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**THE IMPACT OF RISING
HOME HEATING COSTS ON MINNESOTA FAMILIES**

PREPARED FOR REP. BETTY MCCOLLUM

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EXECUTIVE SUMMARY

The costs of home heating fuels — natural gas, heating oil, and propane — have increased steadily over the last four years. Cost increases have been especially steep in the last year, as heating fuel prices rose to record highs in the aftermath of Hurricanes Katrina and Rita and moved higher still in December 2005. These increased prices will have a significant impact on family budgets, with the U.S. Energy Information Administration predicting that heating costs will increase by hundreds of dollars for most families.

At the request of Rep. Betty McCollum, this report analyzes the impact these rising costs will have on families in Minnesota. The report finds that the increases in heating costs will affect millions of families in the state and cost them billions of dollars. Specifically, the report finds:

- **Increased heating costs will affect almost two million Minnesota families.** There are 1.3 million families in Minnesota that rely on natural gas for their home heating. Natural gas costs for these families are expected to be over \$700 higher than they were four years ago — and almost \$400 higher than they were just last year. Over the last four years, natural gas heating costs have risen by an estimated 152% for families in Minnesota, over 12 times faster than the inflation rate. An additional 320,000 families in the state use heating oil or propane to heat their homes. These families will also face steep price increases.
- **Increased heating costs will cost Minnesota families over \$1 billion.** In total, the 1.3 million Minnesota families affected by rising prices for natural gas, propane, and heating oil are likely to pay \$1.1 billion more to heat their homes this winter than they did four years ago. In the event of a cold winter, total cost increases could be almost \$1.8 billion for Minnesota families, almost \$1,100 per family higher than the costs four years ago.
- **Over 300,000 Minnesota families that are eligible for federal heating assistance are unlikely to receive this help.** The federal Low Income Heating and Energy Assistance Program (LIHEAP) was created to provide financial assistance to low-income seniors and families that would otherwise struggle to pay their heating bills. Because the program has been severely underfunded by Congress, an estimated 300,000 families in Minnesota that are eligible for such assistance will not receive it.

BACKGROUND

In the last four years, prices for home heating fuels — natural gas, propane, and heating oil — have increased dramatically. In the winter of 2001-2002, the average American family spent \$551 to heat its home. These winter heating costs increased by 22% in 2002-2003, 4% in 2003-2004, and 12% in 2004-2005, rising to an average of \$786 per family. The U.S. Energy Information Administration is now reporting that price increases for heating fuels will be even steeper during the coming winter, with costs expected to increase by another 25%, over \$200 higher per family compared to last year.¹ Some forecasters have predicted a colder than average winter.² If this occurs, it will result in even higher prices and higher expenditures.³

These increased heating prices will have an impact on individual families and on the broader economy. Families will be forced to spend additional money on heating fuel each month, cutting back on other expenses and turning down the thermostat. The increased prices will trickle through the economy as a whole, increasing inflation and reducing consumer expenditures in other areas.⁴

The increased heating fuel prices will have their greatest impact on low-income families and seniors on fixed incomes. According to the National Energy Assistance Directors Association, many low-income families “will have few choices but to cut back on essential necessities, such as medicine, food, and clothing.”⁵ A survey conducted by the organization found that almost 50% of low-income families were unable to pay their home energy bills in the last year. Others could pay their bills, but only after making severe sacrifices: one in three low-income families sacrificed necessary medical care to pay their increased heating costs; one in five went without food for at least one day to pay these costs; and almost one in six reported illnesses due to their inability to heat their homes.⁶

The primary federal program providing assistance to low-income households to pay high heating bills is the Low Income Home Energy Assistance Program (LIHEAP). This program has been hamstrung, however, by inadequate funding.

¹ U.S. Energy Information Agency, *Short Term Energy Outlook* (Dec. 6, 2005).

² *Cold, Expensive Winter Forecast*, Reuters (Oct. 17, 2005).

³ U.S. Energy Information Agency, *Short Term Energy Outlook and Winter Fuels Outlook* (Oct. 12, 2005).

⁴ *Inflation Jumped 1.2% in September to a 25-Year High*, Michigan Times (Oct. 15, 2005).

⁵ National Energy Assistance Directors Association, *Home Heating Costs Projected to Hit Record Levels This Winter; Grim Forecast for Low Income Families* (Sept. 9, 2005).

⁶ National Energy Assistance Directors Association, *2005 National Energy Assistance Survey Report Key Findings* (2005).

Nationwide, less than one in five eligible LIHEAP beneficiaries (18%) received assistance in FY 2005.⁷

The shortfall in LIHEAP funding will become more severe this winter. Significant funding increases are needed just to keep pace with rising fuel prices.⁸ Yet the President's budget called for a \$200 million cut in funding compared to last year.⁹ Efforts by Democrats in Congress to provide full funding were defeated.¹⁰ In the final legislative sessions of 2005, Republican leaders in the House and Senate eliminated provisions that would have provided partial increases in LIHEAP funding this year. Ultimately, the final budget passed by Congress cut LIHEAP funding compared to last year.¹¹ Absent additional funding, some states are beginning to exhaust their available funding well before the end of the heating season.¹²

⁷ National Energy Assistance Directors Association, *Estimated LIHEAP Recipients As A Percentage of Eligible Households (FY 2005)* (2005).

⁸ Experts have estimated that the LIHEAP program would require an additional \$3.2 billion in FY 2006 to serve all eligible families and to keep up with increasing fuel costs. Center on Budget and Policy Priorities, *Out in the Cold: How Much LIHEAP Funding Will Be Needed to Protect Beneficiaries from Rising Energy Prices?* (Oct. 20, 2005).

⁹ Office of Management and Budget, *FY 2006 Budget* (Feb. 2005).

¹⁰ On October 4, 2005, Senators Edward Kennedy and John Kerry offered an amendment to the Labor-HHS appropriations legislation that would have increased LIHEAP funding by \$3.2 billion. This amendment was rejected, with 49 Senators voting for it and 51 voting against it. U.S. Senate, *Roll Call Vote, Motion to Waive CBA re: Emergency Designation on Kerry Amdt. No. 2033; To provide for appropriations for the Low-Income Home Energy Assistance Program*. (Oct. 5, 2005). In the House, a similar amendment, by Reps. Bobby Rush, Gene Green, and Edward Markey was offered as the Committee on Energy and Commerce marked up the Committee's budget reconciliation legislation. This amendment also failed, on a party line vote, with 21 members voting for it and 28 against. Committee on Energy and Commerce, *Full Committee Markup considering Title I, the Digital Television Transition Act of 2005; and to consider Title II, which will consist of Medicaid, Katrina health relief, and Katrina energy relief, Amendment #2* (Oct. 25, 2005).

¹¹ The final Labor-HHS appropriations bill provided \$2.18 billion in funding for LIHEAP in FY 2006, the same as in FY 2005. H. Rept. 109-337, *Making appropriations for the Departments of Labor, Health and Human Services, and Education and related agencies for the fiscal year ending September 30, 2006, and for other purposes* (Dec. 28, 2005). The final Defense appropriations bill, which Congress passed on the same day, reduced this funding to 1% below FY 2005 levels. H.R. 2863, *Making appropriations for the Department of Defense for the fiscal year ending September 30, 2006, and for other purposes* (Dec. 28, 2005).

¹² National Energy Assistance Directors Association, *States Call on Congress to Approve Additional Funding for LIHEAP; Applications Reaching Record Levels; States Begin to Exhaust Funds* (Dec. 22, 2005).

PURPOSE AND METHODOLOGY

This report was prepared for Betty McCollum, who represents the 4th Congressional District of Minnesota in the U.S. House of Representatives. At the request of Rep. McCollum, the report estimates the impact of increased heating costs on families in Minnesota.

The analysis in the report of the impact of high heating costs relies upon (1) data from the U.S. Census indicating the number of households in the state and in its congressional districts that use natural gas, heating oil, and propane for heating and (2) data from the U.S. Energy Information Administration estimating the extent to which costs for these fuels will increase this winter compared to their costs last year and their costs four years ago. The Energy Information Administration data provide regional estimates of the anticipated increase in fuel costs. The analysis assumes that the cost increases in the state and its congressional districts are the same as the cost increases in the region as a whole.

The report also includes estimates of both the number of families in the state and its congressional districts that are eligible to receive assistance under LIHEAP and the number of families that are likely to actually receive such assistance. These estimates are based upon (1) eligibility data from the U.S. Census and (2) data on the estimated funding shortfall from the Center on Budget and Policy Priorities and the National Energy Assistance Directors Association.

FINDINGS

High Home Heating Costs Will Affect Over One Million Minnesota Families

This winter's increased heating fuel costs will affect almost two million families in Minnesota, costing them hundreds of dollars each.

Data from the U.S. Census show that there are 1.2 million families in Minnesota that rely on natural gas for their home heating.¹³ Four years ago, these families spent an average of \$485 to heat their homes.¹⁴ This winter, their heating costs are expected to average \$1,220 — an increase of \$735 (152%).¹⁵ Half of this

¹³ U.S. Census, *House Heating Fuel (Data by State)*, Census 2000 Summary File 3 (2000).

¹⁴ U.S. Energy Information Administration, *supra* note 1 (Midwest region estimate).

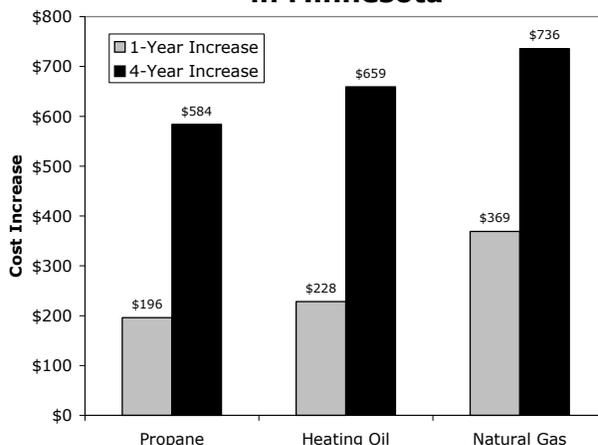
¹⁵ *Id.*

increase — \$369 — has occurred just in the last year.¹⁶ Over the last four years, the cost of natural gas in Minnesota has risen over 12 times faster than the inflation rate.¹⁷

There are 121,000 families in Minnesota using heating oil for their home heating.¹⁸ Four years ago, these families spent an average of \$463 to heat their homes.¹⁹ This winter, their heating costs are expected to average \$1,123 — an increase of \$659 (143%).²⁰ Over one-third of this increase — \$228 — has occurred in the last year.²¹

In addition, there are 197,000 families in Minnesota using propane for their home heating.²² Four years ago, these families spent an average of \$727 to heat their homes.²³ This winter, their heating costs are expected to average \$1,310 — an increase of \$584 (80%).²⁴ One-third of this increase — \$196 — has occurred just in the last year.²⁵ Figure 1.

Figure 1: Home Heating Costs Have Increased By Hundreds of Dollars in Minnesota



¹⁶ *Id.*

¹⁷ Since December 2001, inflation has increased by 12%. Bureau of Labor Statistics, *Consumer Price Index – All Urban Consumers* (Dec. 2005).

¹⁸ U.S. Census, *supra* note 14.

¹⁹ U.S. Energy Information Administration, *supra* note 15.

²⁰ *Id.*

²¹ *Id.*

²² U.S. Census, *supra* note 14.

²³ U.S. Energy Information Administration, *supra* note 15.

²⁴ *Id.*

²⁵ *Id.*

These steep cost increases are spread across Minnesota. The report divided Minnesota into four major regions: Minneapolis – St. Paul; Duluth and the Iron Range; southern Minnesota; and Western Minnesota.²⁶ For families that use natural gas, heating oil, or propane, the average cost increases ranged from \$672 per family to \$727 per family compared to four years ago.²⁷ The average estimated statewide cost increase is \$711 per family. Table 1.

Region	Number of Families Affected	Average Per-Family Cost Increase Compared to Four Years Ago
Minneapolis – St. Paul	1,020,000	\$727
Duluth/Iron Range	191,000	\$674
Southern Minnesota	208,000	\$698
Western Minnesota	179,000	\$672
Minnesota	1,600,000	\$711

There are also approximately 230,000 Minnesota families that use electric heat for their home heating.²⁸ Four years ago, these families spent an average of \$765 annually to heat their homes.²⁹ This winter, their heating costs are expected to average \$906 — an increase of \$141 (18%) compared to their costs four years ago.³⁰ The only Minnesota families that are likely to be spared significant heating cost increases this winter are the approximately 66,000 families in Minnesota that use other fuels, including solar power and wood.³¹

High Home Heating Costs Will Cost Minnesota Families Over One Billion Dollars

The cumulative costs of higher home heating bills for Minnesota families will be huge. In total, 1.6 million Minnesota families will pay higher costs this winter for natural gas, propane, and heating oil. Compared to their costs four years ago, the aggregate increased cost for these families is estimated to be approximately \$1.1 billion.

²⁶ Each of these regions is comprised of one or more of the state’s congressional districts.

²⁷ U.S. Energy Information Administration, *supra* note 15; U.S. Census, *supra* note 14.

²⁸ U.S. Census, *supra* note 14.

²⁹ U.S. Energy Information Administration, *supra* note 15.

³⁰ *Id.*

³¹ U.S. Census, *supra* note 14.

Some forecasters have predicted that this winter will be colder than average. If this occurs, heating costs for local families will further increase. A cold winter will increase fuel consumption, as families will have to burn more fuel to keep their homes warm. In addition, the increased demand will drive up fuel prices even higher. The Energy Information Administration is predicting that in the event of a cold winter, natural gas heating costs will increase by \$1,098 per Minnesota family compared to four years ago.³² The cost increases for families that use propane gas and heating oil are just as steep, \$1,119 and \$1,075 respectively.³³ The total increased heating costs for Minnesota families that use natural gas, heating oil, or propane would be approximately \$1.8 billion more this winter than four years ago if there is a colder than average winter. This is an average increase of \$1,099 per family.

Table 2 shows the impact of these home heating cost increases in individual regions of Minnesota.

Region	Total Increased Heating Costs Compared to Four Years Ago (Average Winter)	Total Increased Heating Costs Compared to Four Years Ago (Cold Winter)
Minneapolis – St. Paul	\$743,000,000	\$1,100,000,000
Duluth – Iron Range	\$129,000,000	\$210,000,000
Southern Minnesota	\$145,000,000	\$229,000,000
Western Minnesota	\$120,000,000	\$197,000,000
Minnesota	\$1,100,000,000	\$1,800,000,000

Over 300,000 Eligible Minnesota Families Are Unlikely to Receive Assistance with High Home Heating Costs

Last year, there were 450,000 low-income families in Minnesota eligible to receive financial assistance with home heating costs through the federal Low Income Heating and Energy Assistance Program (LIHEAP).³⁴ Approximately 72% of these families — an estimated 326,000 families — did not receive the LIHEAP assistance for which they were eligible.³⁵ Given Congress’ failure to

³² U.S. Energy Information Administration, *supra* note 15 (Midwest estimates).

³³ *Id.*

³⁴ National Energy Assistance Directors Association, *supra* note 9.

³⁵ *Id.*

appropriate sufficient funds, almost none of these 326,000 families are likely to receive assistance this winter.³⁶

Table 3 shows the number of LIHEAP-eligible families in each Minnesota region and the number of these families that are unlikely to receive LIHEAP assistance due to funding shortfalls.³⁷ Table 3.

Region	Estimated Number of Eligible Families	Estimated Number of Eligible Families Who Will Not Receive Assistance
Minneapolis – St. Paul	221,000	159,000
Duluth – Iron Range	81,000	58,000
Southern Minnesota	67,000	48,000
Western Minnesota	83,000	60,000
Minnesota	452,000	325,000

CONCLUSION

This report analyzes the impact of rapidly increasing costs for home heating fuels in Minnesota. It finds that increasing prices will cause families in the state to spend hundreds of dollars more to heat their homes. Increased heating prices are likely to cost 1.6 million Minnesota families an additional \$1.1 billion more this winter than four years ago — and even more in the event of a cold winter. Although the federal heating assistance program was designed to provide low-income families with help in paying these high costs, an estimated 325,000 eligible families in Minnesota are unlikely to receive assistance from the program.

³⁶ According to projections from the National Energy Assistance Directors Association, enrollment in Minnesota’s LIHEAP program is expected to increase by less than 10,000 families in 2005 – 2006, meaning that over 95% of the 320,000 eligible families who did not receive LIHEAP assistance last year will not receive it this year. National Energy Assistance Directors Association, *Estimated Total Households Receiving LIHEAP Heating Assistance by State — Projected Applications for FY 06* (Dec. 21, 2005).

³⁷ U.S. Census, *LIHEAP Eligibility Data by Congressional District* (2005). This estimate assumes that the percentage of eligible households in the region that receive no assistance is the same as the percentage of eligible households in the state that receive no assistance.