

TESTIMONY

of

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on

Small Business Solutions for Combating Climate Change

at a hearing before the

Committee on Small Business and Entrepreneurship

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Good morning Chairman Kerry, Ranking Member Snowe, and members of the committee. I am pleased and honored to join you this morning to discuss small business solutions for combating climate change.

Specifically, I would like to discuss energy efficiency as a solution. In looking for small business opportunities to help address climate change, small business energy efficiency needs to be at the top of the list. Why? Because energy efficiency offers the greatest potential for immediately reducing small business climate change emissions; because small business energy efficiency can have a positive bottom-line impact for the business; and because the technologies already exist and can be implemented quickly. To stretch existing domestic energy supplies and decrease the need for building new capacity, energy efficiency needs to be looked upon as a valuable and reliable energy source in its own right.

Since America's 25 million small businesses create more than 50 percent of the non-farm private gross domestic product, one could also assume that small business energy consumption is also about half of the total energy used for commercial and industrial purposes. In analyzing energy consumption in Pennsylvania, we found small businesses consume about 50 percent of the total output from all of the state's coal-fired power plants. Assuming a 50 percent level of usage, national data from the U.S. Department of Energy's Commercial Buildings Energy Survey (CBECS) indicates that if small commercial and industrial businesses were to improve efficiency to achieve realistic energy consumption reductions of 20 to 30 percent – targets we have easily seen with our clients in Pennsylvania and which are also supported by the national experience of U.S. EPA's ENERGY STAR Small Business program – then small businesses could help the United States reduce carbon dioxide emissions by 93.8 to 140.7 million tons per year while at the same time saving themselves an estimated \$12.5 to \$18.75 billion on annual energy costs.

But to achieve these dramatic results there are two primary challenges I would like to bring to your attention. First, small businesses have a significant need for technical assistance in order to analyze their energy use and make wise decisions regarding energy efficiency investments. Second, as you are well aware, small businesses typically have limited capital and financial incentives are often needed to help small businesses implement energy improvements.

With regard to technical assistance, the U.S. EPA's ENERGY STAR Small Business program is an excellent destination for information and a limited amount of unbiased technical assistance; especially for do-it-yourself business leaders. Expanding ENERGY STAR Small Business so the program can enter more outside partnerships and develop more industry-specific guidance would be a great benefit to the small business community.

But additional technical assistance is often required. With modest pilot funding from ENERGY STAR Small Business, in 1997 the Pennsylvania SBDC Environmental Management Assistance Program launched an energy efficiency outreach and education campaign. What we quickly found, however, was that information and education alone were often not enough to see energy efficiency projects implemented – in our case primarily because the ability to refer interested small businesses to sources of additional technical assistance had become virtually non-existent

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because the state energy office had been shuttered, electric utilities had eliminated energy efficiency programs in preparation for deregulation, and private service providers lacked interest in working with businesses with less than 100,000 square feet of facility space.

In response to this assistance void, the Pennsylvania SBDC obtained state funding to not only maintain our outreach and educational capabilities beyond the pilot but also to develop and offer more advanced technical assistance. Starting in about 2003, our energy efficiency services were significantly expanded upon to provide clients with comparative energy intensity analyses, on-site energy assessments, and customized technical reports with recommendations for cost-effective improvements.

Demand for energy efficiency services has steadily grown ever since, especially as transportation fuels, natural gas, and oil costs have risen. The recent spotlight on electricity rate increases as rate caps expired in Maryland, Delaware, and Pike County, Pennsylvania (where rates increased over 70 percent), has also served to increase the interest in controlling energy costs. While the majority of Pennsylvania's electricity consumers still benefit from partial rate caps, the remaining caps are due to expire in the next two to three years and people are starting to prepare.

In 2004, the Pennsylvania SBDC Environmental Management Assistance Program had about 38 percent of its clients request energy efficiency assistance. The following year, this number increased to 49 percent. Last year, of the 428 businesses assisted by the program more than half, a full 60 percent, sought assistance with energy efficiency issues.

Based on the results of approximately 300 energy on-site assessments conducted to date, it is estimated SBDC-assisted businesses can reduce their energy consumption and associated utility costs between 25 and 30 percent if all recommendations are implemented; for the typical small business this amounts to about \$1,100 to \$1,500 annually. Clients achieving such reductions have been well recognized; in 2006, six of our energy efficiency clients won the prestigious ENERGY STAR Small Business award given out to just eight small businesses nationally.

When it comes to the implementation process, the Pennsylvania SBDC not only attempts to connect business owners with contractors (often other small businesses) who can install the recommended upgrades but we also work with the business owners to evaluate options for project finance.

This brings me to my second point – the need for small business financial incentives. Many small business owners lack the up-front capital needed to make energy efficiency improvements, or they need a little extra incentive to make the investment.

In 2004, we suggested and worked with the Pennsylvania Department of Environmental Protection to create a micro-grant program, offering a 50 percent cost share up to \$7,500, for small business environmental and energy improvements. Demand on this grant program has been very strong and a significant backlog has developed. In 2004, the Department exhausted initial program funding of \$1 million in just over six months. In the second year of grant availability, the same level of funding lasted just over five months. This current fiscal year, with

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a little over \$780,000 available for grants, the Department stopped accepting grant applications after just 10 weeks. Many potential applicants were turned away; the Pennsylvania SBDC Environmental Management Assistance Program was aware of at least fifty small business owners who were in various stages of completing the grant application package when the announcement was made that applications would no longer be accepted.

Implementation of energy efficiency projects by Pennsylvania SBDC-assisted small businesses has increased with the availability of this grant funding and the estimated returns appear promising. Helping business owners prepare the technical and financial data required for grant applications has resulted in a high rate of awards with 58 SBDC-assisted grant applications receiving awards totaling just under \$360,000. These grants have been leveraged to implement projects totaling over \$792,000. Most significantly, it is estimated these 58 projects will ultimately save the small businesses more than \$273,000 per year on energy costs.

Outside of targeted micro-grants, on-bill financing through energy utilities offers another potential avenue for helping small businesses overcome the issue of initial capital constraints. Although this financing option exists in some New England states and California, it is not currently available in Pennsylvania. Under this concept, a utility provides the initial financing to implement an energy efficiency improvement and extends the eligible small business a zero percent or low interest loan. Once the efficiency project is installed, the business does not see an immediate drop in its energy bill but instead continues paying bills at historic levels of consumption and effectively "shares" the cost savings with the utility until the loan is paid off. The attraction of on-bill financing is that it requires no up-front capital and loan repayment is done on the utility bill – the same one bill and one payment as usual. Once the energy efficiency improvement has literally paid for itself, the business receives all of the savings in the form of lower bills. Hopefully, more states will soon consider creative financing assistance like this.

Based on the Pennsylvania SBDC's experience, we are convinced small business owners have the interest and desire to become more efficient users of energy and additional government investment can help significantly. With the right mix of educational and technical and financial assistance tools, energy efficiency holds the promise of not only reducing greenhouse gas emissions associated with small business energy consumption; it also helps the businesses control their energy expenditures.

The importance of this latter point is highlighted by a July 2006 survey by the National Small Business Association in which 75 percent of respondents indicated they had been moderately to significantly impacted by rising energy costs. When asked how they were coping with those rising energy costs, an alarming 18 percent indicated they had already reduced their work force. Offering energy efficiency assistance to help these types of existing businesses reduce costs, while reducing climate change emissions at the same time, makes sense and is urgently needed.

Again, thank you for this opportunity to speak with you this morning. I am encouraged by your leadership to specifically include the small business community in the debate on climate change and energy independence.