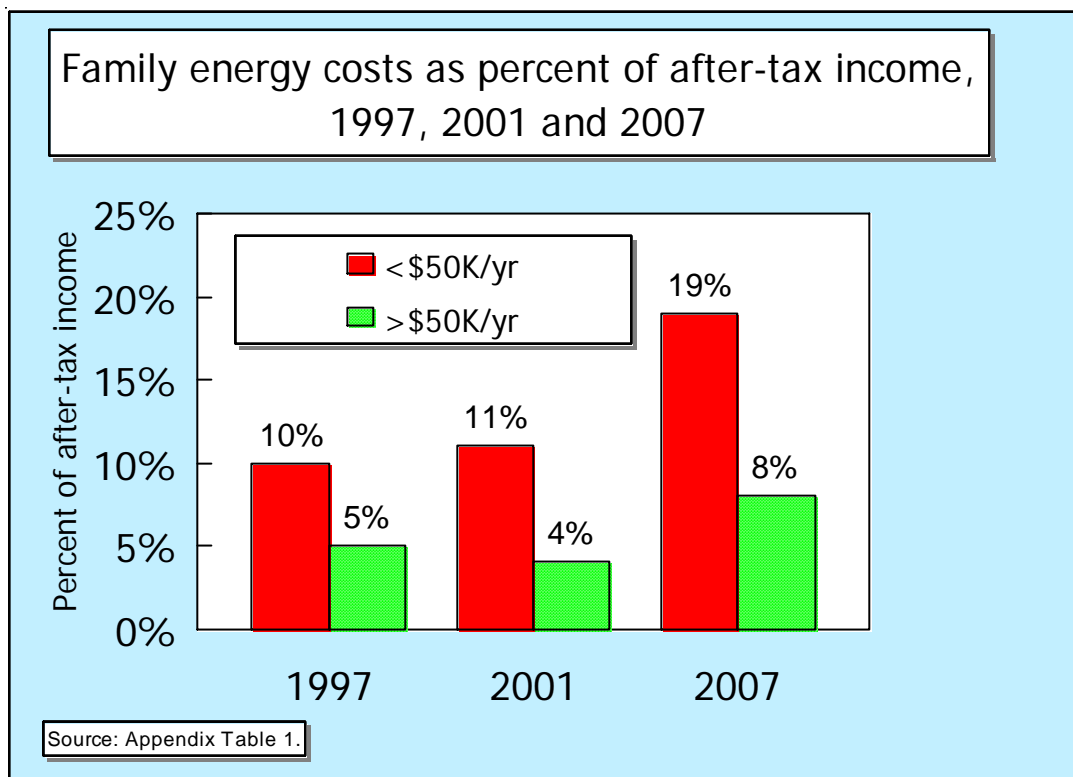


## The Rising Burden of Energy Costs on American Families

The prices of most consumer energy products have doubled in the past five years. In 2007, the 61 million American households with annual incomes below \$50,000 will spend nearly one-fifth of their after-tax income on energy. While the prices of gasoline, natural gas and other fuels have more than doubled, electricity has maintained a stable price trend over the past decade.



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# The Rising Burden of Energy Costs on American Families

This paper summarizes trends in consumer energy costs since 1997 based on data from the U.S. Department of Energy's Energy Information Administration (EIA)<sup>1</sup> and the U.S. Bureau of the Census.<sup>2</sup> It builds upon previous ABEC estimates of energy expenditures to portray the changing pattern of energy costs for households in different income categories. Energy expenditures as a percent of after-tax income are estimated for the effects of federal taxes and social insurance payments, but do not include state and local taxes.

Key findings include:

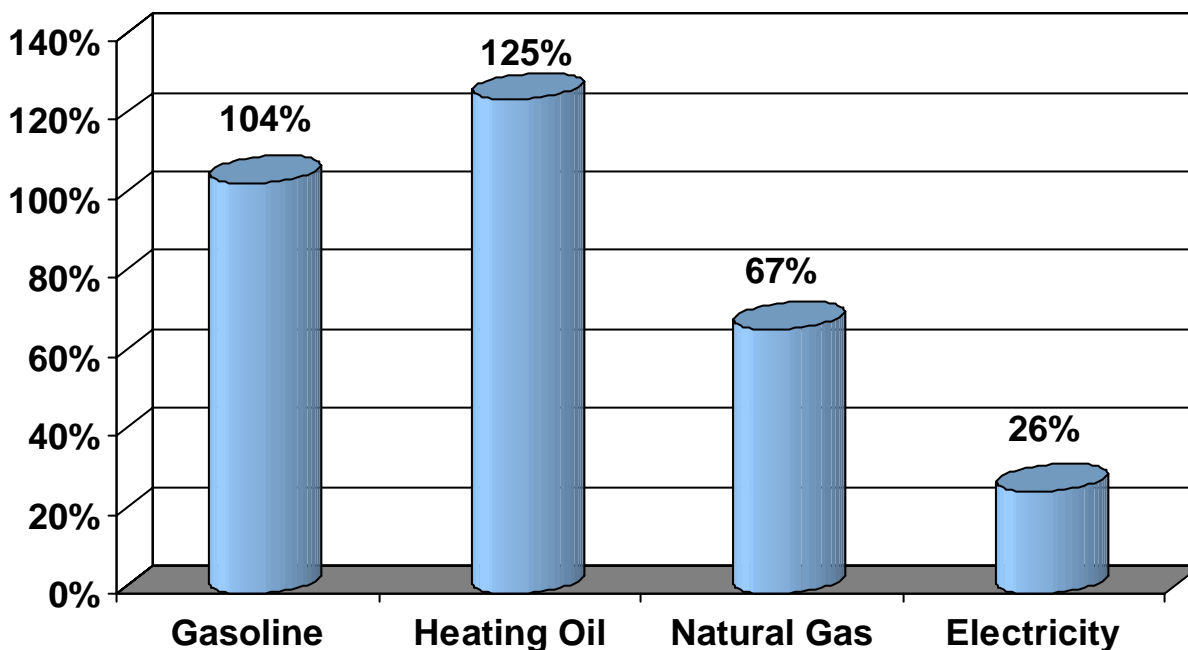
- Energy costs are consuming nearly one-fifth of the after-tax household incomes of low- and middle-income families, an amount traditionally spent on food, housing or health care. In 1997, low- and middle-income families earning less than \$50,000 annually spent about 10% of their after-tax income on energy. In 2007, energy will consume 19% of their after-tax family budgets.
- Between 1997 and 2007, average energy bills for American working families earning between \$10,000 and \$50,000 per year will nearly double, from \$2,401 in 1997 to an estimated \$4,555 in 2007. Most of this increase is due to higher costs for gasoline, which will increase from \$1,143 per family in 1997 to \$2,721 in 2007.
- Residential electric bills for working families earning between \$10,000 and \$50,000 are projected to increase modestly from \$811 in 1997 to \$1,081 in 2007. The relatively low rate of electric price increases is due in large measure to the utility industry's reliance on low-cost domestic coal for a majority of its energy inputs.
- The transportation share of total energy bills for the 61 million families earning less than \$50,000 – the majority of American households - will rise from 44% in 1997 to 56% in 2007. Residential electricity costs will decline from 36% of the energy budgets of these families in 1997 to 25% in 2007, reflecting the low rate of price increase for residential electricity compared to other energy sources.
- The poorest families, well below the federal poverty line and earning less than \$10,000 per year, are being squeezed hardest by recent energy cost increases. Their residential and transportation energy bills will rise from 23% of after-tax income in 1997 to 47% in 2007. Many of these families will receive state energy assistance to help reduce the burden of higher energy costs.

## Relative Energy Price Increases

Chart 1 summarizes key consumer energy price increases since 2002. Prices for gasoline and home heating oil have increased by 104% and 125%, while natural gas for residential heating has increased by two-thirds. Compared to these fuels, residential electricity prices will increase by just 26%.

Chart 1

### Consumer Energy Price Increases, 2002-07



Source: U.S. DOE/EIA (November 2007).

The modest rate of price increase for residential electric services reflects, in part, the electric utility industry's historic reliance on low-cost coal for more than 50% of its energy supplies.

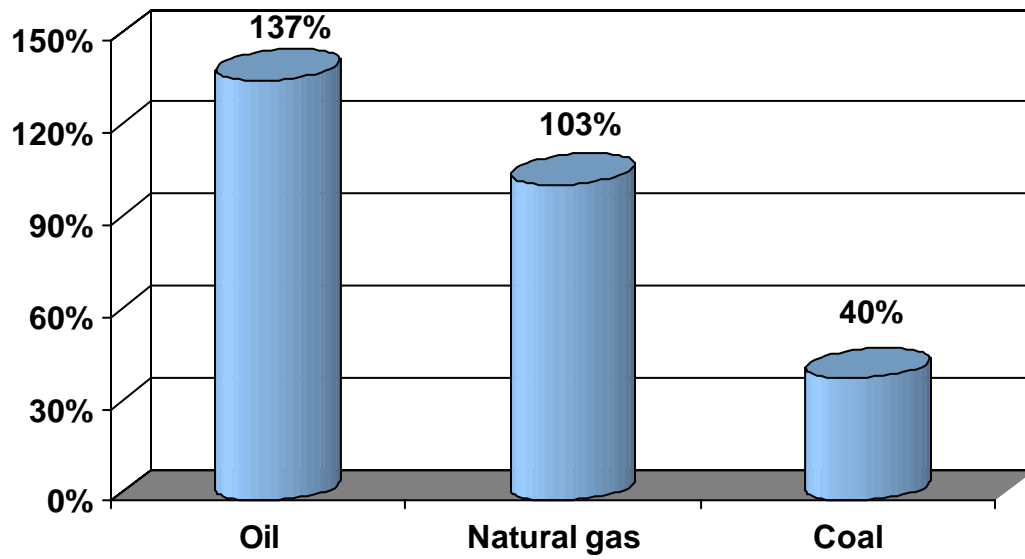
As shown in Chart 2, the price of natural gas used for electric generation has more than doubled since 2002, exceeding the price trend for residential natural gas. Unlike residential natural gas prices, which are regulated by many states, the prices of natural gas sold to electric utilities are unregulated.

The cost of oil used for electric generation also has more than doubled in the last five years. EIA reports that coal prices in 2007 will be 40% above 2002 levels. The relative stability of coal prices has contributed substantially to the electric utility industry's ability to provide electricity at affordable prices. The utility industry

traditionally relies on domestic energy supplies, and has less exposure to the volatile prices of imported petroleum.

**Chart 2**

Electric Utility Fuel Price Increases, 2002-07



Source: U.S. DOE/EIA (November 2007).

## Household Energy Cost Estimates

The distribution of American households by income in 2005 provides the basis for estimating the effects of energy prices on consumer budgets in 2007. U.S. Census data indicate that working family incomes have not increased much in the past decade, while most income gains are concentrated among the top 5% of the highest-earning families.

EIA's 2001 Survey of Residential Energy Consumption (updated to 2007 with EIA's November 2007 forecast of residential energy prices) is the source for estimating energy expenditures for residential heating, cooling, electricity and other energy services.

EIA's 2001 Survey of Household Vehicles Energy Use<sup>3</sup> provides information for estimating transportation energy costs. These transportation costs are updated using EIA's 2007 national average retail gasoline price of \$2.84 per gallon, and changes since 2001 in vehicle fuel utilization.

## Household Income Trends

There has been little recent improvement in the incomes of average American working families. Since 1997, mean, or average family incomes, have not kept pace with inflation. On the other hand, the number of families with incomes greater than \$100,000 annually grew from 13% in 1997 to 17% in 2005. The 17% of households with incomes of \$100,000 or more in 2005 accounted for 46% of all household income.

### U.S. household income trends, 1997-2005

Year	Average income	Median income	Percent >\$100K
2005	\$63,344	\$46,326	17.2%
2004	\$63,348	\$45,817	16.0%
2003	\$59,067	\$43,318	15.1%
2002	\$59,177	\$43,381	14.7%
2001	\$60,488	\$43,883	14.9%
2000	\$61,031	\$44,853	15.2%
1999	\$60,420	\$44,922	15.0%
1998	\$58,433	\$43,825	13.9%
1997	\$58,795	\$42,294	12.9%

In 2005, one-third of American families had gross incomes below \$30,000 annually, while 53% of families enjoyed incomes greater than \$50,000 annually. Overall, U.S. families had an average pre-tax income of \$63,344 in 2005. Median family income was \$46,326, meaning that one-half of families had incomes below this amount, and one-half had incomes of more than \$46,326.

The table below estimates after-tax incomes for families in different income brackets. The Congressional Budget Office has calculated effective total federal tax rates, including individual income taxes and payments for social security and other social welfare programs.<sup>4</sup> Comparable estimates for state and local taxes by income categories are not available, due to the wide disparity of these taxes among states.

### Distribution of U.S. households by pre-tax and after-tax income, 2005

Annual income	<\$10K	\$10-\$30K	\$30-\$50K	>\$50K	Total
No. of households (millions)	9.4	28.1	23.4	53.3	114.4
Pct. of households	8%	25%	21%	47%	100%
Average pre-tax income	\$5,400	\$19,700	\$39,400	\$107,200	\$63,344
Est. federal tax rate	0%	9.1%	14.1%	23.2%	17.8%
Avg. after-tax income	\$5,400	\$17,903	\$33,834	\$81,790	\$52,069

## Residential Energy Expenses

The principal residential energy expenses are for electricity and natural gas, followed by home heating oil. Since 1997, total residential energy expenditures increased from \$136 billion to more than \$200 billion annually. The share of household income spent for residential energy falls disproportionately on lower-income families. While low-income consumers may qualify for energy assistance through state or federal programs, these government programs are hard pressed to keep pace with the rapid escalation of energy prices. It is primarily the poor, fixed income, and other low-income families who will bear the greatest burden of recent energy price increases.

The following table shows the changing pattern of residential energy costs from 1997 to 2007, reflecting major increases in fuel oil and natural gas prices since 2001. In 2007, the average U.S. household will spend more than \$2,000 on residential energy, a 51% increase since 1997.

### Household energy expenses by fuel, 1997, 2001 and 2007

	1997	2001	2007 (est.)	Pct. Chg. 1997-2007
Electricity	\$870	\$938	\$1,207	39%
Natural gas	\$579	\$702	\$963	66%
Fuel oil	\$714	\$737	\$1,580	121%
Propane gas	\$500	\$605	\$956	91%
Total*	\$1,338	\$1,493	\$2,027	51%

*\*Columns do not add to totals because some households use more than one type of fuel. Costs by fuel are averages for households using that type of fuel.*

The impacts of higher residential energy prices on low- and middle-income families are illustrated in the table below. Residential energy costs represent 26% of the household earnings of the lowest income families, less than \$10,000, and 9% of the after-tax incomes of families with incomes of \$10,000 to \$30,000.

### Residential energy costs by income category, 2007

Pre-tax income:	<\$10K	\$10-30K	\$30-\$50K	>\$50K	Total
Electricity	\$808	\$993	\$1,186	\$1,508	\$1,207
Natural gas	\$761	\$870	\$929	\$1,104	\$963
Fuel oil	\$1,239	\$1,389	\$1,486	\$1,837	\$1,580
Propane gas	\$667	\$950	\$961	\$1,047	\$956
Total*	\$1,412	\$1,712	\$1,982	\$2,487	\$2,027
Avg. after-tax income	\$5,400	\$17,903	\$33,834	\$81,790	\$52,069
Pct. of avg. income	26%	10%	6%	3%	4%

*\*Columns do not add to totals because some households use more than one type of fuel. Costs by fuel are averages for households using that type of fuel.*

## Transportation Costs

Imported oil prices have surged to nearly \$100 per barrel, forcing gas prices above \$3 per gallon with no relief in sight. Gasoline accounts for the largest single increase in consumer energy costs since 1997. Most of these price increases have occurred in the past five years. EIA estimates 2007 average retail gasoline costs at \$2.84 per gallon, a 93% increase from the \$1.47 price prevailing in 2001. EIA projects 2008 gasoline prices at \$3.02 per gallon, but many analysts see continued increases at the pump due to international tensions in the Middle East.

The rapid increase in gas prices follows a decade-long trend of increased use of motor vehicles, measured in millions of vehicle miles driven annually, increased market shares of pickup trucks and SUVs, and an increase in the average number of vehicles owned per household.<sup>5</sup>

EIA estimates that 191 million American vehicles – cars, vans, SUVs, pickup trucks, and motorcycles – consumed 113 billion gallons of gasoline and traveled 2.3 trillion miles in 2001.<sup>6</sup> The total bill for these fuel purchases was \$150 billion in 2001. In 2007, gasoline costs will exceed \$300 billion.

Adjusting EIA's fuel consumption data by recent increases in gasoline prices, and for increased vehicle use since 2001, indicates that American families will spend over \$3,000 per family on gasoline in 2007, or 6% of after-tax income. Lower- and middle-income families earning from \$10,000 to \$50,000 will spend 11% of after-tax income on gasoline. Low- and middle-income families earning less than \$50,000 annually will bear the greatest burden of these price increases.

### 2007 energy costs for personal vehicles

Household income:	\$0-10K	\$10K-\$30K	\$30K-\$50K	>\$50K	Total
Fuel costs per h/h	\$1,144	\$1,941	\$3,657	\$3,701	\$2,997
Avg. after-tax income	\$5,400	\$17,903	\$33,834	\$81,790	\$52,069
Pct. of avg. income	21%	11%	11%	5%	6%

### Total Household Energy Costs

Energy costs for natural gas, heating oil, and gasoline are straining low- and middle-income family budgets. Heating, cooling and transportation are necessities of life, and the rapid increase in consumer energy costs is diverting low- and middle-income family budgets from other necessary goods and services such as improved health care, housing and nutrition.

In 2007, the average American family with an after-tax income of \$52,069 will spend more than \$5,000 on energy, or 10% of the family budget. The 61 million households earning less than \$50,000 - representing 53% of households - will devote 19% of their after-tax income to energy. For the 25% of working families with incomes between \$10,000 and \$30,000, energy expenditures will consume 20% of after-tax incomes.

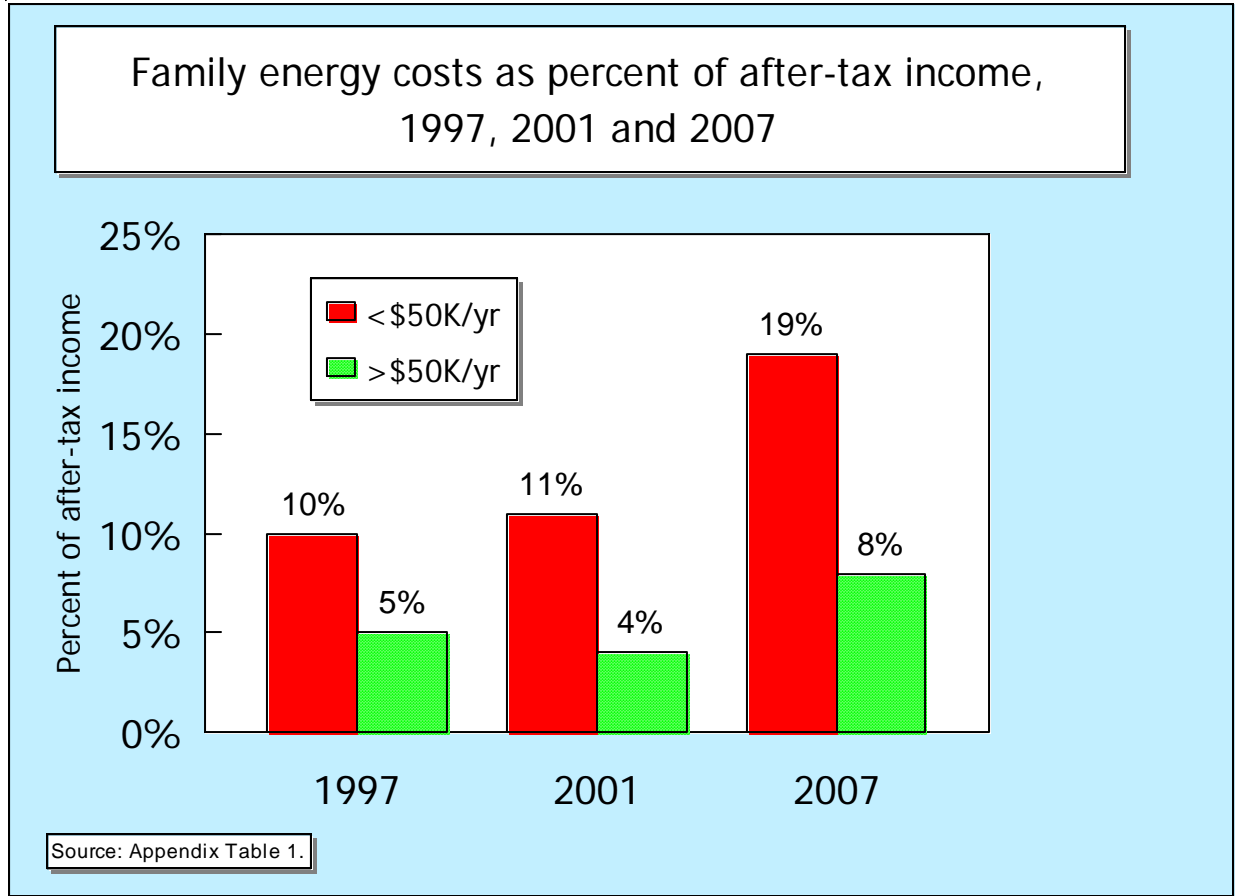
**Consumer energy expenditures as a percentage of  
after-tax household incomes, 2007**

Income:	<\$10K	\$10-30K	\$30-\$50K	>\$50K	Total
Residential energy	\$1,412	\$1,712	\$1,982	\$2,487	\$2,027
Transportation	\$1,144	\$1,941	\$3,657	\$3,701	\$2,997
Total energy	\$2,556	\$3,653	\$5,639	\$6,188	\$5,024
Avg pre-tax income	\$5,400	\$19,700	\$39,400	\$106,500	\$63,344
Est. federal tax rate	0%	9.1%	14.1%	23.2%	17.8%
After-tax avg income	\$5,400	\$17,903	\$33,834	\$81,790	\$52,069
Energy pct. of after-tax h/h income	47%	20%	17%	8%	10%

The fraction of household incomes devoted to energy has nearly doubled since 1997 on both pre-tax and after-tax bases (see Appendix Table 1). In 1997, the 53 million working families earning between \$10,000 and \$50,000 spent 10% of their after-tax income on residential and transportation energy. In 2007, energy is projected to account for 18% of the after-tax income of the 52 million American families in this income category.

Chart 3 displays the increased burden of energy costs on family budgets since 1997. U.S. households are divided between those earning less than \$50,000 annually before taxes, and those earning more than \$50,000 annually. Families earning less than \$50,000 annually represented 63% of American households in 1997, and 53% in 2007. For these families, energy costs have risen from 10% of after-tax income in 1997 to 19% in 2007. The impacts of higher energy costs on more affluent families are less severe, due to major increases in income among the highest income households, particularly those enjoying the top 5% of income.

Chart 3



For a majority of low- and middle-income families, energy costs today are consuming a fraction of after-tax household income comparable to that traditionally spent on major categories such as food, housing or health care.<sup>7</sup> A 2001 survey of middle-income families with two parents and two children living in eight diverse U.S. cities reported the following average expenditures, based on an average after-tax family income of \$43,962:

- Child care - \$12,420 (28%)
- Housing - \$10,836 (25%)
- Food - \$7,044 (16%)
- Health care - \$4,582 (10%)

The diversion of ever-increasing shares of family incomes to energy reduces available funds for other necessities of life such as housing and health care, diminishing both quality of life and the ability to save and invest for future needs.

## Disproportionate Impacts on Minorities

The costs of residential and transportation energy represent even larger shares of household expenditures for minority citizens. The Bureau of the Census finds that the median incomes of Hispanic and African American families in 2005 were \$35,967 and \$30,858, respectively, or 29% to 39% below the \$50,784 median income of non-Hispanic Caucasian families.<sup>8</sup>

The income "gap" between non-white and white families appears to be increasing. In 2001, the median incomes of Hispanic and African American families were \$33,575 and \$29,470, respectively, or 27% to 36% below the \$46,305 income of non-Hispanic Caucasian families.<sup>9</sup>

The U.S. Government does not publish data on household energy consumption by ethnic background, so it is impossible to estimate the potentially greater burdens that energy costs are imposing on minority families. However, the lower median family incomes of these groups make it apparent that they are disproportionately represented among the income categories with the highest energy cost burdens as a percentage of household income.

## Conclusion

Political instability in the Middle East and increased oil demand by China and other developing nations is impacting the price trends for gasoline, home heating oil, natural gas, and other petroleum products. These fuels have experienced the fastest rate of price increase in the past decade because they are subject both to international market demand pressures and to supply uncertainties.

The prices of petroleum-based fuels have increased significantly above the rate of inflation in the past 10 years, while the residential cost of electricity has risen modestly. The rapid escalation of U.S. consumer energy prices, together with sluggish growth of income among lower- and middle-income households, underscores the need to find ways to reduce energy cost impacts on American families. Expanding the use of our domestic coal resources - a primary source of low-cost electric energy generation, and a potential source of ultra-clean fuel products for industry and consumer uses - is an immediate, common sense policy response available to the U.S. Government.

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## End Notes

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<sup>1</sup> Data on residential energy consumption patterns are from U.S. Department of Energy, Energy Information Administration, 1997 and 2001 Surveys of Residential Energy Consumption (RECS). See, <http://www.eia.doe.gov/emeu/recs/contents.html>. Data for 2001 energy consumption by fuel type were updated to estimated 2007 values based on consumer residential energy cost projections in EIA's Short Term Energy Outlook (November 2007).

<sup>2</sup> The most recent data on U.S. household income by income categories (2005) are from U.S. Bureau of the Census, "Income, Poverty, and Health Insurance Coverage in the United States, 2005," <http://www.census.gov/hhes/www/income/income.html>. Total and average household incomes by income category are derived from the distribution of household income in U.S. Bureau of the Census, "Income Distribution to \$250,000 or More for Households: 2005" (September 2006), [http://pubdb3.census.gov/macro/032006/hhinc/new06\\_000.htm](http://pubdb3.census.gov/macro/032006/hhinc/new06_000.htm).

<sup>3</sup> U.S. DOE/EIA, "Household Vehicles Energy Use: Latest Data & Trends," (November 2005), available at: [http://www.eia.doe.gov/emeu/rtecs/nhts\\_survey/2001/](http://www.eia.doe.gov/emeu/rtecs/nhts_survey/2001/).

<sup>4</sup> Congressional Budget Office, "Effective Federal Tax Rates Under Current Law, 2001 to 2014," (August 2004). Effective federal tax rates for the income categories employed in this paper were interpolated from CBO's tax rates by income quintile based on the distribution of 2005 household incomes.

<sup>5</sup> U.S. DOT, 2001 National Household Travel Survey, "Summary of Travel Trends," (December 2004).

<sup>6</sup> U.S. DOE/EIA, "Household Vehicles Energy Use: Latest Data & Trends," (November 2005), [http://www.eia.doe.gov/emeu/rtecs/nhts\\_survey/2001/](http://www.eia.doe.gov/emeu/rtecs/nhts_survey/2001/).

<sup>7</sup> See, Economic Policy Institute, "Basic Family Budgets," Briefing Paper (2001), available at <http://www.epinet.org/briefingpapers/165/bp165.pdf>.

<sup>8</sup> U.S. Bureau of the Census, "Income, Poverty, and Health Insurance Coverage in the United States, 2005," <http://www.census.gov/hhes/www/income/income.html>.

<sup>9</sup> U.S. Bureau of the Census, "Money Income in the United States, 2001," (September 2002), <http://www.census.gov/prod/2002pubs/p60-218.pdf>.

APPENDIX TABLE 1

	ESTIMATED 1997 HOUSEHOLD ENERGY EXPENSES BY INCOME CATEGORY					SUBTOTALS		
	<\$10K	\$10-25K	\$25-\$50K	>\$50K	TOTALS	\$10K-\$50K	<\$50K	>\$50K
Households (Mil.)	11.2	23.3	29.9	37.0	101.5	53.2	64.4	37.0
Pct of total households	11.0%	23.0%	29.5%	36.5%	100.0%	52.4%	63.4%	36.5%
Avg pre-tax income	\$6,280	\$17,176	\$36,061	\$82,950	\$56,902	\$27,790	\$24,049	\$82,950
Effec. fed tax rate %	0.0%	9.7%	15.5%	24.3%	19.0%	13.0%	10.7%	24.3%
Est. after-tax income	\$6,280	\$15,510	\$30,472	\$62,835	\$46,119	\$24,188	\$21,474	\$62,835
Residential energy \$	\$998	\$1,156	\$1,336	\$1,696	\$1,338	\$1,257	\$1,212	\$1,696
Residential electric \$	\$629	\$753	\$856	\$1,127	\$870	\$811	\$779	\$1,127
Other resid. energy \$	\$369	\$403	\$480	\$569	\$468	\$446	\$433	\$569
Transport energy \$	\$450	\$764	\$1,439	\$1,457	\$1,180	\$1,143	\$1,023	\$1,457
Total energy \$	\$1,448	\$1,920	\$2,775	\$3,153	\$2,518	\$2,401	\$2,235	\$3,153
Energy % of after-tax inc.	23.1%	12.4%	9.1%	5.0%	5.5%	9.9%	10.4%	5.0%
Resid. % of after-tax inc.	15.9%	7.5%	4.4%	2.7%	2.9%	5.2%	5.6%	2.7%
Trans. % of after-tax inc.	7.2%	4.9%	4.7%	2.3%	2.6%	4.7%	4.8%	2.3%
Electric % of total energy \$	43.4%	39.2%	30.8%	35.7%	34.6%	34.5%	36.1%	35.7%
Trans. % of total energy \$	31.1%	39.8%	51.9%	46.2%	46.9%	46.6%	43.9%	46.2%

	ESTIMATED 2001 HOUSEHOLD ENERGY EXPENSES BY INCOME CATEGORY					SUBTOTALS		
	<\$10K	\$10-30K	\$30-\$50K	>\$50K	TOTALS	\$10K-\$50K	<\$50K	>\$50K
Households (Mil.)	9.8	28.9	23.6	47.0	109.3	52.5	62.3	47.0
Pct of total households	9.0%	26.4%	21.6%	43.0%	100.0%	48.0%	57.0%	43.0%
Avg pre-tax income	\$5,733	\$19,707	\$39,201	\$107,649	\$60,488	\$28,470	\$24,893	\$107,649
Effec. fed tax rate %	0.0%	8.5%	13.4%	23.1%	17.3%	10.7%	9.0%	23.1%
Est. after-tax income	\$5,733	\$18,032	\$33,948	\$82,836	\$50,054	\$25,423	\$22,648	\$82,836
Residential energy \$	\$1,039	\$1,260	\$1,456	\$1,836	\$1,493	\$1,348	\$1,299	\$1,836
Residential electric \$	\$628	\$772	\$922	\$1,172	\$938	\$839	\$806	\$1,172
Other resid. energy \$	\$411	\$488	\$534	\$664	\$555	\$509	\$493	\$664
Transport energy \$	\$524	\$888	\$1,674	\$1,694	\$1,372	\$1,241	\$1,128	\$1,694
Total energy \$	\$1,563	\$2,148	\$3,130	\$3,530	\$2,865	\$2,589	\$2,428	\$3,530
Energy % of after-tax inc.	27.3%	11.9%	9.2%	4.3%	5.7%	10.2%	10.7%	4.3%
Resid. % of after-tax inc.	18.1%	7.0%	4.3%	2.2%	3.0%	5.3%	5.7%	2.2%
Trans. % of after-tax inc.	9.1%	4.9%	4.9%	2.0%	2.7%	4.9%	5.0%	2.0%
Electric % of total energy \$	40.2%	35.9%	29.5%	33.2%	32.7%	33.0%	34.2%	33.2%
Trans. % of total energy \$	33.5%	41.3%	53.5%	48.0%	47.9%	46.8%	44.7%	48.0%

	ESTIMATED 2007 HOUSEHOLD ENERGY EXPENSES BY INCOME CATEGORY					SUBTOTALS		
	<\$10K	\$10-30K	\$30-\$50K	>\$50K	TOTALS	\$10K-\$50K	<\$50K	>\$50K
Households (Mil.)	9.4	28.1	23.4	53.5	114.4	51.5	60.9	53.5
Pct of total households	8.2%	24.6%	20.5%	46.8%	100.0%	45.0%	53.2%	46.8%
Avg pre-tax income	\$5,400	\$19,695	\$39,388	\$106,497	\$63,344	\$28,643	\$25,055	\$106,497
Effec. fed tax rate %	0.0%	9.1%	14.1%	23.2%	17.8%	11.4%	9.6%	23.2%
Est. after-tax income	\$5,400	\$17,903	\$33,834	\$81,790	\$52,069	\$25,386	\$22,646	\$81,790
Residential energy \$	\$1,412	\$1,712	\$1,982	\$2,487	\$2,027	\$1,835	\$1,769	\$2,487
Residential electric \$	\$808	\$993	\$1,186	\$1,508	\$1,207	\$1,081	\$1,039	\$1,508
Other resid. energy \$	\$604	\$719	\$796	\$979	\$820	\$754	\$731	\$979
Transport energy \$	\$1,144	\$1,941	\$3,657	\$3,701	\$2,997	\$2,721	\$2,477	\$3,701
Total energy \$	\$2,556	\$3,653	\$5,639	\$6,188	\$5,024	\$4,555	\$4,247	\$6,188
Energy % of after-tax inc.	47.3%	20.4%	16.7%	7.6%	9.6%	17.9%	18.8%	7.6%
Resid. % of after-tax inc.	26.1%	9.6%	5.9%	3.0%	3.9%	7.2%	7.8%	3.0%
Trans. % of after-tax inc.	21.2%	10.8%	10.8%	4.5%	5.8%	10.7%	10.9%	4.5%
Electric % of total energy \$	31.6%	27.2%	21.0%	24.4%	24.0%	24.4%	25.5%	24.4%
Trans. % of total energy \$	44.8%	53.1%	64.9%	59.8%	59.7%	58.5%	56.3%	59.8%

Sources: U.S. population and income data from U.S. Bureau of the Census, Current Population Reports. Residential energy expenditures are estimated from U.S. DOE Residential Energy Consumption Surveys (1997 and 2001), with projections for 2007 based on changes in 2001-2007 residential energy costs from U.S. DOE/EIA Short-Term Energy Outlook (Nov. 2007). Transportation energy expenditures are estimated from U.S. DOE/EIA, Household Vehicle Energy Use: Latest and Trends (November 2005) and DOE/EIA Short-Term Energy Outlook (Nov. 2007). Average effective federal tax rates are estimated from Congressional Budget Office, Effective Federal Tax Rates Under Current Law, 2001-2014 (August 2004), and Effective Federal Tax Rates, 1979-2001 (April 2004).

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