

# Energy Prices Put Squeeze on Md. Households

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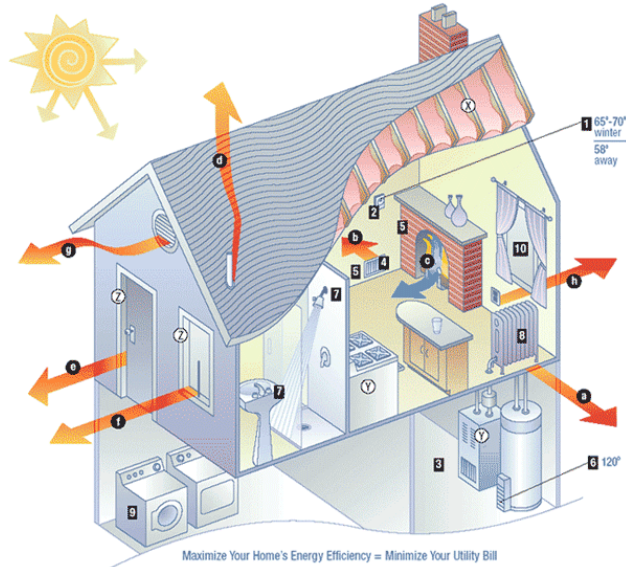
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The economy and the consumers who fuel it have been astonishingly resilient in the face of higher energy costs.

Yet, for all the increases in gasoline and oil prices, they haven't gone up 50 percent at once - as electricity rates will in the Baltimore area on Friday because of the Baltimore Gas and Electric Co. rate increase approved last week.

Together, the rate increase and near-record gasoline prices will force even some relatively affluent Maryland families to cut back in subtle ways that could add up to trouble for an economy propelled for years by seemingly unstoppable consumer spending.



Though solidly middle class, Kathy Martin, a nursing instructor working on her doctorate, and her police detective husband are a case in point.

When their BGE bill comes next month, the Eldersburg couple will be able to absorb the cost, just as they have the rising cost of everything from gasoline and city water to food and college tuition for their two sons. But they will do it at a price.

Martin, who teaches at Frederick Community College, says entertainment and other luxuries will be the first to go. They will eat out less, see fewer movies and plant fewer annuals in the garden. She skipped shopping for new summer clothes and may go back to clipping coupons - something she stopped doing after returning to work full time.

"It's this pervasiveness about the cost of living and how it's affecting people in the middle," said Martin, whose husband, Steven, is a Howard County police sergeant. "So we've cut back, we've cut back."

Others will have to do more than just cut back.

The rate increase comes at an especially difficult time for low-income residents, many of whom see their state energy assistance drop off between the winter heating and summer cooling seasons. The Victorine Q. Adams Fuel Fund, a nonprofit charity named for the former Baltimore City councilwoman who championed it in the late 1970s, has seen applications for assistance double and triple in recent months. The increase is partly a result of a decision to open two new intake centers. The aid organization has served about 1,500 households in the past year.

"Our clientele is swelling out of hallways as it is, all asking for help as we speak, and we have not even gotten the additional rate increase yet," said Charles W. Griffin, president of the fund's board of directors

Economists and consumer advocates worry that the cumulative effect of rising costs will put more households at risk than at any time in recent history

"In some sense, we may look back on this in two to three years and say this confluence of gas prices, electricity and [other costs] ... was the straw that broke the camel's back for many Maryland households," said Anirban Basu, chief executive of the Baltimore economic consulting firm Sage Policy Group Inc

State utility regulators approved the BGE rate increase Wednesday, right around the time that the latest upward spiral in gasoline prices was making headlines nationwide. There have also been spectacular increases in the prices of coal, oil, natural gas - even uranium used in nuclear power plan.

On paper, Maryland consumers should be equipped to handle the strain. The state ranks second only to New Jersey in median household income. Homes in some metropolitan Baltimore neighborhoods have doubled in value in the span of five years, helping to fuel consumer spending and economic growth. The unemployment rate of 3.6 percent is the lowest since 2001.

But Maryland's affluence comes with a darker side, Basu said. Mortgage lenders, automobile dealers, retail stores and credit card companies are eager to lend money to the state's wealthy residents. Many people took on huge mortgages during the real estate boom, thinking that home values would keep rising. Rich, poor or middle class - all tend to carry lots of debt and live paycheck to paycheck, Basu said.

"Take that in combination with the fact that many are already house-poor ... and you hit them with a shock like 50 percent higher electric rates, and I think many households will buckle under the pressure," he said.

How widespread the strain will be is difficult to say. Economists point out that a smaller portion of the nation's collective income is going toward fuel than in 1981, when gas prices set records adjusted for inflation. At that time, energy equated to 14 percent to 15 percent of the nation's gross domestic product. Today, that figure is 6 percent to 7 percent, said Lester B. Lave, an energy expert and economist with Carnegie Mellon University. The proportion of household income that is spent on energy has declined as America has grown wealthier.

"Our incomes are higher, and although energy prices are higher, the amount of energy we use is lower, and total expenditures on energy have gone way down," he said.

Jerry Taylor, a senior fellow at the libertarian Cato Institute, goes a step further, saying that fuel costs aren't worth the worry in a nation with so much disposable income.

In 1949, gas cost 27 cents per gallon, which in today's dollars equates to about \$1.90. But when adjusted for the rise in disposable income, gasoline would have to hit \$6.68 per gallon before taking the same bite out of the average consumer's wallet as it did in 1949, he said. The 31 cents per gallon price in 1962 - which Taylor says is often remembered as the golden era of muscle cars and cheap gas - would have to reach \$4.48 per gallon in order to have the same impact on disposable income today.

Similarly, he said, higher electricity costs are unlikely to match the burden they posed in decades past, when most Americans got by without air conditioners and home offices loaded with electronic gadgetry.

"My guess is that we're so much wealthier today than we were in the 1960s that any service or commodity is going to present less of a hardship," he said.

That will likely come as little comfort to consumers, whose energy expenditures are largely fixed by the increasing size of their suburban homes and lengthy commutes. Motivation to change has come slowly, in part because consumers have been conditioned to believe that spikes in gasoline and other energy prices are temporary. Many past increases, such as after hurricanes Katrina and Rita in 2005, were followed by sharp declines.

But economists agree that the era of cheap energy - something Americans took for granted throughout the 1990s - is over.

"It's not that [higher energy prices] are going to go away anytime soon," said Lave, the Carnegie Mellon economist.

Oil, which briefly sold for as little as \$11 per barrel in 1998, is now more than \$65. Competition for supplies from India and China point to continued high prices for years to come.

Higher prices have done little to slow demand for gasoline and other fuels, which will continue to put pressure on prices. America's gasoline consumption is up about 2 percent over last year despite higher prices. The AAA auto club estimated Thursday that more than half a million Washington/Baltimore-area residents - roughly 2 percent more than last year - will travel 50 miles or more this holiday weekend, with most traveling by car.

The same is true for electricity, which also fuels demand for natural gas, coal and oil. Regional grid operator PJM Interconnection projects that electricity consumption in Maryland will climb 1.5 percent annually for the next 10 years, requiring utilities to purchase more of their power from other states. Barring the construction of several new power plants, the state faces higher bills for years to come. Several projects are under consideration, but all are years off.

Environmental and consumer activists say the problem points to the need for more state and national leadership on energy conservation. Reducing demand may be the best and fastest way to bring down prices and ease the pressure on families.

"In terms of how this is going to affect consumers, I just think all the rising energy costs just screams that we need to invest in energy efficiency on a massive scale," said Johanna Neumann, a policy advocate for Maryland Public Interest Research Group, which advocates for consumers. "All of this fuel can go further than we're currently having it go."

Martin plans to do her part by turning down the air conditioning this summer - something she concedes will probably drive her husband crazy. They also may give more thought to replacing their 20-year-old electric heat pumps with a newer, more efficient model.

"The overriding thing is that you have no control over it [rising energy prices], and you're just forced to adjust," she said.