to its Home Energy Affordability Gap. From 2002 to 2004, the total Home Energy Affordability Gap increased by \$157.8 million. In comparison, the federal LIHEAP allocation to the East South Central division increased \$3.9 million.

### **West South Central Census Division**

Actual low-income energy bills exceeded affordable energy bills in the West South Central division by \$3.624 billion at 2004 fuel prices. In contrast, the West South Central division received a gross allotment of federal energy assistance funds of \$80.8 million for Fiscal Year 2004.

The Home Energy Affordability Gap Index in the West South Central census division was 124.7 for 2004. This Index indicates that the Home Energy Affordability Gap has increased 24.7% between 2002 and the current year.

The West South Central division's LIHEAP allocation has lost ground relative to its Home Energy Affordability Gap. From 2002 to 2004, the total Home Energy Affordability Gap increased by \$718.1 million. In comparison, the federal LIHEAP allocation to the West South Central division increased \$4.1 million.

### **East North Central Census Division**

Actual low-income energy bills exceeded affordable energy bills in the East North Central division by \$2.660 billion at 2004 fuel prices. In contrast, the East North Central division received a gross allotment of federal energy assistance funds of \$398.8 million for Fiscal Year 2004.

The Home Energy Affordability Gap Index in the East North Central census division was 126.4 for 2004. This Index indicates that the Home Energy Affordability Gap has increased 26.4% between 2002 and the current year.

The East North Central division's LIHEAP allocation has lost ground relative to its Home Energy Affordability Gap. From 2002 to 2004, the total Home Energy Affordability Gap increased by \$554.9 million. In comparison, the federal LIHEAP allocation to the East North Central division increased \$20.3 million.

### **West North Central Census Division**

Actual low-income energy bills exceeded affordable energy bills in the West North Central division by \$1.110 billion at 2004 fuel prices. In contrast, the West North Central division received a gross allotment of federal energy assistance funds of \$200.3 million for Fiscal Year 2004.

The Home Energy Affordability Gap Index in the West North Central census division was 126.8 for 2004. This Index indicates that the Home Energy Affordability Gap has increased 26.8% between 2002 and the current year.

The West North Central division's LIHEAP allocation has lost ground relative to its Home Energy Affordability Gap. From 2002 to 2004, the total Home Energy Affordability Gap increased by \$234.2 million. In comparison, the federal LIHEAP allocation to the West North Central division increased \$10.2 million.

## **Mountain Census Division**

Actual low-income energy bills exceeded affordable energy bills in the Mountain division by \$983 million at 2004 fuel prices. In contrast, the Mountain division received a gross allotment of federal energy assistance funds of \$90.6 million for Fiscal Year 2004.

The Home Energy Affordability Gap Index in the Mountain census division was 106.1 for 2004. This Index indicates that the Home Energy Affordability Gap has increased 6.1% between 2002 and the current year.

The Mountain division's LIHEAP allocation has lost ground relative to its Home Energy Affordability Gap. From 2002 to 2004, the total Home Energy Affordability Gap increased by \$56.2 million. In comparison, the federal LIHEAP allocation to the Mountain division increased \$4.6 million.

## **Pacific Census Division**

Actual low-income energy bills exceeded affordable energy bills in the Pacific division by \$1.888 billion at 2004 fuel prices. In contrast, the Pacific division received a gross allotment of federal energy assistance funds of \$150.8 million for Fiscal Year 2004.

The Home Energy Affordability Gap Index in the Pacific census division was 78.6 for 2004. This Index indicates that the Home Energy Affordability Gap has decreased 21.4% between 2002 and the current year.

The Pacific division's LIHEAP allocation has gained ground relative to its Home Energy Affordability Gap. From 2002 to 2004, the total Home Energy Affordability Gap decreased by \$514.4 million. In comparison, the federal LIHEAP allocation to the Pacific division increased \$7.7 million.

## **Impacts of Unaffordability**

The problems arising from the unaffordability of home energy in the United States are substantial. A June 2001 report by the National Fuel Funds Network, and other national organizations, found that at the end of the 2000/2001 winter heating season, at least 4.3 million low-income households were at risk of having their utility service cut off because of an inability to pay their winter home energy bills. While natural gas prices moderated after the 2001/2002 winter heating season, recent increases in natural gas and fuel oil prices are again creating crisis situations for utility customers. These households are disproportionately low-income households.

That payment-troubled customers are disproportionately low wage households is commonly accepted. National data reported by the U.S. Census Bureau indicates that the proportion of households in arrears at any given point in time is substantially higher for the low-income population than for the population as a whole. One 1995 Census study reported that while 9.8% of non-poor families could not pay their utility bills in full, 32.4% of poor families could not do so. According to the Census Bureau, while 1.8% of non-poor families had their electric and/or natural gas service disconnected for nonpayment, 8.5% of poor families suffered this same deprivation.

It is not merely the nonpayment of bills that is of concern, however. One impact, but only one impact, of the unaffordability of home energy service is the nonpayment of bills. Previous research by the Iowa Department of Human Rights (DHR) found that bill nonpayment is perhaps not even the most significant of the adverse impacts of unaffordable home energy bills. A DHR study of Iowa LIHEAP recipients found that:

- Over 12 percent of Iowa LIHEAP recipients went without food to pay their home heating bill.

- More than one-in-five went without medical care to pay for heating bills. This included not seeking medical assistance when it was needed, not filling prescriptions for medicine when a doctor had prescribed it, and/or not taking prescription medicines in the dosage ordered by the doctor.
- Almost 30 percent reported that they did not pay other bills, but did not elaborate as to which bills were not paid.
- In addition to not paying other bills, many low-income households incurred debt in order to pay both their home heating bills and other basic necessities. They borrowed from friends and/or neighbors, used credit cards to pay for food and other necessities, or did not pay the heating bill.

#### **Availability of Materials**

FSC's complete Home Energy Affordability Gap analysis for 2005 can be accessed at the following web site:

<http://www.fsconline.com/work/heag/heag.htm>

State-specific analyses can be prepared on a fee-for-service basis. For example, a Home Energy Affordability Gap has been prepared for state legislative districts in Delaware, Vermont and Michigan.

Fisher, Sheehan and Colton, Public Finance and General Economics (FSC) is a research and consulting firm with offices in Belmont (MA), Scappoose (OR), and Iowa City (IA).

*FSC* specializes in providing economic, financial and regulatory consulting. The areas in which *FSC* has worked include infrastructure financing, public enterprise planning and development, natural resource economics, community economic development, telecommunications, public sector labor economics, planning and zoning, regulatory economics, energy law and economics, fair housing, and public welfare policy.