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MINNESOTA DEPARTMENT OF

*Children,  
Families &  
Learning*

**LOW INCOME  
HOME ENERGY  
ASSISTANCE  
PROGRAM FUNDING**

**January 31, 1998**

**Report  
to the  
Legislature**

*As required by  
MN. Session Laws 1997  
Chapter 162, Art. 3, Sect. 6*

3.



**COMMISSIONER:  
ROBERT J. WEDL**

**LOW INCOME  
HOME ENERGY  
ASSISTANCE  
PROGRAM FUNDING**

**FOR MORE INFORMATION, CONTACT:**

**MARK KASZYNSKI, DIRECTOR  
ENERGY PROGRAMS**

**T. (612)297-2590**

**FAX: (612)282-5907**

**E-MAIL: mark.kaszynski@state.mn.us**

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**Report  
to the  
Legislature**

**CAPITOL SQUARE  
550 CEDAR STREET  
ST. PAUL, MN. 55155**

**<http://cfl.state.mn.us>**

**TTY No. (612)297-2094**

*As required by  
MN. Session Laws 1997  
Chapter 162, Art.3, Sect.6*

Upon request, this information can be made available in alternative formats.

## **EXECUTIVE SUMMARY**

The Commissioner of the Department of Children, Families & Learning is required to report to the Minnesota House of Representatives on recommendations for potential sources of revenue to provide assistance to low-income energy consumers. The report was presented to the House Committee on Family and Early Childhood Education, Finance Division, and the Senate Committee on Children, Families and Learning. This report was done with the cooperation of other state departments, representatives of the energy industry, legislative staff and consumer groups.

The report gives a brief history of the Low Income Home Energy Assistance Program and identifies potential revenue sources for future funding. The report supports the formation of a Universal Service Advisory Board to make recommendations to the Legislative Electric Energy Task Force before the deregulation of the electric utility industry.

**Estimated Staff Commitment to State Level Study**

4 Meetings, 3 participants x 3 hours each		
	36 hours @\$28.75 (salary and fringe) =	\$1,035
Assignments from meetings, 3 staff @ 16 hours per meeting,		
	192 hours @\$28.75 (salary and fringe) =	\$5,520
Supplies, (photocopies)		\$ 500
	<b>Total</b>	<b>\$7,055</b>

**1998 REPORT TO THE LEGISLATURE  
ON  
LOW INCOME HOME ENERGY ASSISTANCE PROGRAM FUNDING**

**I. INTRODUCTION:**

Pursuant to Minnesota Statutes, 1996, section 119A.01, Sec.6, as amended, the Commissioner of the Department of Children, Families and Learning is required to report to the legislature on potential sources of revenue to provide assistance to low-income energy consumers

Representatives of the Department held four meetings to address low income energy assistance issues, and to identify potential revenue producing options. A working group was established by the attendees, who subsequently reviewed options and discussed recommendations.

**Attending the meetings were representatives and staff from the following:**

Department of Children, Families and Learning  
Department of Public Service  
Department of Revenue  
Public Utilities Commission  
House Research  
Senate Research  
Senate Committee on Jobs, Energy and Environment  
House and Senate Committees on Families & Early Childhood Education Budget Division.

**Community Organizations Represented:**

Salvation Army Heat Share  
Energy Cents Coalition  
Minnesota Community Action Association  
Ramsey County Human Services

**Energy Providers Represented:**

Northern States Power Company  
Minnegasco  
Minnesota Power  
Otter Tail Power  
Minnesota Petroleum Marketers Association.  
Minnesota Association of Propane Dealers  
Minnesota Association of Municipal Utilities  
Minnesota Association of Rural Electric Cooperatives

## **II. Overview of the Low-Income Home Energy Assistance Program**

The Energy Assistance Program (EAP) provides funds to local nonprofit and government organizations to help households, with incomes up to 150% of the federal poverty level, manage their home heating costs. The Program pays a portion of their heating costs, provides crisis payments where needed and assists with energy conservation and emergency furnace repair activities.

An eligible household's grant pays a percentage of the previous year's heating costs. The payment is applied as a credit to the household's energy supplier. Each applicant must submit income documentation and annual heating costs when applying for the program. Crisis assistance insures that the household has heat during the heating season. The Energy Related Repair program provides emergency heating system services, to correct a faulty furnace or to alleviate any health and safety risks.

Besides heating payment assistance and furnace repair, EAP agencies work to encourage and enable households to reduce their home energy consumption through needs assessment, counseling and negotiating with energy vendors. The program goal is to ensure that no low-income Minnesotan goes without heat in the winter because of an inability to pay energy costs or a malfunctioning furnace.

EAP program activities include outreach, especially to eligible elderly and disabled households and households with high home energy burdens, and energy crisis intervention, to address disconnections, or life-threatening energy situations. The program assures that home energy suppliers receiving payments on behalf of households do not discriminate through the costs of goods or services they provide to the eligible household.

Part of the state EAP funding allocation is used to provide low-cost residential weatherization and furnace repair. Weatherization is accomplished through a five percent funding transfer (transfer) to the Low-Income Weatherization Assistance Program (WAP).

The EAP Program also receives an award from the U.S. Department of Health and Human Services, under the federal leveraging incentive program. Each year, the Program submits a Leveraging Report that identifies nonfederal resources used to help low income households meet their home energy needs.

The EAP Program is administered at the local level by Community Action Agencies, counties, local nonprofits and Indian Reservation governments. The percentage of households served by fuel type are:

	All Households	LIHEAP Households
Natural Gas	65%	54%
Fuel Oil	11%	20%
Liquid Propane	7%	13%
Electric Heat	11%	8%
Wood/Coal/Steam	5%	< 5%
Other	1%	< 1%

The Energy Assistance Program is predominately federally funded in Minnesota with supplemental state general funds. Federal funding for the program has been reduced by 52 percent since 1985 and declined consistently from 1985 to 1997. Federal funding was reduced by 32% in FY 1996 from the previous year, FY 1995. State general funds were available in SFY 1997. The Governor released emergency reserve funds for the program in SFY 1997 to assist households at risk because of extreme cold weather and high fuel prices. State funds were also available to supplement the start of the program in FY 1998.

The reduction in federal funding has created a reduction in benefits and the number of households served. In FY 1997, the Energy Assistance program served approximately 89,000 households at an average primary heat grant of \$462. The program was able to do that because of the emergency reserve funding from the State and emergency supplemental funding from the federal government. The program has relied on federal emergency funding for the past four fiscal years in order to serve the households at a level that attempts to meet their needs. As funding is reduced, administrative dollars will be reduced, creating hardships on local agencies in their efforts to operate the program.

The number of households participating in the program is somewhat dependent on economic conditions, winter weather, and fuel prices. A change in any one of these factors can affect how many people receive assistance or the amount of their assistance. Low-income households generally have inefficient furnaces and use multiple energy sources for heating, whatever is affordable or available at the time. There are many low-income customers who just cannot afford energy. The energy industry, itself, is going through changes. Small community or family owned oil and LP companies are consolidating into larger companies. Small bulk dealers do not have the financial wherewithal to provide lines of credits to their to their low-income customers. Bulk fuel prices fluctuate seasonally based on national markets and impact low-income customers the hardest. The electric industry is going through changes, nationally as well as locally. Many of the changes affecting the energy industry will have an impact on low-income customers. In the near future, utilities may address the equitable distribution of benefits to customers; access to service; social programs, i.e. low-income discount rate and cold weather rule; and customer service.

The attached funding chart provides a history of program funding and the average primary heating assistance benefit provided to an EAP client.

### **III. Projected Need**

The burden of energy costs on low and fixed income households may be as high as five times that which a median income household devotes to energy costs. Low income households continue to have difficulty meeting their monthly payments for heat and electricity. Many simply cannot pay and choose which bills they will delay in order to pay their utilities. The federally funded Energy Assistance Program provides an annual one-time grant which reduces the burden on households who participate in the program. The majority of eligible households live at 100% or below federal poverty guidelines. Their average energy costs range from 12% to 39% of their household income. The average EAP grant reduces their energy burden to 8% to 22%.

The 1990 census report, Minnesota Poverty Data by County, Ratio of Income to Poverty Level, indicates that there are approximately 308,000 households living at or below 150% of the federal poverty levels.

The following numbers are from the PUMS File (Public Use Micro Data Sample) from the U.S. Census, 1990. These are household numbers, and the average household size is 2.7 persons.

<b><u>Income Levels</u></b> (federal poverty guidelines)	<b># of Households</b>
0 - 50%	51,000
51 -75%	59,000
76 -100%	65,500
101 -125%	66,500
126 -150%	66,000
<b>TOTAL</b>	<b>308,000</b>

Currently, the Minnesota Energy Assistance Program serves approximately 88,000 households each year. As federal funding for the LIHEAP program has been cut, funds for outreach and intake sites have also diminished, reducing the number of people who apply.. At every income level there are at least double the number eligible who do not receive energy assistance.

The following information is based on data collected in the FFY97 Energy Assistance Program Year. The grant amounts and heat costs are averages for those households in each income category. The energy burden indicates the household's costs before and after their grant.



**FFY97 ENERGY ASSISTANCE PROGRAM:**

<u>Income</u>	<u># Households</u>	<u>Grant</u>	<u>Heat Costs</u>	<u>Elec. Costs</u>	<u>Burden</u>	<u>% of Income</u>
					EAP Grant before/after	EAP Grant before/after
0 - 6,664	22,211	\$558	\$712	\$582*	\$1,294/736	39%/22%
6,665 - 9,996	22,663	\$479	735	"	1,317/838	16%/10%
9,997 -13,329	14,181	\$428	760	"	1,342/914	12%/8%
13,330-16,662	8,815	\$401	808	"	1,390/989	9%/7%
16,663-19,995	5,479	\$369	815	"	1,397/1,028	8%/6%
19,996+	6,567	\$325	860	"	1,443/1,118	7%/6%

\* Estimated Annual Electric Costs from Financial Statistics of Major U.S. Investor Owned Electric Utilities: 1995, July 1997, Energy Information Administration, U. S. Department of Energy.

**TOTAL Households Served in FFY 1997**

**88,650**

(Numbers indicate Head of Household in each category)

Senior Households (age 60+)	23,753
Public Cash Assistance (AFDC, MFIP)	21,122
Food Stamps, no cash)	17,722
Medical Assistance (no cash)	22,696
Employed	39,723
Disabled	12,547
Households with Children (Age 18 and under)	44,162

**III. Anticipated Future Funding**

The President has proposed \$1.1 billion for LIHEAP for FFY1999. Minnesota's anticipated allocation would be \$42.9 million for Energy Assistance for FFY 1999, if this budget is approved. This would serve approximately 100,000 households at an average assistance level of \$305.

Changes in welfare programs and deregulation of the electric industry are likely to increase the number of households seeking energy assistance. County Social Service agencies currently provide between \$3 million and \$4 million annually to prevent disconnection. As families leave welfare and enter the workforce, this help may no longer be available, and many will have difficulty paying their energy bills. Electric deregulation, through competition, may drive down prices for some customers, but there is no guarantee that this will occur for low income households. Deregulation may change credit policies, increase costs and put more low income

households and seniors at risk. Households who have not traditionally applied for energy assistance may find that they are unable to maintain their households without it.

The committee did discuss issues pertaining to deregulation within the context of long-term funding for Energy Assistance. They also wanted information on deregulation activities in other states and how it is affecting low income customers. The following is a brief synopsis of states where low income issues were addressed in conjunction with electric deregulation.

**Illinois:** The legislation signed by the Governor to deregulate Illinois' electric utilities industries provides for \$76 million in energy assistance funding for low-income residents.

**New Hampshire:** The New Hampshire Public Service Commission issued an order creating a statewide low income assistance program funded at \$13.2 million annually raised through a competitively neutral systems benefit charge applied equally to all customers.

**Pennsylvania:** The restructuring legislation requires that utilities must, at a minimum, "continue the protections, policies and services that now assist customers who are low-income to afford electric service " this includes a universal service cost recovered by non-by passable, competitively neutral distribution service charge of some \$42 million for Customer Assistance Programs, known as affordability plans.

**Montana:** Electric restructuring legislation that passed last spring created a universal systems benefit charge which will be assessed at the meter for each local utility system customer. Of the funds generated for this charge, a minimum of 17%, roughly \$2.3 million, must be spent on low income energy assistance.

**Maine:** The restructuring legislation states that "the policy of the state is to ensure adequate provision of financial assistance" to low income residents. The legislation requires the Maine Public Utilities Commission and the State Planning Office to propose legislation "that funds assistance to low -income costumers of electricity through the general fund or through a tax on all energy sources in the state."

**Wisconsin:** Wisconsin has not yet passed electric restructuring legislation, but has created a Universal Service Advisory Board to address the needs of low income families and to study revenue producing options which can be incorporated into legislation.

#### **IV. Committee Findings and Recommendations:**

Studies done by the National Consumer Law Center indicate that the average median income household in Minnesota pays an estimated 3 to 4% of its income for energy. In order to serve all households who are eligible for energy assistance and to reduce the energy burden to an average of 5 to 11 % of household income, an estimated total of \$97 million may be necessary. This amount includes the state LIHEAP allocation. As previously stated, a number of states which

have adopted electric restructuring legislation have included mechanisms for raising energy assistance funds. The committee agreed that revenue for the Energy Assistance Program should be addressed on both a short-term and long-term basis.

**Short-term possibilities considered by the committee include:**

- a) **Appropriation of State discretionary funds.** These could be released by the Governor to address energy emergencies, such as severe weather and/or high heating fuel prices;
- b) **State Funding for a pre-purchase/summer fill delivered fuel program.** This would allow EAP delivery agencies to negotiate lower delivered fuel prices with vendors who voluntarily choose to participate. State funds would be reimbursed by federal funds after the start of the winter heating season.
- c) **Bulk fuel purchases of natural gas through natural gas utilities.** Natural Gas utilities could offer a bulk price to EAP delivery agencies, similar to the summer fill fuel program.
- d) **An analysis of the current EAP delivery system,** to improve outreach, reduce administration costs and improve outcomes for applicant households.

**Long-term funding solutions will require careful and comprehensive study. These funding options could include:**

- 1) **Surcharge on Summer-delivered fuel fills:** As a vehicle for raising energy assistance funds across every type of delivered fuel, this charge is calculated based either on a percentage of revenue of energy providers or as a delivery charge on the BTU factor of fuels.
- 2) **Margin Over Rack (MOR):** This method is currently only used in the oil industry. Oil vendors base retail prices per gallon on a margin added to their wholesale or "rack" price. MOR programs pay oil dealers the lesser amount of either a set profit margin (e.g. 25 cents per gallon) above their rack price or their regular retail price on the date of delivery. In order to make such a program possible, refineries would have to release rack prices to the state Energy Assistance Program, which in turn, would purchase sufficient quantities to serve their oil customers.
- 3) **Wires Charge:** As a vehicle for raising energy assistance funds across every type of fuel, this charge is calculated based either on a percentage of revenue of energy providers, as a fixed meter or delivery charge.
- 4) **BTU-based charge:** Based on different BTU factors per energy type, a small percentage is added per BTU and then translated into an energy unit charge. For example, a 0.00000020/BTU in electricity translates to a .0007kwh charge. As such, the bill impacts for each customer class can be calculated. The total consumption of BTUs per fuel type is used

to assess how much each fuel can raise. A BTU based charge can be limited to electricity or to electricity and natural gas, or can be applied to fuel oil and propane to increase funding levels. Such an All Fuels charge is competitively neutral and as such, is adaptable to a deregulated energy market.

**5) Revenue Based Charge:** A certain percentage of revenues from energy vendors and companies could be devoted to energy assistance. Once the percentage is set, most often at either one-half of one percent, or one percent of revenue, the overall consumption by class of each company and the revenue allocation from each of those classes will provide the amount of funds that can be raised. This calculation can then be translated into the bill impact such a charge will mean for different customer classes.

**6) Energy Tax Credits/Refunds:** Low Income households could apply for an energy credit or refund, similar to the Earned Income Credit. This would provide alleviate the energy burden of low income families, but would not raise additional money for energy assistance.

**7) General Revenue Funds** to supplement federal funds or replace reduced funds. Appropriate funding levels would have to be identified .

#### **V. Department Recommendation:**

Energy Assistance funding is a complex and controversial issue. Deregulation of the electric industry will have profound impact on low income households and on the Energy Assistance Program. Any revenue- producing charge must not be regressive, and further burden low income households. Potential revenue sources, community need and delivery methods require further comprehensive study.

The Department supports the formation of a Universal Service Advisory Board, established before deregulation, to make recommendations to the Legislative Electric Energy Task Force, appropriate legislative committees, and the department regarding the energy needs of low income households. The Board would study the following:

- a) needs assessment to determine eligibility and funding levels;
- b) low income program design, administration and outreach;
- c) funding mechanisms;
- d) conservation and efficiency programs.
- e) consumer protections, rates
- f) safety, reliability and service quality.

The Advisory Board would be implemented before retail electric competition is enacted and would continue through January, 1999. Board members would include representatives of regulated electric and gas utilities, State Departments of Public Service, Revenue, Public Utilities Commission, office of the Attorney General, municipal utilities and rural electric cooperatives,

delivered fuel vendors, retail energy suppliers, consumer advocates, residential, small business, commercial and industrial customers, environmental organizations and low income persons and advocates.

12           Sec. 6. [LOW-INCOME ENERGY ASSISTANCE; REPORT OF  
13 FINDINGS.]

14           The commissioner who administers the low-income energy  
15 assistance program shall identify potential revenue sources for  
16 the low-income energy assistance program. This must be done, to  
17 the extent possible, in cooperation with the commissioner of  
18 revenue, the commissioner of public service, the public  
19 utilities commission, members representing the industry  
20 including the delivered fuel industry, rural electric  
21 cooperatives, regulated utilities, municipal utilities, and  
22 representatives of low-income energy advocates and other  
23 consumer advocates. By January 31, 1998, the commissioner shall  
24 make recommendations to the appropriate legislative committees  
25 on potential sources of revenue to provide assistance to  
26 low-income energy consumers including, but not limited to:  
27           (1) a surcharge on summer delivered fuel fills;  
28           (2) all fuels charge;  
29           (3) margin over rack programs;  
30           (4) revenue-based and Btu-based wires charges; and  
31           (5) general revenue funds.

# ENERGY ASSISTANCE PROGRAM PAST FUNDING HISTORY

FUNDING DOLLARS IN THOUSANDS

Funding Source	FY 1980	FY 1981	FY 1982	FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988
FEDERAL HHS Allocation	\$51,952	\$69,639	\$74,276	\$78,272	\$82,239	\$82,239	\$78,271	\$72,262	\$60,638
FEDERAL HHS Supplement									
FEDERAL HHS Leveraging Award									
MN Petroleum Violation Escrow Acct.								\$5,500	
MN State Appropriations	\$3,000	\$2,000							
<b>Total Funding</b>	<b>\$54,952</b>	<b>\$71,639</b>	<b>\$74,276</b>	<b>\$78,272</b>	<b>\$82,239</b>	<b>\$82,239</b>	<b>\$78,271</b>	<b>\$77,762</b>	<b>\$60,638</b>
Heating Payments to Households	\$38,256	\$57,126	\$45,876	\$54,568	\$64,930	\$61,484	\$55,067	\$47,892	\$41,082
Crisis Payments to Households	\$1,546	\$1,357	\$1,121	\$616	\$2,219	\$3,635	\$2,309	\$1,231	\$686
Average Heating Payment *	\$ 409	\$ 514	\$ 439	\$ 440	\$ 465	\$ 460	\$ 422	\$ 400	\$ 361
No. Households Served *	93,535	111,141	104,500	123,902	139,573	133,744	130,541	119,801	113,673

\* NOT in Thousands

FEDERAL HHS [U.S. Department of Health & Human Services Low-Income Home Energy Assistance Program (LIHEAP)]

# ENERGY ASSISTANCE PROGRAM RECENT FUNDING HISTORY

DOLLARS IN THOUSANDS

	FY 1989	FY 1990	FY 1991	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Funding Source										
FEDERAL HHS Allocation	\$ 54,873	\$ 55,256	\$ 56,138	\$ 58,504	\$ 52,404	\$ 56,021	\$ 51,109	\$ 34,789	\$ 38,675	\$ 38,675
FEDERAL HHS Supplement		\$ 1,065	\$ 5,938			\$ 37,400	\$ 5,043	\$ 7,142	\$ 13,710	
FEDERAL HHS Leveraging Award			\$ 158	\$ 146	\$ 283	\$ 240	\$ 218	\$ 261		
MN Petroleum Violation Escrow Acct.	\$ 438									
MN State Appropriations									\$ 9,810	\$ 500
<b>Total Funding</b>	<b>\$ 55,311</b>	<b>\$ 56,321</b>	<b>\$ 62,233</b>	<b>\$ 58,650</b>	<b>\$ 52,687</b>	<b>\$ 93,660</b>	<b>\$ 56,370</b>	<b>\$ 42,192</b>	<b>\$ 62,196</b>	<b>\$ 39,175</b>
Heating Payments to Households	\$ 35,650	\$ 38,983	\$ 42,972	\$ 38,537	\$ 39,363	\$ 52,848	\$ 43,683	\$ 27,968	\$ 41,622	?
Crisis Payments to Households	\$ 1,694	\$ 1,648	\$ 1,752	\$ 1,692	\$ 2,625	\$ 3,553	\$ 1,713	\$ 3,045	\$ 5,108	?
Average Heating Payment *	\$ 329	\$ 365	\$ 390	\$ 369	\$ 360	\$ 468	\$ 420	\$ 322	\$ 462	\$ 365 EST.
No. Households Served *	108,299	107,058	110,479	104,535	109,412	111,473	103,760	87,080	90,000	90,000

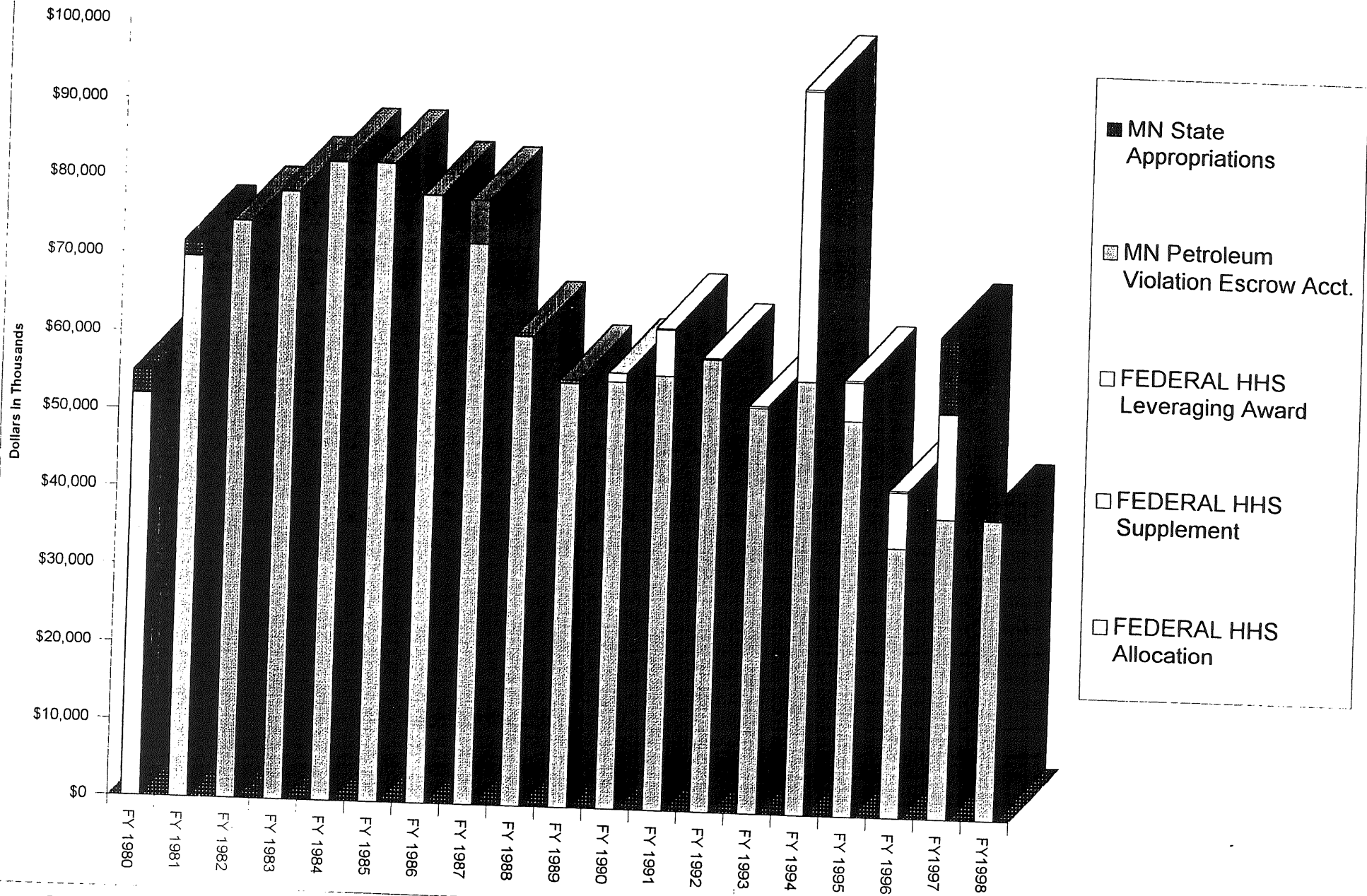
\* NOT in Thousands

FEDERAL HHS [U.S. Department of Health & Human Services Low-Income Home Energy Assistance Program (LIHEAP)]



# ENERGY ASSISTANCE PROGRAM

# FUNDING HISTORY



EAPFUND7.XLS

MINNESOTA  
DEPARTMENT OF

*Children  
Families &  
Learning*

**MISSION**

*“Increasing the capacity of  
Minnesota communities to  
measurably improve the well being  
of children and families.”*

CAPITOL SQUARE  
550 CEDAR STREET  
SAINT PAUL, MN 55101-2273

T: (612) 296-6104  
TTY: (612) 297-2094  
<http://cfl.state.mn.us>