

States ward off the cold



Faced with rising prices for heating fuel and natural gas, states are pushing an aggressive new energy agenda to help the needy and guard against shortages this winter.

BY ADAM RICH

Adam Rich is publications editor for the Eastern office of CSG.

Spurred by skyrocketing prices for heating fuel and dwindling supply levels, state governments are putting energy issues back on the front burner for the first time in 10 years.

States have lobbied successfully for a string of federal measures — including expanding programs to aid low-income residents and ensuring adequate supplies of heating oil in the Northeast — and they are working to expand access to existing assistance and conservation programs. Some states are trying inventive approaches that seek to carve out new roles for government in the effort to ensure affordable and accessible home-heating energy.

Cause for concern

Pressure began mounting on states to take action in the summer of 2000. Fears of an energy crisis gained momentum as the price of oil leaped to a record \$38 per barrel, the highest since the Gulf War. By November, oil prices came down a bit, but still hov-

ered at \$30 per barrel, a number that Mark Mazur, acting administrator of the U.S. Energy Information Administration, characterized as “defying gravity.” Mazur in testimony to Congress Sept. 28 suggested the average residential consumer of heating oil in the Northeast, where 75 percent of the nation’s heating oil is used, would pay 18 percent more this winter than last year.

To prevent oil shortages, states called on President Clinton to release 30 million barrels of oil from the government’s emergency stockpile. Even though he did so on September 22, the government reported in November that oil stocks were well below normal and below previous expectations. Government statistics, however, do not take into account barrels of oil held by dealers or consumers, which could mean that supplies are higher than government counts indicate.

The natural gas market reflects what is happening with heating oil. EIA figures indicate that prices were at a 15-year high in September and

October, when they were an average of \$5.00 per thousand cubic feet, or double the price during the same period the previous year.

States urge federal action

In light of these market projections, states have looked to the federal government for assistance, most significantly in the form of an expansion of the Low Income Home Energy Assistance Program, known as LIHEAP. The program provides federal funds to the 50 states for distribution to low-income residents.

Most states supplement federal funds with other monies.

As of November, Congress had not yet passed the fiscal 2001 Labor-Health and Human Services-Education Appropriations bill, but it seemed likely that LIHEAP would receive an additional \$300 million. This increase would boost regular program funding to \$1.4 billion, in addition to \$300 million in emergency contingency funds.

If approved, the expansion would be a huge victory for advocates who complained for years that LIHEAP was underfunded. Mark Wolfe, executive director of the National Energy Assistance Directors' Association, said, "Instead of being a program that's really shaky, this is something states can really do something with."

In another victory for states in the 2000 budget negotiations, the president signed the Energy Policy and Conservation Act on Nov. 9. The act made it easier for states to obtain funds from the federal Weatherization Assistance Program. The act also authorized \$25 million to help educate consumers about the benefits of filling oil tanks in the summer months and purchas-

ing fixed-price contracts from suppliers. Most significantly, the act established a Northeast Home Heating Oil Reserve. Should bad weather block oil shipments to the Northeast, the reserve contains 2 million barrels that can be released by the president.

In Congress, U.S. Rep. Bernard Sanders, I-Vt., was the first to propose a Northeast Home Heating Oil Reserve. "We need an insurance policy to make sure there is an adequate supply of heating oil and that constituents aren't paying an arm and a leg for heating oil," said Sanders spokesman Warren Gunnels.

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 spokesman for U.S. Rep.
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Northeast states take on oil issues

In addition to urging federal action, many states are taking action on their own to helping residents cope with winter. In the Northeast, most efforts relate to heating oil.



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A new Massachusetts program is one of the most notable of these efforts. In November, Gov. Paul Cellucci signed a plan to provide \$17 million in aid for home heating oil. In addition to expanding its LIHEAP program, the state approved an innovative pilot program to encourage area oil suppliers to boost inventories earlier in the season to avoid shortages later. Under the plan, the state promises to compensate suppliers for higher costs if the price of oil falls. The suppliers agree to hold the oil until at least

Jan. 15, when inventories are most likely to be depleted.

"The circumstances around the heating-oil problems this year are unique; they haven't occurred in anyone's lifetime that we can remember," said Massachusetts Energy Commissioner David O'Connor, the architect of the plan. "What's different is that we have extraordinarily low inventories of heating oil and we have a market that is constantly telling people that the forward prices are higher than the current prices. The market is telling people, 'Don't store oil because there's going to be more than is needed.'"



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Last fall, the New England governors looked into the possibility of expanding O'Connor's plan to a regional level, but decided to wait and see how it works in Massachusetts first. "I've found that political boundaries mean that most innovations have to have a strong foundation in a state before the others imitate it or do something parallel," O'Connor said.

Other states in the Northeast are taking different approaches to helping consumers. The Maine State Housing Authority is using the Internet to connect residents to assistance programs and provide information about energy efficiency. Included on the Web site maintained by the authority, www.bundlemeup.org, is a worksheet for calculating savings from energy conservation measures.

New York has reduced taxes to lower energy costs. Joe Conway, a spokesman for New York Gov. George Pataki, said, "Governor Pataki has already cut energy taxes by a combined total of \$1.3 billion." He said the state cut the commercial heating oil tax by one-third, which will save businesses throughout the state millions of dollars on their fuel taxes.

In Pennsylvania, the state opened its LIHEAP program to aid low-income

people a week early on Nov. 6. The state also increased eligibility limits, the maximum crisis benefit and its cash benefit by 30 percent across the board. In addition, Gov. Tom Ridge has convened a task force of representatives from multiple agencies to address heating and energy issues, and to recommend how state government can help people for the winter. "LIHEAP is a big part of that, but it's not the entire universe," said Ridge spokesman Tom Charles.

Further action needed

Despite states' reinvigorated efforts to address winter energy issues, some say much more needs to be done.

States should prepare for the worst and review emergency planning procedures for supply shortages, said Wolfe, who staffs the organization of state directors of LIHEAP. He said consumer education also is needed.



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"Both heating oil companies and gas companies are offering fixed price contracts; people need to know that's the best way to ensure affordability," Wolfe said.

New York and other states are reviewing the use of oil as a backup fuel by power plants in the Northeast. Power plants that use natural gas often have contracts that allow them to be cut off during times of short supply. When this happens, they need to switch to heating oil, but if they don't have enough on hand, their demand can strain the local oil markets. Requiring large energy users to keep a certain amount of backup heating oil on hand could alleviate this problem.

For a long-term solution, Massachusetts Rep. Dan Bosley, vice chair of The Council of State Governments, called for a renewed focus on conservation. "The last time we were in an energy crisis was in the mid-70s. Now we use double the oil we used then, and we've

Natural gas presents different issues

Outside the Northeast, most states rely on natural gas for winter heating fuel. In some ways, it is easier for these states to address soaring prices because they have certain regulatory powers over gas utilities, while the oil market is unregulated. Mark Mazur, acting administrator of the U.S. Energy Information Administration, testified to Congress Sept. 28 that the typical Midwesterner homeowner will pay 27 percent more for natural gas this year than last winter. Cold weather and high consumption rates could result in bills 40 percent higher than last year, he said.

In Indiana, for example, natural gas prices are expected to increase by as much as 50 percent this winter. In response, the state has promised to monitor gas utilities and schedule extended hearings on proposed rate hikes. The Indiana Utility Regulatory Commission is exploring cost controls on natural gas, but utilities have flatly refused Gov. Frank O'Bannon's appeal for voluntary limits on costs.

Several other states use money collected directly from utilities to fund assistance programs. Wisconsin residents pay a surcharge on their energy bills to support the Public Benefits Fund, part of which goes to weatherization and bill assistance for low-income people. Critics have attacked this funding mechanism as an unjustified tax, but Joint Finance Committee Chairman Brian Burke argued that it is needed more than ever. In addition to rising costs, Burke said utility deregulation affects prices.

"As competition forces companies to seek short-term cost savings, we can't afford to lose sight of the long-term benefits of investing in efficiency and conservation measures," Burke said. "We need to make sure that no member of the public is left out in the cold."

A different kind of controversy surrounds efforts to accelerate the pace of natural resource development in Alaska. While environmentalists worry about the impact of exploiting these resources, Gov. Tony Knowles sees both economic opportunity and good energy policy in building new natural gas pipelines to "meet America's growing thirst for energy." "I am convinced ... now is the time to develop Alaska's natural gas," Knowles said in a speech last November.



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forgotten about conservation. We've got to come up with programs where we use less fuel," Bosley said.

Energy officials like O'Connor in Massachusetts also are interested in programs that increase regional use of renewable energy derived from solar power, wind and biomass, or vegetative material such as wood.

A renewed interest

Rising energy costs this winter truly are not as severe as they were in the 1970s. "For most of the 90s, heating oil and natural gas prices have been

very low; even now, they're still well below the highs of the late 70s," said Wolfe. "It's more that it happened so quickly. For poor people who always live on the margin, this rapid increase has been quite difficult."

Clearly, current market conditions provide a good opportunity for states to consider energy policies. Though the success of programs such as the one in Massachusetts or the Northeast oil reserve remains to be seen, the fact that federal and state elected officials are responding to these issues comes as a relief to millions of Americans who in recent years felt left out in the cold. ★