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# THE FUTURE OF LIHEAP FUNDING: WILL FAMILIES GET THE COLD SHOULDER THIS WINTER?

## HEARING

BEFORE THE

SELECT COMMITTEE ON
ENERGY INDEPENDENCE
AND GLOBAL WARMING
HOUSE OF REPRESENTATIVES

ONE HUNDRED TENTH CONGRESS

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# THE FUTURE OF LIHEAP FUNDING: WILL FAMILIES GET THE COLD SHOULDER THIS WINTER?

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**THURSDAY, SEPTEMBER 25, 2008**

HOUSE OF REPRESENTATIVES,
SELECT COMMITTEE ON ENERGY INDEPENDENCE
AND GLOBAL WARMING,
*Washington, DC.*

The committee met, pursuant to call, at 2:04 p.m., in room 1324, Longworth House Office Building, Hon. Edward J. Markey (chairman of the committee) presiding.

Present: Representatives Markey, Inslee, Solis, Herseth Sandlin, Cleaver, Hall, Sensenbrenner, and Shadegg.

Staff Present: Morgan Gray.

The CHAIRMAN. This hearing is called to order of the Select Committee on Energy Independence and Global Warming.

While the debate in Congress over high gas prices has been red-hot this summer, families in the Northeast and Midwest have also been thinking about how they will cope with the cold weather this winter. The prices of home heating fuels have been skyrocketing and millions of families will face tough choices during the upcoming months between the purchasing of fuel or purchasing of food.

The Department of Energy's projections for home heating prices this winter are grim. DOE forecasts that families in the Northeast who use heating oil will spend 30 percent more this winter than last year, an increase of more than $600. Families using natural gas will spend nearly 20 percent more this year. And regardless of the region of the country or the home heating fuel, the Department of Energy is forecasting that families will experience a substantial increase in their heating costs this winter.

We will be hearing from the Department of Energy later on this afternoon.

American consumers, who have already been getting tipped upside down when they pull up to the gas pump, will now also face high energy prices when they return home. Incredibly, this year many low-income families will spend even more to heat their homes than they have already spent on record gasoline prices. Low-income families on average spend roughly 15 percent of their income on home energy bills.

For nearly 30 years, the LIHEAP program, the Low Income Home Energy Assistance Program, has helped low-income families pay their home energy bills. This program has been a vital safety net for millions of Americans.

However, under the Bush administration, this program has been woefully underfunded. In his budget request this year, President Bush proposed cutting total LIHEAP funding by 22 percent, reducing it from $2.57 billion to $2 billion. Indeed, in recent years, LIHEAP has generally been funded at less than half of its authorized level of $5.1 billion. As a result, last year LIHEAP was only able to provide assistance to about 15 percent of eligible families nationwide.

At a time of record oil prices, the President can't continue to freeze funding for this important heating assistance program. Earlier this week, nearly 100 Members signed a letter requesting that LIHEAP receive full funding in any continuing resolution that passes the Congress. And yesterday, under the leadership of Speaker Pelosi, the House passed a continuing resolution that would massively increase LIHEAP funding, providing a total of $5.1 billion for the program. That is full funding at the authorized level.

This additional funding could not come at a more important time to ensure that families will not be left out in the cold this winter. Indeed, the increase in LIHEAP funding over last year's level that is included in the CR would be greater than the total funding level for the program in 25 out of the 27 years that the program has existed.

The House-passed continuing resolution would also expand the number of people eligible for LIHEAP assistance, in order to help additional families already struggling under the increased costs of everything from gas to groceries.

Governor Patrick, who is our first witness, has given outstanding leadership to this program.

[Prepared statement of Chairman Markey follows:]

**Chairman Edward J. Markey**
**Opening Statement**
**"The Future of LIHEAP Funding: Will Families Get the Cold Shoulder this Winter?"**
**September 25, 2008**

While the debate in Congress over high gas prices has been red hot this summer, families in the Northeast and Midwest have also been thinking about how they will cope with the cold weather this winter. The prices of home heating fuels have been skyrocketing and millions of families will face tough choices during the upcoming months between purchasing fuel or purchasing food.

The Department of Energy's projections for home energy prices this winter are grim. DOE forecasts that families in the Northeast who use heating oil will spend 30 percent more this winter than last year – an increase of more than $600. Those families using natural gas will spend nearly 20 percent more this year. And regardless of the region of the country or the home heating fuel, the Department of Energy is forecasting that families will experience a substantial increase in their heating costs this winter.

American consumers, who have already been getting tipped upside down when they pull up to the gas pump, will now also face high energy prices when they return home. Incredibly, this year many low income families will spend even more to heat their homes than they have already spent on record gas prices. Low income families spend, on average, roughly 15 percent of their income on home energy bills.

For nearly 30 years, the Low Income Home Energy Assistance Program (LIHEAP) has helped low income families pay their home energy bills. This program has been a vital safety net for millions of Americans. However, under the Bush Administration, this program has been woefully under-funded. In his budget request this year, President Bush proposed cutting total LIHEAP funding by 22 percent – from $2.57 billion to $2 billion. Indeed, in recent years LIHEAP has generally been funded at under half of its authorized level of $5.1 billion. As a result, last year LIHEAP was only able to provide assistance to about 15 percent of eligible families nationwide.

In a time of record oil prices, the president can't continue to freeze funding for this important heating assistance program.

Earlier this week, nearly 100 House Members signed a letter requesting that LIHEAP receive full funding in any continuing funding resolution. Yesterday, under the leadership of Speaker Pelosi, the House passed a Continuing Resolution that would massively increase LIHEAP funding – providing a total of $5.1 billion for the program. This

additional funding could not come at a more important time to ensure that families will not be left out in the cold this winter. Indeed, the *increase* in LIHEAP funding over last year's level that is included in the CR would be greater than the *total* funding level for the program in 25 out of the 27 that the program has existed.

The House-passed continuing resolution would also expand the number of people eligible for LIHEAP assistance in order to help additional families already struggling under the increased costs of everything from gas to groceries. In my home state of Massachusetts, where Governor Patrick's outstanding leadership has maximized the benefit of the LIHEAP program, 350,000 more households could potentially be eligible for assistance this winter.

As President Bush is proposing $700 billion in lending assistance for firms on Wall Street, surely he can agree on the need for $5 billion in heating assistance for families on Main Street. More families than ever will need assistance this winter and the additional LIHEAP funding that Democrats have provided will hopefully ensure that everyone in need of help this winter will be able to get it.

Many members of this committee are also on the Financial Services Committee and other committees with jurisdiction over this financial bailout that we are going to be deliberating upon later on today and tomorrow. And so that is just an unfortunate set of circumstances that have developed—that, as the afternoon goes by, I think we will be visited by those members as well.

[The prepared statements of Mr. Sensenbrenner and Mr. Cleaver follow:]

**Mr. Sensenbrenner's Opening Statement for Select Committee on Energy Independence and Global Warming hearing: "The Future of LIHEAP Funding: Will Families Get the Cold Shoulder this Winter?"**

**Sept 25, 2008**

Yesterday, the House finally acknowledged the importance of expanding our domestic energy production capabilities, and voted to lift the congressional ban on offshore drilling.

For people who rely on oil and natural gas for home heating, this is welcome news, especially since there are enormous potential supplies off of the U.S. coasts. For example, the Minerals Management Service estimates that the Outer Continental Shelf contains 420 trillion cubic feet of natural gas, which is enough to heat all residential homes in the U.S. for more than 90 years.

We will hear today from Energy Information Administration that households using oil and natural gas for heating are expected to face as much as 30 percent higher costs this winter over last. In the long run, opening our domestic supplies will undoubtedly lower the price of oil and natural gas, which will have many positive economic benefits, especially for those trying to survive future cold winters.

The move yesterday by the House to drop the drilling ban is a positive first step, but it's only the first step in the comprehensive energy plan America needs to help lower energy costs and secure our energy future. There is still much more to be done to promote alternative energy, clean coal, nuclear power and energy efficiency, all of which are part of Republicans' "all of the above" energy proposal.

For starters, the House today should follow the Senate's lead and make sure the renewable energy production tax credit is extended, so that the technology behind solar and wind power can continue to develop.

Advancement of technology is one of the major themes I've emphasized throughout the 54 hearings that this Select Committee has convened during this Congress.

With today's hearing being possibly the last of this congressional session, I think now would be a good time for me to summarize some of what I've learned by serving on this Select Committee.

From the outset, I laid out four principles that I thought must be met for any legislation addressing global warming or energy independence: first, it must produce tangible improvements to the environment; second, it must advance technological progress; third, it must protect jobs and the economy; and finally, it must require global participation, including emerging economies like China and India.

One thing that became clear to me is that many in Congress are still relying on unproven ideas to address our energy crisis and to confront climate change. By looking only at cap-and-trade schemes, many members of Congress still see taxes and expensive regulations as the way to move our energy economy forward.

But we have learned that this policy, that in the spirit of truthfulness I call cap-and-tax, has failed to date to produce reductions in greenhouse gases in Europe and would impose enormous costs on the U.S. economy if adopted here.

Today marks the start of the sale of allowances within the Regional Greenhouse Gas Initiative, which is a voluntary cap-and-tax system adopted by a handful of Northeastern states. I wish them better luck than the Europeans have experienced, but I am skeptical that this scheme will enable the needed progress on technology or energy security.

This Select Committee has also heard repeatedly about the tremendous amount of resources and technology available here in the U.S. to help expand our energy diversity and improve our energy security.

By maintaining sensible tax policies and robust research and development funding, the government can help these technologies develop, and let them compete among each other in the market on price and efficiency. Some believe that government should mandate certain technologies, but I don't believe that government should pick winners and losers. Energy consumers should do that.

During the hearings of this Select Committee, I've learned that technological innovation provides the best path to energy security and the best options for confronting climate change. I know that my experience on this committee has only strengthened my belief in these principles, and I hope the next Congress will consider these important points as we continue to address these issues in the future.

# # # #

**U.S. Representative Emanuel Cleaver, II**
**5th District, Missouri**
**Statement for the Record**
**House Select Committee on Energy Independence and Global Warming Hearing**
**"The Future of LIHEAP Funding: Will Families Get the Cold Shoulder this Winter?"**
**Thursday, September 25, 2008**

Chairman Markey, Ranking Member Sensenbrenner, other Members of the Select Committee, good afternoon. I would like to welcome our distinguished panel of witnesses to the hearing today.

I grew up in public housing in Texas, and I am quite aware of the strong need for public funding to assist low-income families in paying their energy bills. LIHEAP is a tremendously important program that in my home state of Missouri alone, aided over 124,000 households in FY07. Despite this great number, there remain many families who do not get the sufficient assistance they need for the cold winter season, and the increasing warmer summer months. However, the need for LIHEAP funds could actually be helped by means of weatherization, where contractors are sent to residents to make improvements to heat retention or energy efficiency. Weatherization diminishes energy demand, by utilizing smart, green technologies that are low in cost, and are more than worth the investment in the return.

Energy efficiency is not something new. However, if we improve our existing buildings and build green in new construction, then we can decrease our need for so much energy, thus diminishing cost for all Americans. Simple practices like sealing bypasses around doors, windows, and pipes and replacing old, drafty doors can be done easily, and should be supported by the government where appropriate. Until these practices are in every home though, Congress needs to continue its support for LIHEAP and for struggling American families during the extreme weather season. I hope that our witnesses can answer some of my questions about this important program, and give the Committee some direction on where Congress can improve its direction on the issue.

I thank all of our witnesses for their insight and suggestions, and I appreciate them taking the time to visit with our committee today.

Thank you.

But I don't think it should interfere with hearing from Governor Patrick at this time, so that he can be recognized to make his statement to the committee.

We welcome you, sir. We thank you for your great leadership on this issue. Whenever you are ready, please begin.

**STATEMENT OF HON. DEVAL PATRICK, GOVERNOR, COMMONWEALTH OF MASSACHUSETTS**

Governor PATRICK. Mr. Chairman, thank you. And thanks to you and the members of the committee for the opportunity to appear today and testify.

I know, as you mentioned, that the turmoil in the financial markets is dominating your own and the general public's attention today, as well it should. It is certainly on my mind and, I am sure, on the mind of every other Governor in the country. Especially under those circumstances, I thank you for turning some of your attention today to the subject of this hearing, a crisis in the making that has the potential to become a public health threat in Massachusetts, in New England, and in many other parts of the country. I am talking about the crisis of home heating costs that cold-weather States expect this winter. Without help, many of our most vulnerable citizens will find themselves facing heating bills they cannot pay.

And the challenge is right around the corner. Nighttime temperatures are already dropping into the 40s and 30s this week in New England. Unless we prepare, including by fully funding the LIHEAP fuel assistance program, my State and others will face what some call a slow-motion Katrina.

Let me try to dimensionalize the challenge for you. Home heating oil is used by nearly 40 percent or 963,000 Massachusetts households. According to our Department of Energy Resources' regular statewide survey of prices, the average price of home heating oil in Massachusetts hit a record high of $4.71 a gallon after steadily rising week after week for over a year.

Now, even after the recent moderating of those prices, prices of heating fuels have settled in at roughly $4 a gallon, which is 50 percent higher than just last year, when the average price was $2.70 a gallon. Should the price remain at $4 a gallon through the coming heating season, it will take more than $3,200 to heat an average Massachusetts household with oil this winter, up from $1,800 just two winters ago. Many consider that estimated average to be conservative. If a family uses the more commonplace 1,100 gallons next winter, which is not unusual as I say, it will cost them over $4,000 to heat their home. Again, that compares to $1,800 just two winters ago.

The Massachusetts LIHEAP program is expected to serve almost 144,000 households this winter. With rising energy costs and level funding, our benefits would barely cover half the roughly $1,130 it costs to fill a tank of heating oil. At that rate, the benefit would run out by the end of this calendar year.

So I want to thank the House for substantially increasing the Federal Funding for the LIHEAP program through the continuing resolution passed last night, and for doing so on a broad bipartisan basis.

The prospect of significantly higher home heating cost this coming winter was sufficiently alarming to me and to my colleagues in the legislature that we formed a Winter Energy Costs Task Force. In five public hearings across the State, the task force heard compelling testimony about the impact that high heating costs would have our most vulnerable citizens, including low-income families with children, people with disabilities, and seniors as well.

I just want to give you a couple of the stories that we learned with. One about a senior citizen from Gloucester, not unusual, who was living on $790 a month to pay for his housing and medical expenses, and who, beyond that, could not afford the oil needed to heat his home. Without an increase in funding for fuel assistance, he would be eligible for only so much as to buy two-thirds of one tank, which might not even get him to January. He is considering a reverse mortgage in order to get by this winter.

Another example, a director of a community action program in Lynn told the story of a woman with three school-aged kids who just lost her job. She is collecting $157 each week in unemployment. She doesn't even have enough to cover her rent of $800 a month. Without additional LIHEAP funding, fuel assistance won't be enough to fill her oil tank even once.

This CAP director who told us that story said that, in 29 years of his own service, he has never seen so many folks asking for fuel assistance for the first time.

Now, I do want you to know that Massachusetts is doing everything we can to avoid disaster this winter. Our Department of Public Utilities has recently ordered an increase in the discount given to low-income customers on their electric and natural gas bills, which will save them between $75 and $300 over the coming winter. We have also expanded programs to help low-income customers pay past-due bills.

We have appropriated $10 million in State funds in unusually tight fiscal times to supplement Federal fuel assistance funding this winter as well. And we are working to expand energy-efficiency services provided by utilities this fall to help their customers tighten and insulate their homes as well as upgrade their heating systems with the help of rebates and low-interest loans.

These latter measures, by the way, are consistent with the accelerated implementation of what we call the Green Communities Act, a comprehensive energy reform legislation, which I know you know about, Mr. Chairman, that I signed into law earlier this year.

In addition, we are going to use the proceeds of the very first auction of greenhouse gas emission allowances under the Regional Greenhouse Gas Initiative, which took place this morning, to support energy-efficiency efforts. The specific targets of those investments will depend on the recommendations of that Winter Energy Costs Task Force I mentioned a moment ago. We will have their report shortly on measures we can take to help our fellow citizens stay warm and safe this winter.

But the fact is that we still need you. I very much understand and respect the demand for resources that compete for your attention; I really do. Nevertheless, what is at stake is the real possibility that many citizens in the colder regions of this country will be at risk of freezing to death without Federal help.

So I thank you again for the House action yesterday. And I urgently ask the full Congress to fully fund the Low Income Home Energy Assistance Program at the $5.1 billion level now under consideration as part of the continuing resolution. This funding would almost double this winter's expected LIHEAP benefit in Massachusetts, providing enormous help to families across the Commonwealth and, indeed, to families in all of the affected regions.

I lastly just want to acknowledge that, though essential, this funding is a stopgap measure. High energy costs in the Northeast are a foreseeable and continuing reality. A dedicated Federal plan that includes support for State LIHEAP programs and also for efficiency strategies and renewable energy generation and delivery is the big task remaining. And we look forward to working with you on that, as well.

Thank you very much.

[The statement of Governor Patrick follows:]

TESTIMONY OF DEVAL L. PATRICK
GOVERNOR OF MASSACHUSETTS
BEFORE THE SELECT COMMITTEE ON ENERGY
INDEPENDENCE AND GLOBAL WARMING
"The Future of LIHEAP Funding: Will Families Get the Cold Shoulder This Winter?"
Thursday, September 25, 2008

Good afternoon Chairman Markey and members of the Committee. Thank you for the opportunity to testify before you today.

I know that the crisis in our financial markets is dominating the news and the attention of federal officials here in Washington, as well it should; it is certainly on my mind, and the minds of every governor across the land. But I congratulate you, and I thank you, for turning your attention today to another crisis in the making, one that has the potential to become a public health threat in Massachusetts and many parts of the country. And the time to act is now.

I am talking about the crisis in home heating that states like Massachusetts are expecting this winter, as many of our most vulnerable citizens find themselves facing heating bills that are out of their reach. In my state, I have heard it called a "slow motion Katrina." If that turns out to be the case, the only good thing we can say about it is that we have at least some time to prepare.

But with night-time temperatures already dropping into to 40s and 30s this week in New England, time is growing short. That is why this hearing, and the LIHEAP fuel assistance funding now pending in Congress are so vitally important.

Our Department of Energy Resources conducts a regular statewide survey of prices for home heating oil, which is used by nearly 40 percent or about 963,000, Massachusetts households. In the survey posted on July 8, the average

price of home heating oil in Massachusetts hit a record high of $4.71 a gallon, after steadily rising, week by week, for over a year. Fortunately, prices of heating fuels have moderated somewhat since, seeming to settle in at roughly $4 a gallon – but still 50% higher than last year, when the average price was $2.70.

Should the price remain at $4 a gallon as we go into the heating season, it will take more than $3,200 to heat an average Massachusetts household with oil this winter, up from $1,800 just two winters ago. And many consider that average fuel usage to be conservative – if a family uses 1,100 gallons next winter, which is not unusual, it will cost them over $4,000 to heat their home.

The Massachusetts LIHEAP program is expected to serve almost 144,000 households this winter. With rising energy costs and level formula funding, our benefits would barely

cover half the roughly $1,130 it costs to fill a tank of heating oil. At this rate, the benefit would run out by year end.

That prospect was sufficiently alarming to me, and to my colleagues in the Massachusetts Legislature, to form a Winter Energy Costs Task Force. In five public hearings across the state, the Task Force heard compelling testimony about the impact high heating costs would have on our most vulnerable citizens, including low-income families with children, people with disabilities, and senior citizens.

Here are a couple of stories that came out of those hearings:

- A senior citizen from Gloucester who is living on $790 per month to pay for his housing and medical expenses cannot afford the oil needed to heat his home. If Congress does not increase funding for fuel assistance, he will only get enough assistance to buy 2/3 of a tank,

which might not even get him to January. He is considering a reverse mortgage in order to get by this winter.

- The director of a community action program in Lynn told the story of a woman with three school age kids who just lost her job. Collecting just $157 per week in unemployment, she doesn't even have enough to cover her rent of $800 a month. Without additional funding, fuel assistance won't be enough to fill her oil tank even once. This CAP director can remember the 1980s, when fuel assistance benefits would buy almost four tanks of oil – enough to get through the whole winter. Still, he says in 29 years of service, he's never seen so many folks asking for fuel assistance help for the first time.

I want you to know that Massachusetts is doing everything it can to avoid disaster this winter. Our Department of Public Utilities has recently ordered an increase in the discount given to low-income customers on their electric and natural gas bills, which will save them $75 to $300 over the coming winter, and expanded programs to help low-income customers pay past due bills.

The state is also working to expand energy efficiency services provided by the utilities this fall, in time to help their customers tighten and insulate their homes, as well as upgrade their heating systems, with the help of rebates and low-interest loans. This is all consistent with the energy efficiency requirements of the Green Communities Act, the comprehensive energy reform legislation I signed into law earlier this year, but accelerated in implementation to help Massachusetts families use less high-cost fuel to heat their homes this coming winter.

Proceeds of the first auction of greenhouse gas emissions allowances under the Regional Greenhouse Gas Initiative, which took place this morning, will also be available to support energy efficiency efforts – an important new resource to help families and communities cope with the energy challenge, and it could not come at a better time. I also eagerly await the recommendations of the Winter Energy Costs Task Force, which will report shortly on further measures we can take as a state, and as a community, to help our fellow citizens stay warm, and safe, this winter.

Finally, the state has appropriated its own funds – $10 million this year – to supplement federal fuel assistance funding this winter, for the second year in a row.

As a fellow elected official, I very much respect and understand the competing demands for resources that are

fighting for your attention. But what is at stake is the real possibility that that many citizens across the northern part of this country will be at risk of freezing to death without federal leadership.

In the near term, I urgently ask the Congress to help states avert a public health crisis by fully funding the Low Income Home Energy Assistance Program at the $5.1 billion level now under consideration as part of the Continuing Resolution. This funding would almost double this winter's expected LIHEAP benefit in Massachusetts, providing enormous relief to families across the Commonwealth.

Yet while this funding is absolutely crucial for families this winter, this is really just a stopgap measure. High energy costs in the northeast are an unfortunate and continuing reality. A dedicated federal funding commitment would provide much needed certainty to state LIHEAP programs,

allowing us to manage limited resources and provide the best assistance to the most families.

The CHAIRMAN. Thank you, Governor, very much.

Let me now turn and recognize the gentleman from Arizona, Mr. Shadegg.

Mr. SHADEGG. Governor, I want to thank you for your appearance here. This is an important topic, and I share many of the concerns you expressed.

As I listened to you—I am not going to ask questions—but as I listened to you, I couldn't help but think of T. Boone Pickens and his argument to us that natural gas is more plentiful in this country and that it is a cleaner fuel.

I guess that leads me to wondering—and I listened to you describe the program you have to encourage people to put in more efficient fuel heating systems in their homes. Obviously, gaining as much savings as we can in energy in this country through efficiency gains, through better insulation, and through the cleaner fuels, for example, natural gas, are all a part of this problem. LIHEAP has played a key role.

I am going to suggest or request that a letter from one of your colleagues, my Governor, Janet Napolitano, be inserted in the record. It is a letter she wrote in September to former Governor Mike Leavitt about the inequity.

I do not know that heat kills as many Americans as cold or is as vast a problem, but it is a real problem. We do have people in Arizona who die as a result of not having heat in their homes, and that is as big a tragedy as somebody dying in your home State of the lack of heat. Arizona is, in some ways, blessed by having both problems. We have parts of Arizona which are, quite frankly, as cold as Massachusetts. So this program is important.

I guess I would hope for the day when we need this program less because we have taken on American energy and brought down the price of energy by forging on into the future, as my colleague from Massachusetts has pushed us to do for so long.

So I would request unanimous consent to put that letter in the record.

The CHAIRMAN. Without objection, so ordered.

[The information follows:]

STATE OF ARIZONA

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September 18, 2008

The Honorable Michael O. Leavitt
Secretary of Health and Human Services
U.S. Department of Health and Human Services
200 Independence Avenue, SW
Washington, D.C. 20201

Dear Secretary Leavitt:

I am writing with great displeasure regarding your recent distribution of Low Income Home Energy Assistance Program (LIHEAP) contingency funds. In July, as Arizonans weathered an incredibly hot summer, I requested that you release these funds to help offset extreme temperatures, rising energy costs, a 30-40% increase in requests for utility assistance, and an economic downturn that has forced many working families to make tough decisions to pay the bills. You chose not to release funds at that time, despite a number of excessive heat advisories issued by the National Weather Service. Now, in the higher elevations of our state, we face cold winters with freezing temperatures and continued rising energy costs.

Although I can appreciate your recent decision to release contingency funds due to the rising cost of heating oil, Arizona has again been shortchanged in the distribution. Our $397,412 allocation is less than 0.3% of the total $120.5 million distribution. This latest contingency fund distribution is part of a longstanding pattern of the LIHEAP program's unequal treatment of Arizona and other warm-weather states due to a complex and outdated funding formula that favors cold-weather states. If it continues, we will be forced to urge Congress to examine the use of this contingency fund and determine whether all or part of it should be eliminated and the funds spent according to the formula. The total distribution for this year equates to less than $6 per low income person in Arizona versus a total distribution to Connecticut of nearly $65.6 million, or $125 per low income person.

In the future, Congress must engage in a long-term discussion regarding the equitable distribution of aid to low-income families across the country. In the interim, I ask that you use your discretionary power to assist Arizona now and in the future in facing both a heating and cooling crisis.

Yours Very Truly,

Janet Napolitano

Mr. SHADEGG. I commend you for your work and initiative in this area, and I appreciate your testimony.

With that, I will yield back.

The CHAIRMAN. Thank you.

Any comment, Governor?

Governor PATRICK. Well, I would just say, Congressman, first of all, on the point about natural gas, I couldn't agree with you more. In terms of its impact on the environment, it is a lot cleaner than the burning of oil or coal for that matter.

It is a challenge for us, because we are at the end of the pipeline. And so we have been working on strategies, some with Canada and some with other suppliers, on how safely to deliver liquefied natural gas into the pipeline that affects us in New England. We don't have a solution for that, but we have been working on it.

And I take your point also about the concerns that are different but no less significant in their impact on human beings of extreme heat just as extreme cold and not being able to necessarily deal with that or respond to it.

I understand that the LIHEAP program will be up for reauthorization soon, and I suspect that, tough as those issues are, they will get worked out there. And we look forward to being part of that conversation.

Mr. SHADEGG. Well, as hot as it is in Arizona and in parts of the area, it presents a very real challenge. And, fortunately, I think we are going to look at this program and find a little bit greater equity in it. But I appreciate your efforts. Thank you.

Governor PATRICK. Thank you.

The CHAIRMAN. The gentleman's time has expired.

Governor, do you work with other Governors in the region in putting together a strategy to deal with this issue?

Governor PATRICK. Well, we have worked with Governors in the region on two fronts. First of all, we had all of the Governors in New England together to discuss common ways or just, really, to trade best practices around efficiencies and to help prepare for the coming winter. We did that in July.

And it was following that that we wrote to the President and to the congressional leadership, asking for the full funding of LIHEAP and the Weatherization Program, precisely the action that you took in the continuing resolution. So, again, thank you for that.

The outcome of the Winter Energy Costs Task Force that I mentioned earlier, the recommendations that will come from that from Massachusetts we will share with our colleagues around the region. And we have been taking some of their counsel, as well.

And, finally, I would mention that, just 2 weeks ago, maybe last week—I am losing track of time—the New England Governors met with the eastern Canadian Premiers, which we do periodically, but particularly to talk about how we can begin to economically get renewable energy generated in Canada down into our region.

The CHAIRMAN. That would really be a huge breakthrough if we could accomplish that goal.

And you put together a joint task force this past summer in anticipation of the higher energy prices.

Governor PATRICK. That is right.

The CHAIRMAN. Could you talk a little bit about that and the lessons that other States might learn from that?

Governor PATRICK. Well, we will have those recommendations in the next week or so, Mr. Chairman. They are due at the end of this month to myself, the Speaker and the Senate President. They took testimony from around the Commonwealth so that we were getting practical and not theoretical insights.

LIHEAP was a part of that discussion, but not the sole part by any means. A lot of interest in how we support efficiency initiatives, including weatherization, including changing out or updating inefficient heating systems, that sort of thing, and what resources there are for that.

Some of this is paid for already by an added charge on utility bills. And I have used my own, sort of, bully pulpit to encourage residents to get those energy audits now before the weather gets too cold, so that they can begin to prepare.

The CHAIRMAN. Thank you, Governor.

The Chair recognizes the ranking member of the committee, the gentleman from Wisconsin, Mr. Sensenbrenner.

Mr. SENSENBRENNER. Thank you very much, Mr. Chairman.

First of all, I am sorry I am late, but I was getting my picture took with the Judiciary Committee, since I have my bright red tie on. That ended up being more important. Sorry, Governor.

Governor PATRICK. No worries.

Mr. SENSENBRENNER. Secondly, I have an opening statement that I would ask unanimous consent to be included in the record.

The CHAIRMAN. Without objection, it will be included.

Mr. SENSENBRENNER. Thirdly, let me say that, while I think the LIHEAP program is important, you know, I expressed my concern about how the formula operates. You know, the chairman and I both represent cold-weather States. Having assistance to low-income people is much more important in cold-weather States than it is in places that your constituents, Governor, and mine flee to, like Arizona, which get hot upon occasion but doesn't get cold very much.

And, you know, the LIHEAP program, in my opinion, was designed to help people stay warm when it was cold, not to help people cool down when it was warm. And I guess I can say that I am not surprised but I am a little disappointed in seeing the letter that is up here from the Governor of Arizona saying that she isn't getting her fair share, when nobody is going to freeze in Arizona or in most places in Arizona.

So having put that marker in and raising the blood pressure of the gentleman to my left, I will yield back the balance of my time.

Mr. SHADEGG. Will the gentleman yield?

Mr. SENSENBRENNER. Of course I will.

Mr. SHADEGG. You missed my remarks. Heat kills people. It actually, all kidding aside, heat does kill people. And I am not saying that it is as expansive a problem as it is for cold States, nor fortunately does it last as long, but it does kill people.

And I also pointed out in your absence that there are parts of Arizona where cold kills people, where, for example, our Native Americans on the Navajo reservation confront the same cold problems that you do.

Mr. SENSENBRENNER. Reclaiming my time, let me say to my colleague from Arizona that I thought I had him on our side on the whole debate on global warming. And I am afraid you are falling off the wagon.

And now I will yield back.

The CHAIRMAN. We haven't seen that, by the way, in 2 years. This is a high point in our final hearing.

The Chair recognizes the gentlelady from California, Ms. Solis.

Ms. SOLIS. Thank you, Mr. Chairman.

And I welcome our guest for being here.

Governor PATRICK. Thank you.

Ms. SOLIS. I would also like to submit my statement for the record, if I could do that, Mr. Chairman.

Anyway, I just want to welcome you, Governor, here. I am excited about some of the things you are doing in your State and want to know how——

The CHAIRMAN. Without objection, so ordered.

Ms. SOLIS. Thank you.

Ms. SOLIS. And I would like to know how the Federal Government might help expand some of your State efforts for weatherization in the LIHEAP program. We are very concerned in the State of California, in my district, creating opportunities, job opportunities also in weatherization and also other technologies in the form of green-collar technologies.

So, any thoughts on that?

Governor PATRICK. A couple.

We have been working in this area of efficiency and alternatives for some while now. We have some new legislation, a package of legislation that includes something called the Green Communities Act, an oceans bill, green jobs initiative, biofuels initiative, which are all a part of a comprehensive approach where we are trying both to get ahead of the issue on efficiencies and renewables and also create new manufacturing jobs, in particular. And we are making some progress.

I do think that the Weatherization Program, whose funding was also substantially increased in the continuing resolution, I alluded to it briefly before you came in, but this is enormously important. And this is one of those examples of teaching someone to fish rather than just giving them a fish, so that we can leverage those investments at the Federal level with State money, as we are trying to do, and some of the subsidies that are already built into utility bills, to enable and to show people what strategies are available to them, practically help them to move into more efficient insulation, updating heating and cooling systems, that sort of thing.

Ms. SOLIS. We had an initiative here in the Congress, the President actually signed a bill, the energy bill, that included about—proposed $125 million to create green-collar jobs. Our thoughts were to try to see how we can get that back through the Department of Labor and Energy and through the Workforce Investment Act that could go to States like yours.

Would that be helpful, and how do you see that?

Governor PATRICK. Absolutely. Absolutely. We have two areas, really three, but two I will mention, where our economy is showing

particularly sharp growth. One is the life sciences, and the other is so-called green tech.

And the biggest concern, among many, but the biggest concern about the long-term future is the availability of a well-trained workforce. So we have tried to target more of our limited State dollars in that direction, and we welcome any Federal assistance we can get.

Ms. SOLIS. Great. Okay, thank you.

I yield back.

The CHAIRMAN. The gentlelady's time has expired.

The Chair recognizes the gentlelady from South Dakota, Ms. Herseth Sandlin.

Ms. HERSETH SANDLIN. Thank you, Mr. Chairman. I don't have any questions for Governor Patrick.

I thank you for being here and for your testimony and for the leadership you are undertaking in the State initiatives that are so important in serving our constituents, but also recognizing the importance of the Federal resources to help leverage those funds and serve more people.

So thank you, again, for your time.

Governor PATRICK. Thank you.

Ms. HERSETH SANDLIN. Thank you, Mr. Chairman.

The CHAIRMAN. The Chair recognizes the gentleman from Washington State, Mr. Inslee.

Mr. INSLEE. Thank you.

Governor, thanks for your leadership on this issue.

I wanted to ask you about the relationship between efficiency measures, weatherization, and cash reimbursement. I suspect that almost probably 90 percent at least of houses, you know, a $1,000 expenditure to weatherize the home is going to save the resident, over 10 years, more than a $1,000 reimbursement for their heating costs.

Governor PATRICK. That is right.

Mr. INSLEE. In almost every home, including mine, there are still a lot of efficiency improvements to make that are cost-effective.

With that in mind, if you agree with that, what is the best distribution between upfront capital to help reduce those inefficiencies and cash reimbursement? Ideally, how would we allocate that fund?

Governor PATRICK. Well, if I can respond to your question, Congressman, and also come back to the ranking member's comments without wading into the debate between you and your colleague there, there is a—we appreciate very much the substantial increase in both LIHEAP and weatherization funding in the continuing resolution. But it is a stopgap. And there is a broader strategy, which we would look forward to working with all of you on, around how we move toward a more comprehensive efficiency alternative framework for the country.

Until we do some of that homework, I couldn't tell you what the tradeoffs exactly would be. But I can tell you that, right now, in Massachusetts, where we have a generally older housing stock, efficiency tends to pay back at the rate of about 20 percent a year. That is a pretty—so you don't even have to look out 10 years; you can look out just 4 or 5 on that $1,000 and have it paid for.

Now, we also have some compounding challenges, which kind of comes back to the ranking member's point, differences in cold-weather States than in warm-weather States, I think, and also differences in the cost of heating oil, in particular, and other heating sources in the Northeast because we are at the end of the pipeline. So the rate of payback is going to be different because the price of the commodities is different.

But you can imagine, and you have, that the return in the long run in moving toward efficiency is greater than having to come back every year and spend—it is not that we may get away from that entirely, at least in the short run, but having to come back every year and reappropriate for more straight cash assistance. I hope one day we will be able to wean ourselves of that.

Mr. INSLEE. Well, some of us think it is better to try to do the weatherization and insulation and maybe reduce the rate of global warming, rather than just wait for your climate to change so that you become a problem of heating rather than cooling.

Governor PATRICK. That is not what I am advocating.

Mr. INSLEE. Okay, I just wanted to make sure that is the situation.

Thank you, Governor.

Governor PATRICK. Thank you.

The CHAIRMAN. The gentleman's time has expired.

Actually, Governor, in last year's budget, there was $228 million for weatherization. In the continuing resolution yesterday, it was increased to $478 million.

Governor PATRICK. And we very much appreciate it.

The CHAIRMAN. More than a doubling. And hopefully more innovative programs will flow out of Massachusetts and Wisconsin and other States that can help to chart a new course, and Arizona and southern California and——

[Laughter.]

Mr. SHADEGG. Mr. Chairman, we need to insulate in Arizona as well.

The CHAIRMAN. I hadn't finished my question. It was a run-on sentence with no period that had yet arrived.

Some of my happiest memories are at Fort Huachuca, Arizona, in the summer of 1969. It didn't go under 110 any day, and I am willing to stipulate the conditions that existed there.

So we thank you, Governor, very much for being here. Any closing statement you would like to make?

Governor PATRICK. Just again, you know, I think probably you don't hear from us with thanks as often as you are entitled to or you should. And we thank you very much for the support through the continuing resolution. And we urge the Senate to act similarly and the President to sign the bill.

The CHAIRMAN. On that subject, we are in total permanent concurrence, hoping the Senate will do the right thing. You know, that is something that is the overarching reality of our lives.

Wonderful to see you again, Governor. Thank you for your great testimony.

Governor PATRICK. Thank you.

The CHAIRMAN. Appreciate it.

Our second panel, we would invite them up to the witness panel.

On our second panel, we have Mark Wolfe, who is the executive director of the National Energy Assistance Directors' Association, representing the State directors of the Low Income Home Energy Assistance Program.

We welcome you, sir. Whenever you are ready, please begin.

**STATEMENTS OF MARK WOLFE, EXECUTIVE DIRECTOR, NATIONAL ENERGY ASSISTANCE DIRECTORS' ASSOCIATION; JOHN DREW, EXECUTIVE VICE PRESIDENT, ACTION FOR BOSTON COMMUNITY DEVELOPMENT, INC.; HOWARD GRUENSPECHT, ACTING ADMINISTRATOR, ENERGY INFORMATION ADMINISTRATION**

**STATEMENT OF MARK WOLFE**

Mr. WOLFE. Thank you.

First, on behalf of the members of NEADA, I would like to first take the opportunity to thank the members of the select committee for holding today's hearing on the importance of higher funding for LIHEAP to help low-income families pay their home energy bills this winter.

LIHEAP is the only Federal program that helps families pay their home energy bills. There is no comparable program for gasoline, for example.

The discretionary grant program in fiscal year 2008 only had sufficient funding to meet the energy needs of about 16 percent of the Nation's poorest households. Rising energy prices are placing millions of low-income families at risk of losing access to home energy.

We are witnessing record arrearages across the country, as families struggle to pay high energy bills and utilities, as well as families struggling to pay delivery fuel bills for heating oil and propane. This is followed by high rates of shutoffs, as families lose their ability and access to utility service.

The good news, actually, the excellent news, of course, is the House already nearly doubled funding for LIHEAP to $5.1 billion and added $250 million for weatherization. Hopefully, this will lead to a policy discussion in the next Congress as to the appropriate level of funding for LIHEAP and its place in the social service system in the future, as we continue to cope with high and volatile pricing for all forms of home energy.

And I think, just to give a sense of what this $5.1 billion means: In Arizona, it would take us from $9 million last year to $29 million; California, $103 million last year to $225 million; Massachusetts would go from $126 million to $163 million; Wisconsin, from $91 million to $130 million; South Dakota, $17 million to $30 million; and Washington State, $45 million to $75 million.

What this really means at the end of the day, at $2.5 billion, which was the amount of money we had last year, it was really only enough money to provide a minimally adequate program in the cold-weather States and, at best, an emergency program in the rest of the country. That is what $2.5 billion bought us. But $5.1 billion really transforms the program, creating a truly national basis for providing home energy assistance across the country for both heating and cooling.

One of the issues that came up a lot in the last couple of months was why were we asking for $5.1 billion. First, winter home heating costs have been increasing rapidly since the end of the last economic recession in 2002.

One of the tables we prepared, since the last recession ended in 2002, home energy prices have gone up dramatically. Heating oil went from $912, the cost to heat a home during the winter of 2002–2003, to an estimated $2,500 during the coming winter heating season, or an increase of about 176 percent. In the coming winter season, prices are expected to go up about 30 percent. Natural gas increased by 69 percent, propane by 105 percent, electricity by 34 percent, during this period since 2002.

What is really worrisome to us about this is that energy went from a period of being basically affordable, back in 2002 to 2003, to an awful lot of Americans. There were many low-income families that could afford to pay the average of $681. But with an average cost starting to press $1,200, we are finding more and more families that just can't pay these bills. More families are falling behind on the utility and the natural gas and electric bills, and more and more arrearages and shutoffs.

The other issue, of course, is purchasing power of LIHEAP. Without the $5.1 billion, we would have seen a dramatic decrease in the purchasing power this winter. In 2006, when LIHEAP funding peaked at $3.2 billion, we were able to cover close to half the cost, on average, of home heating. It wasn't terrific; it didn't meet all the needs. But it allowed us to negotiate with utilities, allowed us to deal with arrearages, and allowed us to cover significant costs of the cost of delivered fuels.

With the continuing rise in energy costs, last year we were only able to cover about 36 percent of the cost of home heating. It was definitely not enough. And the kinds of things that happened last year that we hope won't happen this year is we will see fewer people basically suffering. We saw people basically being shut off from power. We have had reports in some utility districts of up to 10 percent of the households being shut off. In some cases, it amounts to a small city within a State losing access to electricity and natural gas.

If you look at the next table, one of the things that concerns us—yes, heating oil costs are coming down, and that is terrific. In the middle of July, we were looking at upwards of $5 a gallon for home heating oil. Now we are in a range of $4. So, in a sense, that sounds terrific. But that is still a dollar more a gallon than what it was last year at this time.

And what that really means, to fill up a 275-gallon tank, typical tank of heating oil in the Northeast, it is close to $1,000 now. For many people, especially elderly, that is more than their entire monthly income. The average single person who gets Social Security gets $1,027 a month. That is about the cost of one tank of oil.

Another indicator of the rising need for energy assistance is the increase in arrearages and shutoffs. The National Regulatory Research Institute, for example, in a recent report, found that past-due gas utility accounts rose from 16.5 percent in 2001 to 21 percent in 2006. Last spring, in a survey we conducted, States re-

ported that 1.2 million households were cut off from natural gas and electric service due to nonpayment of electric bills.

What I would like to do briefly is give for you a couple of numbers that we have collected in the last 2 months that I think give a sense of just how serious this affordability problem is and how we think the $5.1 billion will really make a big difference in addressing the need.

For example, across the country—and, again, we don't have national statistics on shutoffs, arrearages, how many people are behind in their home heating bills. But the numbers we are getting are very, very scary. In Arizona, the Public Service Commission reported that disconnections are up 40 percent over last year. Southern California Edison, for example, has shut off nearly 165,000 of its 4.8 million customers in the past 6 months. Xcel Energy in Colorado expects to shut of 72,000 Colorado customers this year because of delinquent bills, a 33 percent increase from 2007. In Massachusetts, for example, at the end of May, Natural Grid reported that 115,000 out of 1.2 million electric customers were at least 3 months behind on their bills. And the numbers continue.

What I would like to do is just briefly review a survey that we conducted in June. We wanted to find out how families were coping across all income ranges. And we asked how they were coping with high gasoline and home energy bills. Because I believe that some of the reason for the increase in arrears and shutoffs is not just that home energy bills are going high, it is that families don't have enough money to pay for gasoline. The average family uses about 800 gallons of gasoline a year. So if gasoline is running about a dollar a gallon higher, that is about $70 more a month than they were paying last year at this time.

We surveyed 500 families across the country in all income groups, and what we found was—we weren't surprised to see that poor families, those with incomes of under 150 percent of poverty, were responding that they were having trouble of paying their energy bills. What we were worried about and surprised was that somewhere between 151 and 250 percent of poverty, basically working families, were finding that they were also reporting difficulties in paying these bills.

We asked the question about whether energy costs had a large impact in a household, and, again, families under 150 percent of poverty, those making about $35,000 a year, said yes. About 38 percent reported difficulties paying it, but also about 19 percent of the next group up also said the same thing. Basically, families between about $35,000 and $50,000 a year were saying they were also struggling with these bills.

But, of course, the thing that was most worrisome was the next one, where we said, well, okay, because of high energy and gas costs, did it change your purchasing plans? And we always knew that poor families had this problem. In all the previous surveys, very poor families always said they had to choose between heating and eating. But what we found this time, which is what really alarmed us, was families between 150 and 250 percent of poverty mainly were saying the same things.

And these are families that normally we don't cover in energy assistance programs because we don't have enough money. And one

of the advantages of going to $5.1 billion is the law, in the House bill at least, allows us to go to 75 percent of State median income. So for families in this next group, between 150 and 250, who are saying they are having trouble buying food, medicine, basic necessities, they can also be helped in this program this year.

The next chart, of course, is a sign of poverty, but, again, it is the next group up, also, that is reporting it. We asked them questions, did you close off parts of your home? Did you keep your home at an unsafe temperature? Did you leave the home part of the day because it was too cold or too hot? And, again, we are seeing families that earn between 150 and 250 percent saying the same thing some of the very poorest families in the country are saying.

And, of course, the next chart is the one that causes most concern. We asked about skipping bill payments and also shutoffs. And 29 percent of very poor families said they skipped paying their electric bill or utility bill, but 8 percent said they were shut off. But also families between 150 and 250 percent of poverty reported some of the same exact numbers.

So what seems to be going on, I think, is a compression across incomes, that it is no longer just the families earning less than $35,000 a year, I think it is becoming families earning less than $45,000 to $50,000 a year who are basically struggling to make ends meet.

What I would like to do is talk just briefly, at this point—you were asking some questions about weatherization. And, essentially, we don't think it is an either/or. We don't think it is either weatherization or home energy assistance. Under the LIHEAP program, States are allowed to transfer up to 15 percent of their LIHEAP appropriation to weatherization. And, on average, about 10 percent of that is transferred. So if the future is as in the past, then about $500 million of the $5.1 billion will also transfer into weatherization programs.

These are extremely successful programs, but they are not well-funded. Last year, only about 150,000 homes across the country received weatherization assistance. Weatherization returns about $2.72 cents in energy and nonenergy benefits of the life of a weatherized home. It is a terrific investment. It also supports about 20,000 jobs that come through the program. These are the green jobs that we are concerned about.

And when thinking about green jobs or green-collar jobs, the potential in the low-income community is significant for weatherization. You know, about 25 percent of the families in the United States are low-income, and about 40 percent come under the 250 percent of poverty category. Many of these families can benefit from weatherization, and a lot of the jobs are not that highly skilled. So it is a great, sort of, entry point into a career for a lot of people right out of high school.

Another point I would like to mention to, sort of, wrap up my testimony, we have been looking a lot at other strategies to weatherize homes. We have been working with the Ford Foundation to develop an energy-efficiency mortgage program that would help families integrate weatherization and energy efficiency as part of their mortgage. And this is a real opportunity, as we look at all these subprime mortgages that are in trouble now that need to be

refinanced, to also make their homes more energy efficient at the same time.

For families that make less than $50,000 to $60,000 a year, reducing their energy bill by 30 percent makes a very significant difference to their discretionary income. It not just reduces their energy bill, it strengthens their ability to maintain their home. I think there is a great opportunity this coming year, as we look at how do we help low-income families move to a more stable mortgage, look at making the home energy efficient at the same time. It will accomplish two very related goals.

Thank you.

[The statement of Mr. Wolfe follows:]

**TESTIMONY OF**

**THE NATIONAL ENERGY ASSISTANCE DIRECTORS' ASSOCIATION**

**ON THE**

**THE LOW INCOME HOME ENERGY ASSISTANCE PROGRAM**

**BEFORE THE**

**SELECT COMMITTEE ON**

**ENERGY AND CLIMATE CHANGE**

**U.S. HOUSE OF REPRESENTATIVES**

September 25, 2008

**Contact: Mark Wolfe, NEADA, 202-237-5199, mlwolfe@neada.org**

The members of the National Energy Assistance Directors' Association (NEADA), representing the state directors of the Low Income Home Energy Assistance Program (LIHEAP) are pleased to present this testimony on the role of LIHEAP in meeting the heating and cooling needs of some of the nation's poorest families. The members of NEADA would like to first take this opportunity to thank the members of the Select Committee for holding today's hearing on the importance of higher funding for LIHEAP to help low income families pay their home energy bills this year.

The appropriation level for FY 2008 was $2.57 billion of which $1.98 billion was provided in formula grant assistance. The remaining $590.3 million was provided in the form of emergency contingency funding that can only be released by the President; all of which were released as of September 19, 2008.

The President's Budget for FY 09 would reduce the LIHEAP budget by 22 percent from $2.57 billion to $2.0 billion. The impact on low income households would be severe. States would have few choices but to either reduce the share of home heating costs covered from 36.0 percent to 28.2 percent or the number of households served by 1.2 million from 5.7 million to 4.5 million. The Budget recommendations are very disappointing in light of continued high home energy prices and reports of rising arrearages and shut-off rates across the country.

For FY 2009, we are supporting the preliminary recommendation contained in the House Appropriations Committee discussion draft to fund LIHEAP at the authorized level of $5.1 billion.

**Why are the additional funds needed?** First, winter home heating costs have been increasing rapidly since the end of the last economic recession in 2002. Between the winter of 2002-03 and the upcoming winter heating season, the price of home heating is projected to increase by almost 70 percent from $681 to $1,152. For heating oil, the price change is even more dramatic, an increase of almost 177 percent.

| Est. Winter Home Heating Costs: US Average (2002/2003 to 2008/2009) | | | | | |
|---|---|---|---|---|---|
| Winter Heating Season | Heating Oil | Natural Gas | Propane | Electricity | Average |
| 2002-03 | $912 | $599 | $918 | $702 | $681 |
| 2003-04 | $886 | $659 | $953 | $703 | $712 |
| 2004-05 | $1,176 | $738 | $1,103 | $722 | $793 |
| 2005-06 | $1,409 | $943 | $1,277 | $787 | $948 |
| 2006-07 | $1,445 | $815 | $1,347 | $828 | $900 |
| 2007-08 | $1,939 | $855 | $1,673 | $858 | $986 |
| 2008-09 | $2,524 | $1,017 | $1,890 | $944 | $1,152 |
| % Change 02-08 | 176.8% | 69.8% | 105.9% | 34.5% | 69.2% |
| % Change 07-08 | 30.2% | 18.9% | 13.0% | 10.0% | 16.8% |

Second, the purchasing power of LIHEAP has not kept pace with the rise in home energy costs. Since 2006, the average grant has decreased from $458 to $355, while the purchasing power has decreased from about 48 percent of the cost of home heating to 36 percent. Preliminary reports from state agencies show that applications are increasing and many expect the number of households served to increase by an additional 10 to 20 percent over last year's near record levels.

**Est. Average % of Home Heating Purchased with LIHEAP (FY 06- FY 08)**

| Fiscal Year | Heating Oil | Natural Gas | Propane | Electricity | All Fuels |
|---|---|---|---|---|---|
| 2006 | 32.5% | 48.6% | 35.9% | 58.2% | 48.3% |
| 2007 | 21.6% | 38.4% | 23.2% | 37.8% | 34.7% |
| 2008 | 18.3% | 41.5% | 21.2% | 41.3% | 36.0% |

**Est. Households Served & Average Grant (FY 06- FY 08)**

| Fiscal Year | Appropriation (in thousands) | Households (in thousands) | Average Grant |
|---|---|---|---|
| 2006 | $3,162,000 | 5,521 | $458 |
| 2007 | $2,186,000 | 5,592 | $313 |
| 2008 | $2,570,000 | 5,798 | $355 |

Source: Energy Information Administration, State reports.

By increasing the funding level to $5.1 billion, states would be able to raise the share of home heating cost covered from 36 percent to 50 percent and add up to two million additional households to the program, bringing the total number served to 7.8 million households.

**Arrearages and Shut-Offs**

One indicator of the rising need for energy assistance is the increase in arrearages and shut-offs. The National Regulatory Research Institute, for example, in a recent report found that past-due gas utility accounts rose from 16.5 percent in 2001 to 21 percent in 2006. Last spring, in a survey conducted by NEADA, states reported that 1.2 million households were cut off from natural gas and electric service due to nonpayment of their energy bills. Several states reported significant increases in arrearage and shut-off rates from previous years. In addition, we are also learning that traditional arrearage management programs that provide matching payment programs to help families reduce their outstanding debt are becoming less and less effective. States are reporting that families increasingly do not have the resources to meet matching payment requirements and as a result are at greater risk of shut-off.

**Impact of Rising Energy Costs on Low and Moderate Income Families**

NEADA recently released the first national survey showing how rising home energy and gasoline costs are impacting households by income. Among the key findings of the report are:

- **Low- to moderate-income households are likely to have missed energy bill payments and even have their service terminated.** They are also likely to have gotten behind on credit card bills, mortgage or rent, and car payments. High-income households were much less likely to report that they made these kinds of sacrifices.

- **Low-income households made many sacrifices to make up for increased home energy and gasoline costs**: 70 percent said they reduced purchases of food, 31 percent said they reduced purchases of medicine, and 19 percent said they changed plans for their education or their children's education.

- **Increased home energy and gasoline prices have had a large impact on households, especially those with low and moderate incomes:** 60 percent of low-income households, 49 percent of moderate-income households, and 42 percent of middle-income households said that it was more difficult for them to pay their energy bills than in the previous year.

- **Low-to middle-income households were likely to report that they made compromises with their energy use**: 37 percent of low-income, 35 percent of moderate-income, and 31 percent of middle-income households said they closed off part of their home because they could not afford to heat or cool it. 31 percent of low-income, 24 percent of moderate-income, and 19 percent of middle-income households said they kept their home at a temperature they felt was unsafe or unhealthy.

- **Despite these sacrifices, many low- and moderate-income households were still unable to afford their energy needs:** 29 percent of low-income and 20 percent of moderate-income households said that they skipped paying their home energy bill or paid less than the full bill, 8 percent of low-income and 8 percent of moderate-income households said they had their electricity shut off and 12 percent of low-income and 4 percent of moderate-income households said they had their natural gas shut off. Middle and high-income households were much less likely to report that they faced these problems.

**Public Health Consequences of Unaffordable Energy**

Unaffordable home energy presents a threat to public health and safety directly in the following ways:

- Households respond to high bills, arrearages, or worries about incurring high costs, by choosing not to heat their homes adequately in winter or cool them during the summer, or by using unsafe means to heat or illuminate their homes, for example, heating with a kitchen oven or barbeque grill or lighting by means of candles. Utility service shutoffs directly threaten health in this manner. In addition, when homes in poor structural shape need weatherization, it may be prohibitively costly or impossible to keep interiors within a safe temperature range.

- Lack of access to energy assistance also threatens health indirectly. The squeeze put on home budgets by high utility bills and the threat of shutoff leads households to make difficult trade-offs, purchasing heat or electricity for air-conditioning instead of food or medications. In northern states, for example, poor families with children spend less on food, and children eat fewer calories, compared with higher-income families (Bhattacharya et al., 1993). Poor seniors in the north are also more likely to go hungry in late winter and early spring, while seniors in the south, where energy bills for air-conditioning can be high, are more likely to go hungry in late summer (Nord and Kantor, 2006).

- Seasonal differences in heating and cooling costs explain much of the difference in hunger prevalence for low-income households with school-aged children. Young children from families that are eligible for but not enrolled in energy assistance are more likely than children from families receiving LIHEAP to be small for their age (underweight) and more likely to need hospital admission on the day of a health care visit (Frank et al., 2006).
- Researchers from the Children's Sentinel Nutrition Assessment Program (C-SNAP) at the Boston Medical Center, conclude that "the health consequences of trade-offs in spending can be serious especially for the youngest children. The first three years of life are a uniquely sensitive period of extraordinary brain and body growth; the cognitive and physical development that takes place at this stage will never occur to the same degree again. Babies and toddlers who live in energy insecure households are more likely to be in poor health; have a history of hospitalization; be at risk of developmental problems and be food insecure."

**Energy Efficiency Can Help Increase Energy Affordability for Low Income Families**
State LIHEAP programs work closely across the country with weatherization agencies to help increase the energy efficiency of low income homes, thereby increasing a family's ability to pay their home energy bill. LIHEAP program legislation allows states to transfer up to 15 percent of their total allotment and up to 25 percent with a waiver from HHS to help support these efforts. On average states transfer up to 10 percent of their total LIHEAP allotment annually or about $250 million during the fiscal year currently ending. Other funding for Weatherization in FY 08 included $227 million in federal appropriations and $250 million in state and utility funds.

- In FY 2008, federal funds were used to weatherize approximately 150,000 homes across the country. According to national evaluation studies conducted by Oak Ridge National Labs:

- Weatherization returns $2.72 in energy and non-energy benefits over the life of the weatherized home for every dollar spent
- Families receiving Weatherization services can reduce their heating energy use by an average of 22 percent, making the cost for heating their homes more affordable.

- Economic benefit multipliers of Weatherization returned up to four times the actual investment. This means that an investment of $300 million in Weatherization could yield nearly $1.2 billion in economic benefits to local communities.

**Energy Efficiency Can Help Sustain Low Income Home Ownership**
High energy bills not only threaten access to affordable energy, they also undermine other societal goals, including sustaining low income home ownership. For the last six years, the Energy Programs Consortium (EPC), a state-sponsored research collaborative, has directed a program sponsored by the Ford Foundation to develop new strategies to sustain low income home ownership.

EPC is now partnering with EPA to roll out an Energy Star mortgage program designed to offer low and moderate households an option to integrate weatherization funds and state energy efficiency subsidies and lender incentives with mortgage refinance. The program is schedule to kick-off later this fall in four states: Maine, Massachusetts, New Jersey and New York. The project is expected to further expand to include Indiana, Pennsylvania and Wisconsin.

**Conclusion**

There is no substitute for adequate federal funding of LIHEAP. The authorized level of $5.1 billion would provide sufficient funds to increase grant levels to 50 percent of the projected cost of home heating for the coming winter as well as allow states to reach out to an additional two million low income households who are not currently receiving assistance.

Thank for you this opportunity to testify today. NEADA we would be happy to respond to any questions or requests for additional information on this important program.

The CHAIRMAN. Thank you, Mr. Wolfe, very much.

Our next witness is Mr. John Drew, who is the executive vice president of Action for Boston Community Development, the largest nonprofit agency in New England. He has been a very prominent figure in this whole area of LIHEAP throughout his career, a real national expert on the subject.

Whenever you are ready, Mr. Drew, please begin.

**STATEMENT OF JOHN DREW**

Mr. DREW. Thank you, Mr. Chairman. Thank you for letting me come before you today.

First of all, I want to thank you because you are my congressman, and I want to thank you for everything you have done over the years.

Action for Boston Community Development is a community action agency, one of 900 across the country. What we do is we are undergirded by a community service block grant, which we are so much grateful to this Congress for continuing that program, because it allows us to do a variety of programs, including Head Start, weatherization, our heating assistance program. We also do programs for—we run a college, we run high schools. We will do anything that we need to do to help people who are poor.

Mr. Chairman, I just want to make a note that you are my Congressman, and I very much appreciate the hard work you have done over many, many years.

The CHAIRMAN. I thank you.

Mr. DREW. Really. You have been a true champion.

The CHAIRMAN. Thank you.

Mr. DREW. And I also want to note that I am so grateful for the Governor of Massachusetts coming here today. I won't cast anything other than to say this is the first Governor in my time who has come before you on LIHEAP, and he has done a heck of a job in Massachusetts.

I mentioned the community service block grant and I mentioned community action because they go together. I go back 36 years. I know I don't look it. I go back 36 years, back to the OPEC time, when we had that spike with that OPEC where the lines were long. And we have had over 36 years of trying to keep this program going through the ups and downs, through the period of time when we had enough money, we didn't have enough money. We put together weatherization programs. We put together programs that provided for new boilers. We have matured to the point where we are actually doing windows and refrigerators and appliances, working with utilities. But I must say from the bottom line is that we are dealing with people who do not have enough income to live on.

I left my office today to take an airplane. Lined up in the corridors in our buildings were people who got there early this morning, had been getting there for quite a while, clutching in their hands shutoff notices, payments they can't make, looking very, very scared, bleak, and wondering how they are going to get through the winter.

My experience over the years is that, if we do not intervene, we will see experiences of hypothermia. We have seen that. We have a woman, 94 years old, who went to bed one night, decided that

she couldn't afford the heat, couldn't pay the bills, put as many blankets on as she could, and unfortunately in the morning she didn't get up. We have children who leave their house to go to school and they are not able to think because they have been cold all night.

We have a large Head Start program in the city of Boston. And thank you again, Congress, for keeping that and reauthorizing the Head Start program. But we have 2,600 children in Boston in preschool, and for many, many of those children, the only heat or the major part of the heat, warmth they have that day is when they come to the center. Their major caloric intake will be at that center.

So I was, with great fear and trepidation, going into this summer, with $5 a gallon. All I could think of was the Arctic air is coming. It is going to be icy, it is going to be cold, we are going to have ground freezing, we are going to have snow. And what is going to happen to all these folks? This is my Katrina. This is my Northeast.

These people are going to be standing out there with no ability to save themselves. They don't have incomes to be able to buy the product that is necessary. They are also trying to struggle to buy milk that are increased and to buy products that have increased. Their incomes have not gone up at all; they really have been compressed.

So I am here basically to bear testimony on the part of so many people who need this program, whose families—and, as Mark Wolfe has said, more and more people are falling into the trap of stagnated wages and not being able to take care of their families. And it is an income issue.

And over the years I have struggled when people have come up with a debate, which is we should do more weatherization and less of the fuel assistance. And I say fine, fine, let's get the cost of energy down to the point where people can afford it. You cannot take out payments before you can get the energy efficiency and we can bring down the oil price from overseas.

So I think that we not only need both, we have to keep up with the income. We, in fact, in our program, we pay the dealers directly. We work with the dealers. We work with the companies. We have great relationships and, as a result, have been able to run a LIHEAP program. Every LIHEAP household who is eligible also is eligible for conservation, for boiler repair, boiler replacement. They get discounts from utilities up to 20 percent off their bills. So we are leveraging an awful lot through this LIHEAP program.

The downside is that we are getting more and more people in our homeless shelters. And in Massachusetts, in fact, there are 500 or 600 families in hotels as a result of not being able to maintain a household. My concern, going into this winter, is we are going to see an epidemic of homelessness.

So I was coming down here with bags of cement on my back, saying, how are we going to do this? We are going to run out of assistance before Christmas. We are going to be trying to figure out how we can keep these families and elders alive. And when I got the call that said $5.1 billion has been passed by this House, I just

said, "Oh, my God, this is great." And the Senate has to pass it, the President has to sign it.

And, with that, we will be able in Massachusetts to be able to provide heating assistance right through the end of February. Think about that. We have so many people who are sitting there right now, saying, how am I going to make it?

Everybody has their following story, but it is true. In my building today was Mr. Warren. He comes in, he is 78, and he is looking for assistance. And he is working at an elderly program, our foster grandparent program.

I said, "How are you doing today?" And he said, "Well, my wife and I, it is a little tough, but, you know, we are getting by. It is going to be a tough winter." I said, yeah. He said, "Where are you going?" I said, "I am going down to testify before a committee in Washington about heating assistance." He said, "What is that all about?" I said, "Well, you know, trying to get you some more money so you can get through the winter." His wife has these huge bills for her disabilities, her medicines.

He said, "Would you tell those folks something? I am really concerned. I don't understand how they can understand they can find trillions of dollars for bankers and stuff and they can't help me get through the winter." I said, "I will pass the story along," which is true. And I can appreciate that this committee understands that feeling of helplessness, that nobody is really going to be there for you.

So the $5.1 billion, let's hope that goes through. Let's hope we have it at the end, let's hope we have it at the beginning of the season, so we can assure people that they will have hope through the winter, that they will be able to buy their food, that they will be able to buy their medicines, they will be able to live life normally, they will get through the winter.

Because, right now, what we have, Mr. Chairman, in Massachusetts is 100,000 households way behind in their utility bills. We have 20,000 households already shut off.

The CHAIRMAN. Mr. Drew, thank you. Thank you for your passionate presentation today. We really appreciate it. Thank you.

Mr. DREW. Thank you.

[The statement of Mr. Drew follows:]

*Testimony of Mr. John J. Drew*
*Before the Select Committee on Energy Independence and Global Warming*
*U.S. House of Representatives*

*September 25, 2008*

Thank you, Chairman Markey and Members, for the opportunity to speak to this distinguished Committee on the future of LIHEAP funding.

In Massachusetts, the current picture for LIHEAP funding and for the low-income households which depend upon it is bleak. However, there is a strong partnership in place between the state government and the local agencies which deliver energy services. This network can provide effectively targeted energy resources to low-income families—with a high degree of accountability, and streamlined linkages to energy efficiency services.

In response to the questions posed by the Committee, I would like to offer the following comments.

**1. Role of States in Implementation of LIHEAP**

Individual states have wide authority in determining LIHEAP program structure and benefit levels. States are required to develop a LIHEAP program plan which conforms to basic requirements established by HHS, with input from a wide range of stakeholders; HHS then reviews and approves the program plan.

This flexibility has allowed for a wide range of delivery structures. For example, in Massachusetts all LIHEAP payments are made directly to fuel vendors, not to consumers, allowing for a high degree of accountability and effective targeting of benefits. Massachusetts has also chosen to establish relatively high dollar values for individual benefits.

**2. State Flexibility in Determining Eligibility for Benefits**

The Federal regulations governing LIHEAP stipulate that no household with income above 200% of the Federal poverty level can receive benefits. However, individual states may at their discretion establish a lower income level for eligibility. States can also establish various levels for household benefits based on income, household size, or other variables.

Once again, this high degree of flexibility allows states to focus the benefits of the program in ways which reflect local costs of living. However, in very high-cost states such as Massachusetts, there remain a significant number of households with incomes above 200% of the poverty level which are nevertheless suffering serious deprivation due to the rising cost of fuel. By providing additional flexibility to states in establishing

eligibility, for example up to 80% of the median income, LIHEAP could reduce the burden on these households.

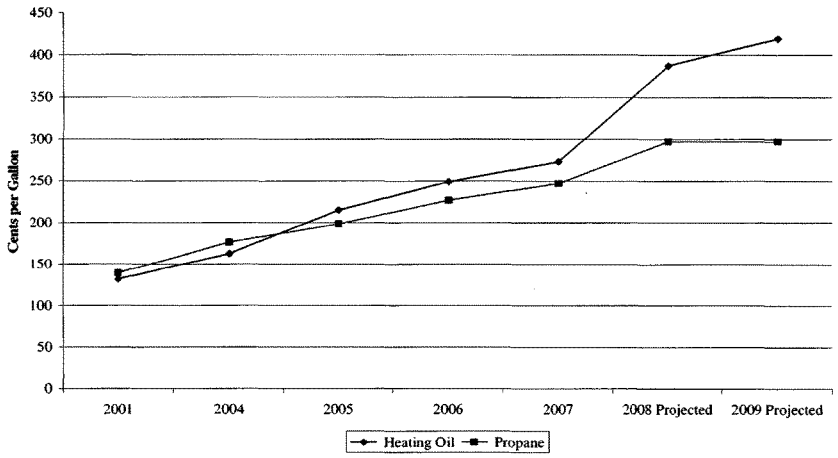
**3. Anticipated Increases in the Cost of Fuel**

Fuel markets continue to be extremely volatile, and therefore precise prediction of the cost of heating fuels is difficult.

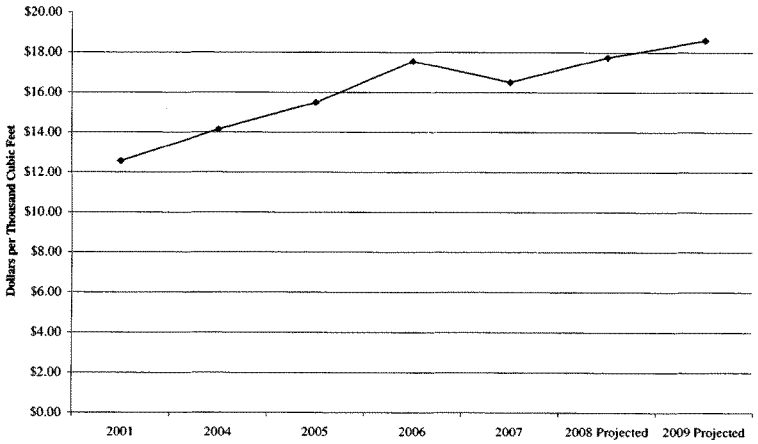
What is clear is that the cost increase during this heating season is unlikely to be less than last year's. During the past year the price of a barrel of heating oil fluctuated by over $50; heating costs for the Massachusetts oil user rose by more than 25%. A recent report from the University of Massachusetts Donahue Institute, citing information from the US Energy Information Administration, projected increases in oil prices of over 30%, and increases in natural gas prices of approximately 16%.

The following charts, prepared by the National Consumer Law Center, Inc., demonstrate the magnitude of recent increases.

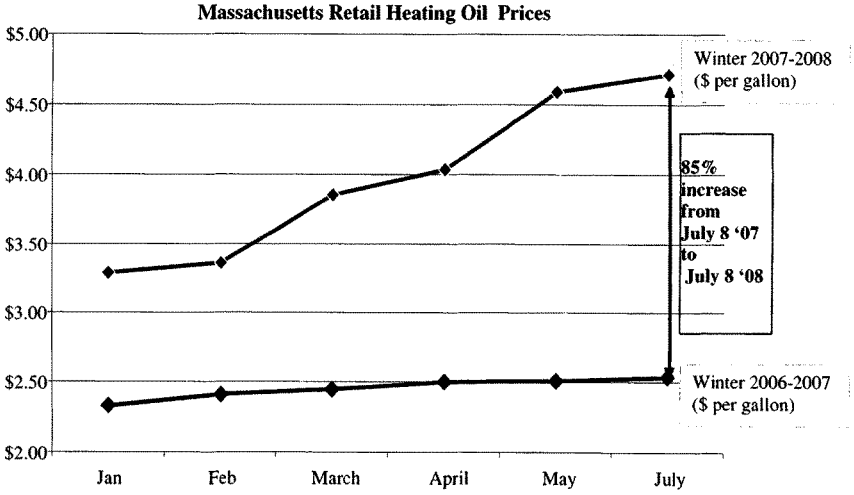
**Average Residential Heating Oil and Propane Prices: Northeast Census Region**



**Average New England Residential Natural Gas Prices**




**Massachusetts Retail Heating Oil Prices**



**4. Impact of Other Rising Costs on the Need for LIHEAP Assistance**

In Massachusetts household incomes have generally been flat, and unemployment is rising. At the same time, the overall cost of living has jumped by some 6%. There have been notable increases in the cost of staples such as milk and bread.

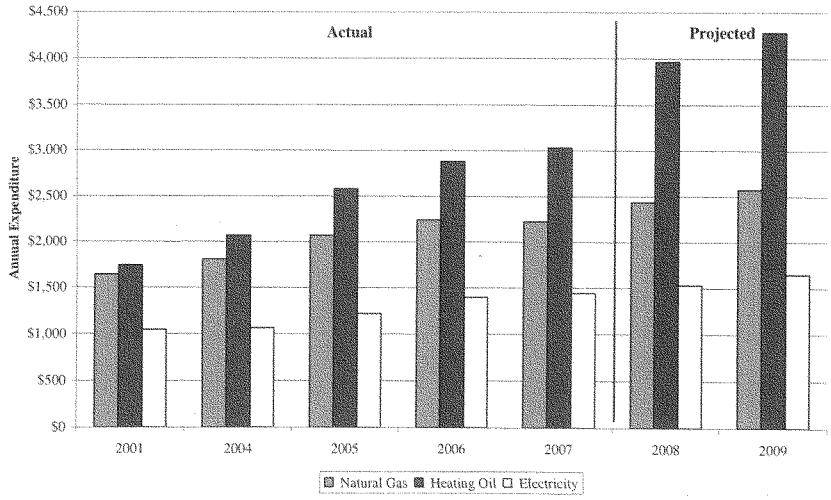
As a result, even households that were formerly comfortable are stressed economically, and those that were just able to make ends meet are now facing an emergency with no end in sight. A much larger proportion of our citizens are now confronting the "heat or eat" dilemma that once was limited to the poorest of the poor. Food banks are seeing a influx of new customers, and we expect an increase in the number of Fuel Assistance applications.

So, while we need more LIHEAP funds to meet the needs of those already connected with the program, we also need funds to assist new applicants who have never been forced to seek help before.

**5. Outlook for this Winter**

The impact of fuel price increases, in conjunction with current LIHEAP benefit levels, it increased hardship for low-income households. In fact, unless there is a substantial increase in LIHEAP funding, we will face the probability that hundreds of thousands of households will run out of assistance by January, in the depth of the Massachusetts winter.

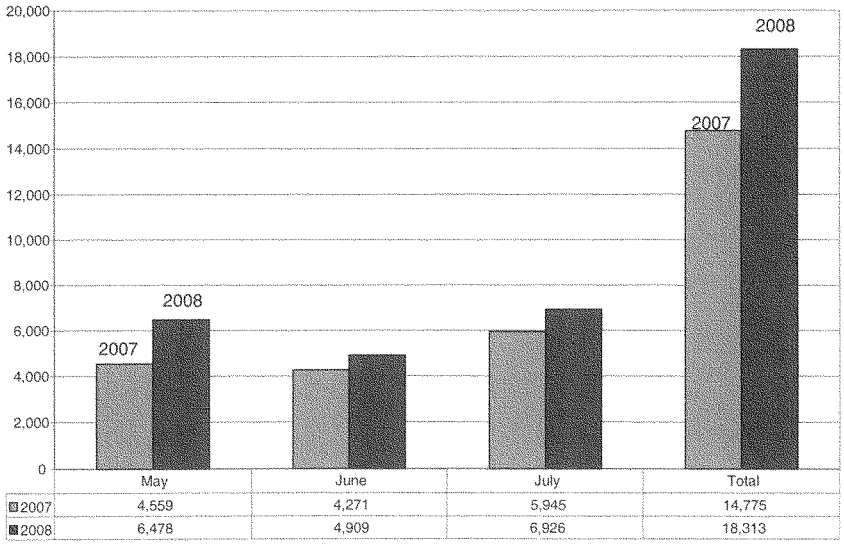
**Average Home Energy Expenditures by Heating Fuel:**
**New England LIHEAP Eligible Households**



This is a matter of simple arithmetic. Currently the average retail cost of oil is $3.69 per gallon; the average tank size is 275 gallons, and the cost to fill a tank at current prices is $1,015. Therefore, current oil prices, the maximum household benefit of $735 set by Massachusetts will allow for the delivery of less than one tank of oil. In an average winter, most households use three to four tanks of oil. The oil paid for by LIHEAP this year will run out before Christmas.

The situation for households heating with natural gas is little better. The average gas consumer in Massachusetts spends from $1,500 to $2,500 over the course of a heating season, and will also have exhausted LIHEAP benefits by Christmas. The immediate impact of higher utility costs is a rising level of utility terminations. We are currently seeing approximately 15,000 utility terminations statewide, with an increase of 10 to 20% in the number of termination notices over last year. (During the past spring, over 100,000 low-income households were threatened with shut-offs.) The average arrearages Boston LIHEAP clients have accrued since the last heating season is $1,100; these households are at high risk of shut-off after the end of the winter moratorium.
The following chart, showing the recent level of terminations for a single Massachusetts utility provider, shows the rapidly escalating number of cases.

**MECO Total Household Service Terminations**




| | May | June | July | Total |
|---|---|---|---|---|
| 2007 | 4,559 | 4,271 | 5,945 | 14,775 |
| 2008 | 6,478 | 4,909 | 6,926 | 18,313 |

The human face of these cost increases is striking.

- John MacPherson, 82, a World War II veteran living on monthly Social Security and veterans' disability checks totaling $ 1,032, paid over one-third of his income for heating last year. He eats instant noodles for many meals, keeps his thermostat at 68, and limits how often he drives or goes out.

- Wilhelmina Mathis, 74, spent the coldest months of last year sitting by the oven, wrapped in a parka. She shut down most of the rooms in her house and "turned the thermostat down as far as it would go without turning off."

- Sandra Sales, 41, a disabled mother of three, also heated her home with the kitchen oven last year. She has barely averted having her gas service shut off; despite receiving $600 in LIHEAP assistance, she owed more than $2,400 in utility bills.

In addition to the sheer magnitude of the dollars needed, timing is critical. Our oil heating customers pay Cash on Delivery. Unless we are able to get funds to them in a timely manner, they may still go without heat this winter. Funds are not only needed, but needed now.

**6. Impacts on Children and the Elderly**

Obviously the lack of heat in mid-winter is a life-threatening emergency for elders and infants.

Local researchers at the Grow Clinic for Children at the Boston Medical Center have demonstrated that the inability to cover high heating costs has significant long-term impacts on children's health—including reduced growth, developmental delay, and more frequent illnesses. ABCD's Head Start programs see children whose only experience of being in a warm room is during the school day; these children, understandably, lag behind their peers.

Our own survey research at ABCD has confirmed that elders and parents of young children will take extreme and sometimes dangerous steps to save on heating costs when they have exhausted LIHEAP benefits. These consumers reported cutting back on food and medication, staying in bed during the day to stay warm, and heating with gas stoves or space heaters.

Even in years during which LIHEAP benefits were more generous, households in need suffer the consequences of dangerous heating decisions, as the continued high number of casualties caused by space heater fires and carbon monoxide poisoning demonstrate. Similarly, cases of hypothermia reported by Boston-area emergency rooms spike during

periods of elevated heating costs. This year, given the convergence of historically record-breaking costs and reduced benefits, all low-income populations are at risk.

One way in which this risk is being felt is in increased rates of homelessness among households facing heating crisis. When the heat is turned off or oil runs out in mid-winter, renters may abandon their housing or be evicted. These families appear in our housing department, often with nowhere to turn.

The physical hazards experienced by the most vulnerable households are exacerbated by the constant anxiety and the sense of powerlessness which results from being unable to meet the basic needs of one's family. This is the kind of trauma that contributes to disabling depression in so many of the families we work with.

**7. LIHEAP Funding for Conservation Efforts**

LIHEAP serves as an efficient gateway to a wide variety of conservation resources in Massachusetts. Once a household is determined to be eligible for LIHEAP, they have immediate access to Department of Energy-funded Weatherization, HEARTWAP (heating system replacement or repair), all utility discount programs, and a wide variety of utility-funded energy efficiency programs. Through the system of Community Action Agencies largely responsible for delivering LIHEAP benefits in Massachusetts, they can also access a comprehensive array of programs which help meet emergency needs and promote family self-sufficiency.

In Massachusetts, some $8 million of the State's base LIHEAP allocation of $81 million is devoted to funding HEARTWAP, which supports heating system tune-ups, repair, and boiler replacement.

**8. Potential Means of Increasing Investment in Energy Efficiency**

Massachusetts is fortunate in that state regulation has encouraged a high level of investment in energy efficiency programs by utilities. This emphasis has recently been strengthened by passage of the Massachusetts Green Communities Act, which encourages utilities to increase this investment.

**9. Policy Options for Expanding and Improving LIHEAP**

We strongly recommend two changes in the current LIHEAP program.

First, Massachusetts needs the option of broadening eligibility to reach the expanding group of households which live above 200% of the poverty level, but which are suffering due to inability to afford rising fuel costs.

Second, Massachusetts needs a substantial and immediate increase in the amount of funding available for LIHEAP in order to meet, at even a minimal level, the most basic survival needs of low-income families.

In this context, it may be useful to recall the beginnings of the LIHEAP program in the first "oil shocks" of the 1970's. At that time, LIHEAP benefits were structured to make up the gap between normal household expenditures on heating, and the suddenly escalating costs which had outstripped families' ability to pay. Over the past three to five years, the relative value of LIHEAP benefits has eroded to the point that they no longer assure families access to adequate heat in winter. The result has been a steadily escalating level of arrearages, shut-off, and households attempting to survive New England winters in unsafe conditions.

In order to return LIHEAP funding to the level which would enable us to provide households with two tanks of oil, we need an additional $100 million in Massachusetts. The timing of these funds is critical, as well—in order to address the emergency, we need them very soon. It is imperative that the Federal government appropriate these funds and make them available to states in time to allow low-income households and the organizations that work with them time to plan for the winter.

If this effort fails, we will leave hundreds of thousands of households in real danger, with no place to turn.

In conclusion, I would like to thank the Committee for taking this critical topic under consideration. I sincerely hope that the work of this Committee will result in action to prevent the severe suffering which may otherwise result this winter from the combination of limited LIHEAP funding and catastrophic increases in the cost of food, fuel and other necessities.

The CHAIRMAN. Now we will move to our final witness. Then we will go to questions from our committee members.

And our final witness is Mr. Howard Gruenspecht. He is the acting administrator of the Energy Information Administration at the Department of Energy. Prior to joining EIA, he was a resident scholar at Resources for the Future and served as its director of economics.

We welcome you, sir. Whenever you are ready, please begin.

**STATEMENT OF HOWARD GRUENSPECHT**

Mr. GRUENSPECHT. Mr. Chairman, members of the committee, I appreciate the opportunity to appear before you today to discuss the short-term energy outlook for the United States, particularly for the upcoming winter.

The Energy Information Administration is the independent statistical and analytical agency within the Department of Energy that produces objective, timely and relevant projections and analyses to assist policymakers, help markets function efficiently and inform the public. And I notice that Mark Wolfe mentioned many of our products. We don't promote, formulate or take positions on policy issues. And our views should not be construed as representing those of the Department or the administration.

Our most recent short-term energy outlook, released on September 9th before Hurricane Ike hit the Gulf Coast, forecasts that residential upcoming heating oil prices during the upcoming heating season of October through March will average 4.13 per gallon, an increase of about 25 percent over the previous season. Residential and natural gas prices over the same period are projected to average nearly $15 per thousand cubic feet, an increase of about 17 percent over the previous heating season. Price increases for propane and electricity are projected to be about 11 percent and 8 percent respectively.

Natural gas is used as the primary heating fuel by a majority of U.S. households, while oil is the primary heating fuel for about 7 percent of U.S. households. But, as the other two witnesses have noted, heating oil use is heavily concentrated in the Northeast, where it is used by nearly one-third of households.

Fuel expenditures for individual households are highly dependent on weather conditions, the size and efficiency of individual homes and their heating equipment, and thermostat settings. So while cross-fuel comparisons of average heating expenditures can be misleading because of differences in the extent to which each fuel is used in colder and milder areas of the country, the change in projected expenditures relative to the prior winter for each heating fuel provides a broad gauge as to expected movements in heating costs.

Although all of the major heating fuels are expected to register sizable increases in total expenditures, heating oil customers are likely to be particularly hard hit, with heating fuel expenditures for the average household using oil as the primary heating fuel expected to rise by $585 over last winter. The corresponding increases for households heated with natural gas and propane are $162 and $217 respectively, while they are $86 for households using electricity.

Heating oil prices are expected to be significantly higher than last winter, primarily because crude oil prices are much higher. Higher crude oil prices account for about 68 cents per gallon of the projected increase of 85 cents per gallon over the upcoming heating season relative to the comparable year ago period.

Increases in heating oil prices above those due to higher crude oil costs largely reflect tighter markets for diesel fuel worldwide. Diesel fuel and heating oil are connected, as both products are very similar, except for the fact that diesel fuel contains less sulphur than heating oil.

World diesel fuel demand growth is coming both from increasing transportation use and increasing use of distillate as a fuel for electricity generation, particularly in developing countries. And there are also a number of special circumstances this year.

Turning to natural gas markets, the factors contributing to higher prices include higher oil prices, low imports of liquefied natural gas, and some strength in the spot prices of natural gas in the first half of the year that will be reflected in the cost of gas that has been stored to be used this upcoming winter.

Colder than normal temperatures during the first 4 months of the year contributed to a substantial year-over-year decline in inventories of gas.

The good news is that, taken together, robust domestic production of natural gas and limited consumption growth in electric power this summer due to relatively mild summer temperatures allowed for rebuilding of natural gas storage inventories. And, by the end of August, we actually were ahead of the 5-year average for the first time since February.

We will be updating these forecasts for the October edition of the "Short-Term Energy Outlook," which will also include an expanded discussion of the upcoming heating season.

That concludes my statement, Mr. Chairman, and I would be happy to answer any questions that you or the other members may have.

[The statement of Mr. Gruenspecht follows:]

**Testimony of**

**Howard Gruenspecht**

**Acting Administrator**

**Energy Information Administration**

**before the**

**Select Committee on Energy Independence and Global Warming**

**U. S. House of Representatives**

**September 25, 2008**

Mr. Chairman and Members of the Committee, I appreciate the opportunity to appear before you today to discuss the short-term energy outlook for the United States, particularly for the upcoming winter.

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**Winter 2008-09 Outlook**

Our most recent *Short-Term Energy Outlook*, released on September 9th before Hurricane Ike hit the Gulf Coast, forecasts that residential heating oil prices during the upcoming heating season (October though March) will average $4.13 per gallon, an increase of about 25 percent over last heating season. Residential natural gas prices over the same period are projected to average $14.93 per thousand cubic feet (Mcf) compared with $12.72 per Mcf during the last heating season, an increase of about 17 percent.

Natural gas is used as the primary heating fuel by a majority (52 percent) of U.S. households, while oil is the primary heating fuel for 7 percent of households. The percentages of households using electricity and propane for heating are 35 percent and 6 percent, respectively. Heating oil use is heavily concentrated in the Northeast, where it is used by nearly one-third of households.

Fuel expenditures for individual households are highly dependent on weather conditions, the size and efficiency of individual homes and their heating equipment, and thermostat settings. While cross-fuel comparisons of average heating expenditures can be misleading because of differences in the extent to which each fuel is used in colder and milder areas of the country, the change in U.S.-average projected expenditures relative to the prior winter for each heating fuel provides a broad guide to expected movements in heating costs.

Although all of the major heating fuels are expected to register sizable increases in total average expenditures, heating oil customers are likely to be particularly hard hit, with heating fuel expenditures for the average household using oil as its primary heating fuel expected to increase by $585 (30 percent) over last winter. The corresponding average expenditure increases for households heated with natural gas, propane, and electricity are $162 (19 percent), $217 (13 percent), and $86 (10 percent), respectively (**Figure 1**).

Heating oil prices are expected to be significantly higher than last winter since crude oil prices are much higher, reflecting the limited increase in non-OPEC oil supply relative to demand over the past year. Natural gas prices are significantly higher due to high oil prices, low liquefied natural gas (LNG) imports, and the significant year-over-year storage deficit earlier in 2008. The rest of my testimony discusses these factors and others that will have an important impact on residential expenditures this upcoming winter.

**Heating Oil**

The main reason heating oil prices are expected to be so much higher this winter than last is because crude oil prices are expected to be significantly higher. While retail heating oil prices are expected to be about 85 cents per gallon higher this winter (October through March) than last winter, crude oil is expected to be the equivalent of about $28 per barrel or 68 cents per gallon higher (shown graphically in **Figure 2**). After rising by about 370,000 barrels per day (bbl/d) during the first half of 2008, global oil consumption is projected to rise by about 970,000 bbl/d in the second half of 2008 and by 920,000 bbl/d in all of 2009 compared with year-earlier levels. Lower consumption in countries belonging to the Organization for Economic Cooperation and Development (OECD) is expected to be more than offset by continued non-OECD consumption growth, led by China, the Middle East, Latin America, and India. While global oil demand is increasing, supply from countries outside the Organization of the Petroleum Exporting Countries (OPEC) has not kept pace, with non-OPEC supply growth expected to be nonexistent in 2008. When non-OPEC supply growth fails to match growth in global demand, markets rebalance by OPEC countries increasing production and/or consuming countries drawing down inventory levels. Both of these actions tend to increase crude oil prices: drawing down inventory levels leaves markets more vulnerable to changes in supply and demand, while OPEC production increases cut into spare capacity unless capacity increases faster than production, which was not the case in 2008. As a result, current spare production capacity remains historically low (**Figure 3**).

Increases in heating oil prices above those due to higher crude oil costs largely reflect tighter markets for diesel fuel/heating oil worldwide. Diesel fuel and heating oil markets are connected since both products are very similar except for the fact that diesel fuel contains less sulfur than heating oil. World diesel-fuel demand growth is coming both from increasing transportation use and increasing use of distillate as a fuel for electricity generation, particularly in developing countries where electricity demand is outstripping generating capability. Generally, oil product demand in non-OECD countries, where oil demand is growing fastest, is more heavily weighted towards distillate fuel than is product demand in the United States. This has led to heating oil prices increasing even more than the sharp run-up in crude oil prices this upcoming winter compared to last winter.

In addition, as of September 22, Hurricanes Gustav and Ike have removed over 41 million barrels of production from refineries that were shut down, with additional product lost due to other refineries that have reduced inputs due to limited crude oil availability is included. Because of port closures and pipeline outages, crude oil flows through the petroleum system have been curtailed over the last few weeks and it may take another week or two to get flows moving again at normal rates throughout the entire system.

Beyond the upcoming winter, crude oil prices are expected to moderate as sluggish growth rates in consumption from OECD countries and prospects for increased supplies from non-OPEC producers in the coming year should lead to weakened market conditions. Lower demand for OPEC oil and a rebound in global surplus production capacity is expected to provide the market with a potential cushion against supply disappointments over the near term. The main upside price risk is that the slowdown in

global oil demand growth is temporary and that demand will recover. Important downside price risks include weaker demand growth due to the lagged impact of higher oil prices and weaker economic activity than anticipated.

**Natural Gas Markets**

Natural gas prices are also expected to be higher this winter than last. In addition to high oil prices and low LNG imports, strength in spot prices through the first half of 2008 was the result of colder-than-normal temperatures during the first quarter (particularly in the Midwest), which contributed to consumption growth and a substantial year-over-year decline in working inventories.

At the end of March 2008, working gas in underground storage was 356 billion cubic feet (Bcf) below the March 2007 level and 27 Bcf below the 5-year average. Cold weather continuing well into April contributed to a growing storage deficit. By the end of the first half of the year, natural gas price pressures peaked with the natural gas spot price reaching $13.71 per thousand cubic feet (Mcf) on July 2, 2008. More recently, however, spot prices have declined, averaging $8.49 per Mcf in August. Taken together, robust domestic production of natural gas (**Figure 4**) and limited consumption growth in the electric power sector due to mild summer temperatures allowed for the rebuilding of natural gas storage levels. As a result, estimated working gas inventories at the end of August surpassed the corresponding 5-year average for the first time since February, although this level was still 147 Bcf below end-of-August 2007.

Despite strong domestic production growth (actual data through June shows an increase in marketed natural gas production of 8.6 percent) and the resulting inventory

builds compared to the first half 2007, damage caused by Hurricanes Gustav and Ike remains a concern. As of September 22, production shut-ins for the Federal Gulf of Mexico totaled almost 133 Bcf, or about 86 percent of total output, and recovery could last well into October.

In 2009, domestic natural gas production growth is expected to continue, although not at the rate of growth measured in the first half of 2008. Natural gas consumption is expected to be slightly higher next year, but fragile economic conditions add significant uncertainty to the forecast. As a result of expectations for continued supply strength and moderate consumption growth, natural gas spot prices are projected to average $8.55 per Mcf in 2009, a decrease of $1.16 per Mcf from the expected average for 2008.

**Conclusion**

We will be updating the forecasts presented in this testimony in the October edition of the *Short-term Energy Outlook* (to be released October 7), which will also include an expanded discussion of the upcoming 2008-2009 winter heating season.

This concludes my statement, Mr. Chairman, and I will be happy to answer any questions you and the other Members may have.

**Figure 1.**

***Average fuel expenditures are expected to be higher for all fuels this winter.***

- Households heating with heating oil and natural gas expected to pay up to 30% more this winter compared to last winter.

Average U.S. Household Winter Heating Fuel Expenditures

| Fuel | Winter 2007-08 | Winter 2008-09 | Change |
|---|---|---|---|
| Heating Oil (7%) | $1,939 | $2,524 | $585 (30%) |
| Natural Gas (52%) | $ 855 | $1,017 | $162 (19%) |
| Propane (6%) | $1,673 | $1,890 | $217 (13%) |
| Electricity (35%) | $ 858 | $ 944 | $ 86 ( 10%) |
| Average All Fuels | $ 986 | $1,152 | $166 (17%) |

Notes: Expenditures based on average consumption of households adjusted for weather.
Percent of all households noted in parentheses by each fuel label.
Winter = October - March

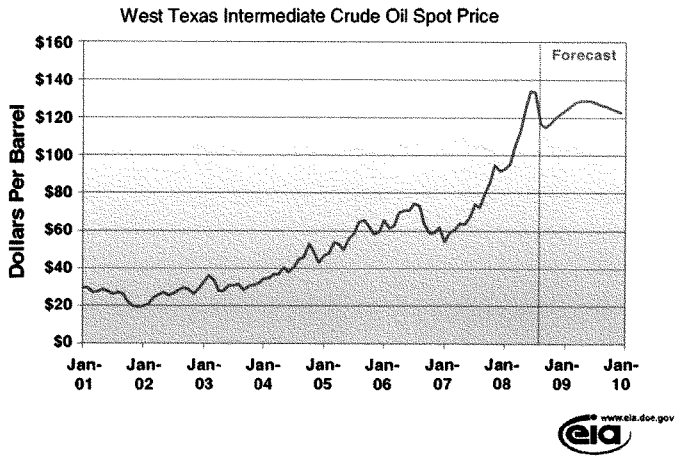
Source: EIA, *Short-Term Energy Outlook*, September 2008.

www.eia.doe.gov

1

**Figure 2.**

***Projected stronger growth in world petroleum demand is expected to increase the annual average WTI price to $126 per barrel in 2009.***

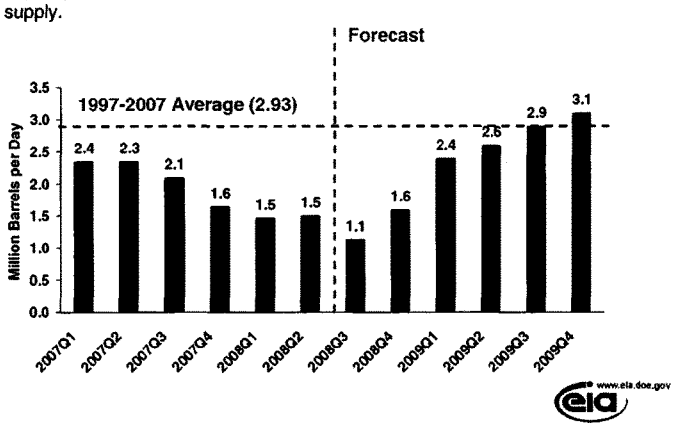



Source: EIA September 2008 *Short-Term Energy Outlook.*
http://www.eia.doe.gov/emeu/steo/pub/contents.html

**Figure 3.**

***World surplus crude oil production capacity remains low in 2008, but increase substantially in 2009.***

- Surplus capacity is expected to increase through 2009, as OPEC brings new capacity additions online and restricts output in response to higher non-OPEC supply.

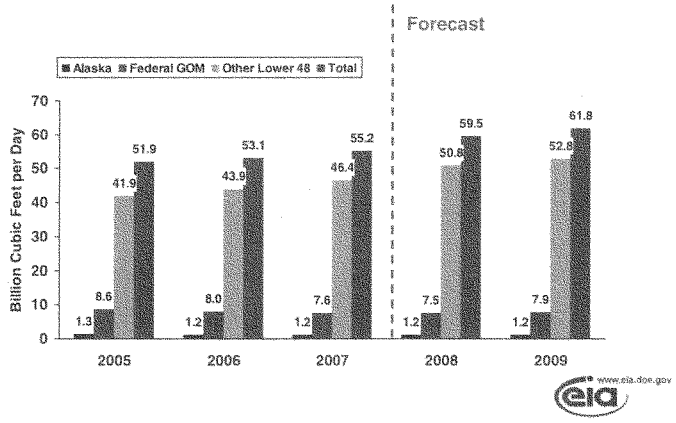



Source: EIA September 2008 *Short-Term Energy Outlook.*
http://www.eia.doe.gov/emeu/steo/pub/contents.html

**Figure 4.**

***Onshore natural gas production is expected to drive the large growth in natural gas production in 2008.***

- Growth in natural gas production remains subject to expectations about natural gas prices.




Source: EIA September 2008 *Short-Term Energy Outlook.* http://www.eia.doe.gov/emeu/steo/pub/contents.html

The CHAIRMAN. I thank you very much.

And now we will turn and have the members of our committee ask questions.

I recognize the gentlelady from California, Ms. Solis.

Ms. SOLIS. Thank you, Mr. Chairman.

All of you have given us some interesting insight, including the Governor.

But I wanted to just ask our last witness who spoke if you could shed some light on the recent effect that we saw in some Midwestern States with respect to Ike, Hurricane Ike, where we saw some shortages in Tennessee and, you know we saw a tremendous spike up in demand there. Obviously, we may see more of that happen as we see more hurricanes hitting our areas where our major producers of crude and the refineries are found.

Can you shed any light on that?

Mr. GRUENSPECHT. I can shed a little bit of light on it.

Clearly, the two hurricanes that hit the gulf, one Louisiana, the other Texas, which are both big areas for importing crude oil and big areas for refinery production, had an impact. Although refinery capacity is really returning, really—in today's report, for the first time, the amount of refinery capacity out is under a million barrels a day of capacity. It had been up above, well above 3 billion barrels a day out at the peak. So there has been progress in bringing things back.

But the areas that are served either from crude oil that comes through the gulf, because some of the crude oil that is used in the Midwest comes through the gulf and is shipped up to the Midwest by pipeline, or by products that are produced in the gulf—and that has affected most of the south Atlantic States; Tennessee, North Carolina, Georgia has had some issues—those are the areas that have seen the most severe impacts. We have seen prices in those areas falling in recent days.

Just yesterday, we put out a report on inventories that, sort of, looks at the last week. The last week was a tough week, in that production was severely impacted by Hurricane Ike. We do see the situation improving. There may be some spot outages, mostly of gasoline. Fortunately the distillate market has done better. The diesel fuel and heating market has not seen those outages. But gasoline is a little tight.

Ms. SOLIS. I guess, for me, I really have some concerns when we have discussions and debate about increasing more drilling along the southern part of our country here, and how rapid that infrastructure will go up, and how many times in each season will we find ourselves in a similar situation, that natural recourses like hurricanes and others are still going dampen our ability to be able to get those products to market into that part of the country.

And shouldn't we be thinking about other alternative types of fuels? And some of you have mentioned that; I know the Governor did in his presentation. But it just hits home again that somehow we continue to be so reliant on the old way of doing things, and we are not really looking at projecting what is currently happening with the current state of our country.

And I want to thank Mr. Drew for coming all the way up from Boston, Massachusetts, because the program you talk about is very

similar to one in my district that provides services actually through Veterans. And they have veterans who are employed who come back that are either disabled, that get these jobs in the LIHEAP program, do weatherization in California.

Our temperatures are a lot different, but we also have very needy families as well. We always find that there is a backlog of families that need to have this assistance and not enough money. And the Community Development Block Grant Program has suffered tremendously under this administration, And we need to find other ways of infusing dollars.

And I am wondering if maybe programs like, for example, HUD, Department of Energy, and even EPA could somehow better collaborate with the Community Development Block Grant Programs when we look at weatherization or trying to help restructure our old buildings, even for landlords in some of our public housing. Because I am very concerned that, when we talk about, for example, even removing lead paint in old buildings, at the same time these same housing structures are maybe built in the 1930s or 1920s and could use some other forms of assistance.

But we are not talking to each other, so it may not be another 10 years before the department of HUD or someone else go out there, and that we are piecemealing, we are just putting a little Band-Aid on a much far greater program. I mean, disease that we see in housing and with our poor stock of housing in areas like southern California.

What are your thoughts on that?

Mr. DREW. I have spent a lot of time over these years trying to take the silos and put them together as best we can. And we do a certain amount of work, we have done work with the Department of Energy. And the things we run into, for example, are asbestos removal.

Ms. SOLIS. Or lead.

Mr. DREW. And you get in, and all of a sudden you have regulations and other things you have to deal with.

So any time we are dealing with trying to get something done in a household, we have to be well aware of all of the other rules and regulations. So we do, as best we can, try to pull together resources, working with city hall, CDBG black grant. We try to put something together with DOE. But I would not want to say to you that we feel comfortable that we are maximizing our resources and target them as directly as we can.

Ms. SOLIS. Thank you. Thank you very much.

The CHAIRMAN. The gentlelady's time has expired.

The Chair recognizes the gentlelady from South Dakota.

Ms. HERSETH SANDLIN. Thank you, Mr. Chairman.

I represent the State of South Dakota. I also have the honor of representing nine sovereign Sioux tribes within their reservation boundaries, primarily within the State of South Dakota.

You know, our temperatures—we have drastic ranges of temperatures. And even without a wind chill, we can be many degree below zero. And then when you add the wind chill, we have had record temperatures anywhere from negative-40 to negative-70 below zero.

So a couple of years ago—and, actually, even, I think, last year—we had reports from one of the tribes that I represent that people in very rural outlying areas were burning clothing in order to stay alive and warm, because we are dealing with severe poverty in many of these areas, as well.

And I guess my first question would go to you, Mr. Wolfe. I have had some discussions with the Rosebud Sioux Tribe about how they didn't get leveraging incentives last year because there was language omitted in the fiscal year 2008 budget. And so if you could talk a little bit more about the LIHEAP leveraging incentive and, as well, the Residential Energy Assistance Challenge option. Because, again, I am wondering if other States or communities are experiencing the same problem because of that omitted language.

And then, in general, could you just discuss whether you think tribes face particular challenges with regard to energy assistance for their members, especially in more rural areas?

Mr. WOLFE. Yes, I would be glad to.

There was an omission in the fiscal year 2008 appropriation for LIHEAP, so leveraging wasn't funded, nor were reach grants. For some States, this created a problem, because leveraging funds are the funds they use often to fund their discretionary activities, to provide supplemental energy assistance.

Leveraging is also targeted, weighted toward small-population States. So where large States receive about 1 percent—I mean, it doesn't pay a lot. Leveraging, on average, pays only about 1 or 2 percent of the total amount of money that is raised outside of LIHEAP. But for small-population States, it can go to 3 percent, which can be quite significant. It can be $100,000, $200,000. So we heard from a number of States that really was a problem and they had to cutback services.

REACH is really the demonstration grant part of LIHEAP. We don't really have a dedicated research budget in LIHEAP other than the REACH grants. And this was the first year since it was started that we didn't have funding. Again, it seemed to be an omission in the law.

And HHS decided—they had to go ahead and reallocate those funds, I think it was in June. Because we thought maybe they could wait, but they said they couldn't wait for a fix in the law.

So the seven or eight demonstration grants that would have been given out weren't given out. And they are multiyear and they do make a difference to the local agencies that use them, because they are really designed to create new approaches to funding energy assistance.

And then lastly, your question on tribes. It is different in each State. In some States the tribes act as basically sovereign nations, so they receive funds directly from HHS. In other States, they receive funds through the States. The State acts as the grantee.

I have looked at the numbers, and, frankly, the allocation for tribes, in many cases, they are just very, very small, especially in light of the poverty on some of the reservations.

Ms. HERSETH SANDLIN. Does it differ? And when you describe—what have you seen in the disparities of what tribes get if they are getting the direct allocation versus what they end up getting if they

have to go in terms of the block grant through the States? Is there a discrepancy you have seen in that analysis?

Mr. WOLFE. Some States have told me that, if they go under the block grant, the tribe will receive more money.

Ms. HERSETH SANDLIN. Some States have told you that. Have you verified that?

Mr. WOLFE. I haven't done any research on it. But they have said they have offered—they have talked to the tribes about going as part of the block grant and then give them a higher allocation. But they said that many tribes would prefer to stay as sovereign nations for the purposes of dealing with HHS.

I think that, because tribes overall don't receive that much money from the program, this is something worth looking at.

Ms. HERSETH SANDLIN. Thank you.

Before my time expires, just one other quick question for Mr. Gruenspecht.

The CHAIRMAN. Our problem is this. There are 12 minutes left to go on the House floor, and the gentlelady only has 30 seconds left.

Ms. HERSETH SANDLIN. Yes.

The CHAIRMAN. So I would like to be able to recognize the other two——

Ms. HERSETH SANDLIN. Just a question on propane, because many people I represent rely on propane, the recipients of propane for heating fuel.

Mr. Gruenspecht, could you just discuss the price trends for propane in recent months and years, and what families who rely on propane can expect this winter?

Mr. GRUENSPECHT. Yeah. Let me quickly try to flip to that.

I think propane is not as tough a situation as heating oil; probably is the second toughest situation. So for propane, nationally we would expect a 13 percent increase in expenditures. And I am trying to think whether you are in the West or the Midwest.

Ms. HERSETH SANDLIN. Both.

Mr. GRUENSPECHT. Probably both. You are a big State. In the Midwest, 11.4 percent increase in expenditures for propane.

The CHAIRMAN. The gentlelady's time has expired.

The Chair recognizes—we will divide it into 3 minutes apiece—the gentleman from New York, Mr. Hall.

Mr. HALL. Thank you.

I will submit my statement for the record and just ask two questions, if you could answer me, starting with Mr. Drew. Even with the $5.1 billion appropriation, is it possible or even likely that more contingency funds will be needed this year?

Mr. DREW. I hope not. I hope not. Just quickly, we could use——

Mr. HALL. That is fine. That is quick enough. Thank you.

Mr. Gruenspecht.

Mr. GRUENSPECHT. That would be a policy question, so I would pass that to Mr. Wolfe.

Mr. HALL. Mr. Wolfe?

Mr. WOLFE. Well, using EIA's data, no, $5.1 billion won't be enough. If you look at the Northeast, low-income families paid $14 billion for heating oil last year. This year it is going to be in the range of $17 billion. If the additional money was just part of the

heating oil, they would use it all up. So it is quite likely that we will need more money.

But, again, you know, in a practical sense, $5.1 billion is an enormous increase. So it is sort of half a dozen of one, six of another.

Mr. HALL. Okay, thank you.

The second thing is the administration, in their bill, tried to kill the weatherization assistance program, and we restored that today in the House bill.

Do you have a suggestion as to how we can better coordinate LIHEAP, low-income heating assistance, with weatherization expenditures in order to maximize effectiveness?

Mr. WOLFE. I think we have a terrific partnership now in most States. State agencies work very closely together, in many States in the same office. The problem is there is just not enough money in weatherization. That is the real bottom-line problem.

Mr. HALL. Do the other gentlemen concur? I guess you concur.

Mr. DREW. In Massachusetts we have a deregulation, so we are doing more weatherization through utility companies. That doubled our weatherization.

Mr. HALL. That is good. Thank you.

I yield back.

The CHAIRMAN. The gentleman from Missouri, Mr. Cleaver, is recognized.

Mr. CLEAVER. Thank you, Mr. Chairman.

Let me apologize, first of all, for not being here. I am on what is essentially the Banking Committee, and we have been at it all day yesterday and today. I apologize. But I came over even though that committee is still going, because I—but I think Mr. Hall asked the primary question that I was going to ask.

I will throw a softball; anybody can hit it. I would imagine Mr. Drew has already swung at it before.

But we are going to have to do a rescue program. We are going to have to do it—have to. Do you think that the current level of funding for LIHEAP will allow those who are struggling to have any level of appreciation for a rescue program of Wall Street?

Mr. DREW. I don't know if they will have an appreciation. They are trying to live by themselves. I did mention that there was a person who said, "I don't understand how they can spend trillions of dollars and not help me get through the winter." They are making a direct connection between the two.

Mr. WOLFE. No, I don't think so. When you look at incomes for families making less than $50,000 a year, they are living paycheck to paycheck. Across the board, the last 5 years, between higher health-care costs and now higher energy costs and higher rental costs, they just don't have any resources. So when you talk about a $700 billion bailout, the number is so enormous. The average family only saves $300 a year now.

I think that LIHEAP helps, I mean, certainly helps take some of the edge off of this. But the magnitude of the bailout versus—you know, LIHEAP is what? Less than 1 percent of the total bailout amount. It is hard to get your hands around the bailout numbers, I think.

Mr. CLEAVER. It is less than that?

Mr. WOLFE. Yes, it is less than 1 percent.

Mr. CLEAVER. Thank you, Mr. Chair.

The CHAIRMAN. The gentleman's time has expired.

We are going to give each one of you 30 seconds to tell us, in summary, what you want us to remember. There are four roll-calls on the House floor. You have 30 seconds to have something ring through our brains for the rest of this session and winter, in terms of this program.

We will start with you, Mr. Wolfe.

Mr. WOLFE. I would say a fully funded LIHEAP and weatherization program working together will make the difference between families not being able to afford access to electricity, natural gas and heating oil and being able to afford it.

The CHAIRMAN. Mr. Gruenspecht.

Mr. GRUENSPECHT. We need to work with the States throughout the winter. And we have a State heating oil and propane program. We will be tracking the prices on a weekly basis.

I think there are other improvements we need to make. In particular, this year we have had a lot of exports of distillate fuel. It took us a while to catch up with that. That is something that I think a better data program would be helpful, in tracking movements of products.

The CHAIRMAN. And you have the final word, Mr. Drew.

Mr. DREW. Well, I, first of all, thank you. And what we are talking about is money that is filling a hole in the face of poverty. I am glad that it is happening, but I think I want to think about an overall anti-poverty effort, I hope, in the new administration.

I would like to just end today, because I know you are busy, but we know that to end the cycle of crisis that drags the hardworking families and retirees into a path of economic insecurity, your climate and protection act, H.R. 6186, is the best proposal. We have considered devoting significant investments to making low-income communities and housing sustainable and affordable. It is fair, does not waste resources or give away to polluters or energy vendors. It is consistent with the fair climate change principle. The community action has developed, with the National Community Action Foundation, Friends of the Earth, Public Citizen, the National Consumer Law Center. And, with your permission, I would like to submit these as part of my testimony.

And I wish very much to thank you very much.

The CHAIRMAN. I thank you, Mr. Drew. And I gave you an extra 30 seconds because of the obvious wisdom that you were bringing to the committee. [Laughter.]

I have a group of questions which I did not get a chance to ask on this round, and we are going to submit it to you in writing. And we would appreciate the answers in writing from you in a timely fashion.

We thank you each for coming here today.

With that, this hearing is adjourned. Thank you.

[Whereupon, at 3:18 p.m., the committee was adjourned.]

THE SELECT COMMITTEE ON
ENERGY INDEPENDENCE AND GLOBAL WARMING

Dear Governor Patrick:
Following your appearance in front of the Select Committee on Energy Independence and Global Warming, members of the committee submitted additional questions for your attention. I have attached the document with those questions to this email. Please respond at your earliest convenience, or within 2 weeks. Responses may be submitted in electronic form, at aliya.brodsky@mail.house.gov. Please call with any questions or concerns.

Thank you,
Ali Brodsky

Ali Brodsky
Chief Clerk
Select Committee on Energy Independence and Global Warming
(202)225-4012
Aliya.Brodsky@mail.house.gov

1. Why has the Northeast continue to rely on fuel oil instead of switching to an alternative source such as natural gas?

   - During the past 20 years, the price of fuel oil has been comparable, and in many years less costly, than natural gas. Additionally, in many parts of Massachusetts, particularly in the rural areas in the western part of the state, no pipeline infrastructure exists to transport natural gas to homes and businesses. In these areas, fuel oil is the primary heating option. Finally, it is quite expensive to replace a heating system, on the order of $8,000 to $10,000 in Massachusetts, so consumers do not usually choose to switch until a system has reached the end of its life. With all that said, many consumers are switching from oil to natural gas. From January to August of 2008, National Grid said 4,646 customers in Massachusetts and New Hampshire switched to natural gas, which is 50 percent more than the utility logged during the same period last year.

2. How much assistance does Massachusetts provide to low-income families for weatherization programs? How much can average families save through such programs?

   - During FY2008, Massachusetts received $6.5 million in US DOE Weatherization Assistance Program funds. An average household receiving full-scale weatherization saves 20-30% of the annual heating cost. FY 2009 funding is projected to be $13.6 million. Massachusetts also set aside $8.5 million in Federal LIHEAP funds in FY 2008 for a heating system repair and replacement program. The FY 2009 budget is currently $10 million and may go as high as $14 million by designation a portion of the auction proceeds from the Regional Greenhouse Gas Initiative (RGGI). Massachusetts utilities

also contribute approximately $22 million (and growing) to low-income weatherization and heating system replacement programs.

3. If the price of winter heating oil continues to rise in the long-term, what sort of long-term solutions do you advocate? Is Congress stuck with continually appropriating greater emergency LIHEAP funding every year?

   - While Congressional support for heating assistance to low-income families continues to be critical, particularly in a time of fluctuating energy prices and rising unemployment, the long term solution is a dramatic expansion of energy efficiency programs. The Commonwealth, through the Green Communities Act, the comprehensive energy reform legislation signed by Governor Patrick in July, has approved a $5.9 million expansion of energy efficiency services for 2008 that will enable utilities to help their customers insulate their homes and upgrade their heating systems through low-interest loans and rebate incentives.

4. What state programs have you expanded to help low-income customers pay past due bills?

   - The state's Department of Public Utilities (DPU) has ordered utilities to reduce rates to low-income customers on their electric and natural gas bills, which will save these customers $75 to $300 over the coming winter. Additionally, the DPU has ordered utilities to expand programs to help low-income customers pay past due bills by allowing them to have a portion of an overdue balance forgiven in exchange for making current account payments and paying a portion of the overdue balance each month.

5. The Clean Energy Biofuels Act, which you signed into law, requires biofuel content in home heating fuel sold in Massachusetts. Doesn't this regulation create another "boutique" fuel and increase the price for home heating fuel?

   - Despite the recent dramatic drop in oil prices, it is unclear whether biodiesel will be more or less expensive than petroleum heating fuel in the future. The requirement in the Biofuels Act is designed to create a secure market for low-carbon biodiesel, which over time should bring its price down. With the uncertainty of the world oil market, bio-based fuels should provide more stable prices in the long run, and carry less risk for consumers.

6. What policies has Massachusetts implemented to switch homes from heating oil to another heating source such as natural gas?

   - The Commonwealth does not explicitly advocate for such "fuel switching." One reason is that there is no way to know whether future prices of natural gas will be lower or higher than for fuel oil, and the Commonwealth does not want to lead consumers into what could be an expensive proposition – given the high cost of replacing a heating system. Instead, our efficiency programs are oriented toward a "fuel neutral" basis, to help reduce energy consumption regardless of energy source.

7. Has the Home Heating Fuel Deduction been increased to deal with higher home heating cost?

- Massachusetts offered a temporary Home Heating Fuel Deduction in 2005 and 2006.

**Department of Energy**
Washington, DC 20585

December 31, 2008

The Honorable Edward J. Markey
Chairman
Select Committee on Energy Independence and
Global Warming
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

On September 25, 2008, Howard Gruenspecht, Acting Administrator, Energy Information Administration, testified regarding, "The Future of LIHEAP Funding: Will Families Get the Cold Shoulder this winter?"

Enclosed are the answers to six questions that were submitted by the Committee to complete the hearing record.

If we can be of further assistance, please have your staff contact our Congressional Hearing Coordinator, Lillian Owen, at (202) 586-2031.

Sincerely,

Lisa E. Epifani
Assistant Secretary
Congressional and Intergovernmental
Affairs

Enclosures

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**QUESTION FROM THE SELECT COMMITTEE ON ENERGY INDEPENDENCE AND GLOBAL WARMING**

**Q1.** How would an increase in liquefied natural gas (LNG) capacity affect the price of home-energy heating?

**A1.** An increase in U.S. import capacity or world productive capacity of liquefied natural gas (LNG) would likely have little impact on the price of home-energy heating during the current winter season. Despite storage inventories that are currently above the 5-year average, the expected increase in end-use prices for natural gas this year over last is the result of the particularly high spot prices that were recorded earlier this year as a portion of the inventories for the heating season were being built.

By the end of 2008, U.S. LNG import capacity is expected to be about 11 billion cubic feet per day (Bcf/d). Through August 2008, U.S. LNG imports have averaged 0.98 Bcf/d. The amount of LNG imported into the United States this year has dropped considerably from 2007, when volumes averaged 2.1 Bcf/d, which was still well below U.S. import capacity at that time. Global liquefaction capacity is currently estimated to be about 24 Bcf/d. However, strong global demand, supply constraints, and higher relative natural gas prices in the LNG-consuming regions of Asia and Europe have all contributed to the decline in U.S. imports of LNG in 2008. Therefore, while U.S. natural gas prices are expected to be higher this winter than last, imports of LNG are expected to remain minimal.

In 2009, the start-up of several new supply projects is expected to increase global supply of LNG significantly. Still, the amount of U.S. LNG imports is expected to

increase only slightly due to the persistence of factors that emerged in 2008, i.e.., world demand growth for natural gas (and LNG) is expected to continue and global natural gas prices (which are largely indexed to the price of crude oil in both Asia and Europe) are expected to remain higher than market prices for natural gas in the United States. Finally, unexpected maintenance and supply infrastructure project delays could further limit LNG imports to the United States in 2009.

**QUESTION FROM THE SELECT COMMITTEE ON ENERGY INDEPENDENCE AND GLOBAL WARMING**

**Q2.** You note the difference in consumption levels of oil between OECD nations and non-OECD nations, specifically China and India. What is the growth rate of the developing economies and what are the long-term implications of their continued growth? Does EIA anticipate this trend to continue in the short-term?

**A2.** Over the past five years, economic growth—as measured by real gross domestic product (GDP) in purchasing power parity—in the non-OECD countries has increased by an annual average of 7.5 percent. In contrast, real GDP in the OECD nations grew by an average 2.6 percent per year over that same time period. China and India are among the world's fastest-expanding economies and real GDP growth in these two nations has averaged an estimated 10.8 percent per year and 8.7 percent per year, respectively, since 2003.

We do anticipate the non-OECD economies will continue to grow at a significantly faster rate than the OECD nations over the next several years. It is important to note, however, that the impact of the economic downturn that developed among the OECD nations in 2008 to the non-OECD economies has not yet been fully assessed.

**QUESTION FROM THE SELECT COMMITTEE ON ENERGY INDEPENDENCE AND GLOBAL WARMING**

**Q3** We've seen significant volatility again this week in the price of a barrel of oil due to market instability. If the financial markets continue to demonstrate extreme volatility, how will winter heating costs be affected?

**A3.** The current volatility in the prices of crude oil and petroleum products in the spot and futures markets reflects the significant uncertainties over expected U.S. and global economic and petroleum demand growth, non-OPEC supply growth, and OPEC behavior. A simple rule-of-thumb is that a $1-per-barrel change in the price of crude oil is passed through as a 2.4-cents-per-gallon change in the price of home heating oil. The latest EIA *Short-Term Energy Outlook* (December 2008) projects average winter (October through March) prices for West Texas Intermediate crude oil and home heating oil of $55.49 per barrel and $2.53 per gallon, respectively. If the price of crude oil averages $5 higher or lower this winter we might expect heating oil prices to average about 12 cents per gallon higher or lower.

**QUESTION FROM THE SELECT COMMITTEE ON ENERGY INDEPENDENCE AND GLOBAL WARMING**

**Q4** If this winter continues last year's late-winter trend of cold temperatures, how will the spot market shift? Will the spot price rise? If so, how would this impact LIHEAP?

**A4.** Given that U.S. distillate inventories are currently within the seasonal range, and that refinery utilization rates are low, it would likely take a stretch of much colder-than-normal weather in the Northeast lasting several weeks to significantly affect spot prices. In the October 2008 *Short-Term Energy and Winter Fuels Outlook,* EIA calculated that a 10-percent colder-than-normal weather scenario would add about 14 to 18 cents per gallon to the wholesale price and ultimately to the retail price of heating oil during the historically coldest months of December through February. It is important to note that these calculations were based on national monthly averages, thus there could be substantial price variations on a weekly basis and across regions.

With respect to LIHEAP, it is certainly true that a given amount of support buys fewer gallons of heating oil at higher prices. However, it is also the case that baseline expectations for heating oil prices this winter have declined dramatically since the time that LIHEAP funds for the 2009 fiscal year were appropriated.

**QUESTION FROM THE SELECT COMMITTEE ON ENERGY INDEPENDENCE AND GLOBAL WARMING**

**Q5.** Why have U.S. liquefied natural gas (LNG) imports fallen?

**A5.** Over the past year the global LNG market has been characterized by limited supply availability and strong world demand. Over the same period, U.S. domestic natural gas production rose strongly. As a result of these developments, which resulted in a large gap between the foreign market price of LNG and U.S. natural gas prices, U.S. LNG imports in 2008 have declined dramatically compared with 2007. While buyers in other countries have consistently demonstrated a willingness to pay more than U.S. market prices for LNG cargoes, global LNG supplies have been affected by repairs and maintenance to existing infrastructure as well as considerable delays in the ramp-up of new liquefaction projects. Despite expectations of growth in global LNG supplies for this year, world LNG production remained almost unchanged in the first 6 months of 2008 compared with the same period in 2007. Production increases in Equatorial Guinea and Qatar, for example, have been offset by declines in Egypt and Malaysia (which is the second largest exporter in the world currently).

Although LNG trading in Europe and Asia is evolving, it is important to note that natural gas prices in Europe and Asia are generally indexed to oil, which has a direct effect on the price of LNG. When world oil prices rise, the price of natural gas in Europe and other parts of the world rises as well, in accordance with the vast majority of contractual agreements in the

industry. For example, a barrel of WTI crude oil priced at $100 is equivalent to $17.24 per million Btu (MMBtu). The spot price of WTI crude oil averaged $113.33 per barrel during the first three quarters of 2008, or $19.54 per MMBtu. By comparison, the spot price of natural gas at the Henry Hub averaged $9.69 per MMBtu. The price spread between natural gas and oil (on a Btu-basis) narrowed during the first half of 2007 before increasing dramatically in the latter half of the year and into 2008. As the price spread widened, U.S. imports of LNG declined; LNG importers willing to pay an oil-indexed price for natural gas bid cargoes away from the United States.

**QUESTION FROM THE SELECT COMMITTEE ON ENERGY INDEPENDENCE AND GLOBAL WARMING**

**Q6.** On page 4 of your testimony, you state, "While global oil demand is increasing, supply from countries outside OPEC has not kept pace, with non-OPEC supply growth expected to be non-existent in 2008." Why is this the case?

**A6.** Several factors have contributed to the limited growth in overall non-OPEC production in recent years. Non-OPEC supply rose by about 270,000 barrels per day (bbl/d) in 2007 but is expected to decline by about 300,000 bbl/d in 2008. Declines in older fields in a number of countries including the United Kingdom, Norway, and Mexico; above-ground constraints in counties like Russia; and project delays and large supply disruptions in Central Asia and the Gulf of Mexico have offset increases in production capacity in other countries, resulting in little growth in net non-OPEC supply over the past two years.

Non-OPEC supply growth is at continual risk of unexpected disruptions or project delays, and the global economic slowdown brings additional difficulties as well. Lower oil prices bring into doubt the viability of some high-cost non-OPEC projects. If problems in global financial markets lead to delayed investment in existing and new oil fields, then even a short-lived economic downturn could have longer-term ramifications for world oil supply. This would heighten the risk of a return to a tight supply situation once the world economy (and thereby oil demand growth) recovers.

Non-OPEC supply is expected to grow in 2009, however, because of projects currently near completion and the return of production that was shut-in during 2008. EIA projects that non-OPEC supply will grow by 410,000 bbl/d in 2009, with the largest sources of growth coming from the United States, Azerbaijan, and Brazil. In the United States, production of petroleum and other liquids is expected to rise by 380,000 bbl/d in 2009 because of the start-up of several offshore crude oil production platforms, recovery from hurricane-induced shut-ins, and continuing growth in fuel ethanol production.