THE GREEN ROAD TO ECONOMIC RECOVERY

Hearing of the Select Committee on Energy Independence & Global Warming

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2175 Rayburn House Office Building

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Thank you for the opportunity to appear before the Committee on this timely and urgent matter. There is enormous opportunity here, and I applaud the chairman and the Committee for addressing the role of small businesses in reducing greenhouse gas emissions.

The Center for Small Business and the Environment is a small, nonprofit organization located here in Washington, DC. While I am its only employee, we work through a network of small business leaders around the country. Our network is committed to the idea that small scale enterprise holds the key to protection and restoration of the environment.

Permit me to describe why we share that belief.

One-half of the nation's economy is amazingly decentralized, diverse and dynamic. This half consists of small businesses, 27 million of them, located in every nook and cranny of society, and running everything under the sun, from hotdog stands to high-tech start-ups.

These small firms produce 51 percent of the private sector output, make 47 percent of all sales, and employ more than half the country's private work force. In key ways, these firms also constitute the economy's *most productive and creative* half.

Virtually all net new jobs are created by fast-growing small businesses. According to the US Small Business Administration (SBA), since the mid-1990s, small businesses have created 60 to 80 percent of the net new jobs. In the most recent year with data (2005), employer firms with fewer than 500 employees created 979,102 net new jobs, or 78.9 percent.

The job creating prowess of small business continues even in the face of the current economic downturn. According to Fortune Small Business magazine, the economy picked up 9,000 new jobs in July 2008, thanks to small companies that are hiring even as larger businesses shed workers. Firms with fewer than 50 workers added 50,000 new non-farm jobs to the private sector in July, which offset the 41,000 jobs dropped at medium and large companies.

From this we conclude that if new green jobs are to be created, small business must be called upon to create them, an assignment that the small business community welcomes.

Moreover, *two-thirds of all innovations* are produced by entrepreneurial small businesses. According to SBA, small firms produce 13 times more patents than large firms.

From this we conclude that if green innovations are to be created, then small business must be called on to create them. In fact, that's what is happening right now. Something like 80 percent of all clean tech companies are small businesses.

This hearing is entitled "The Green Road to Economic Recovery." If our destination is new employment created through innovation, then I think we should take the road most travelled: small business.

Here is where this road takes us:

Small businesses profiting from retrofitting America

Thousands of small businesses sell, install, and service air conditioning, heating, insulation, ventilation, and lighting systems – now all available in energy efficient forms. They are profiting by helping homeowners, institutions of all kinds, and other businesses to save every cent they can by simply conserving energy.

For example, heating and air conditioning systems should be regularly tuned-up. Some simple steps – identifying duct leaks, checking airflow, cleaning coils and changing filters – will work wonders, reducing energy use up to *40 percent*. That's huge when you consider that nearly $142 billion was spent nationally in 2005 on space heating and cooling for residential and commercial buildings.

Thus, efforts to make American society more energy efficient open up vast opportunities for countless small business owners. This is why the small business provisions in the Energy Independence and Security Act of 2007 were endorsed by the Air Conditioning Contractors of America, the Independent Electrical Contractors, the National Roofing Contractors Association, and the Plumbing-Heating-Cooling Contractors Association.

An added plus is that these jobs here at home for American workers can't be outsourced to China or India because the work is all local.

Small businesses dramatically reducing energy consumption

Thousands of small firms are now becoming more energy efficient in order to cut costs. This is a big deal, potentially. Small businesses consume *half of all energy used for commercial and industrial purposes in the United States*. According to EPA's ENERGY STAR Small Business program, small enterprises can reduce their energy bills by up to 30 percent through energy efficiency upgrades.

Many good models for making this happen are successfully up and running. They ought to be widely replicated. Here are three examples:

- **A model for Trade Associations**

Almost 750 auto dealers are now voluntarily greening their operations as part of the Energy Stewardship Initiative of the National Automobile Dealers Association (NADA). If all 19,700 NADA members reduced their energy consumption by just 10 percent (the Association's goal), they would save approximately $193 million in energy costs and eliminate more than one million tons of greenhouse gas emissions each year.

This model will really kick in if it's adopted by such small business trade associations as the National Restaurant Association (380,000 members), National Grocers Association (50,000 independent stores), and the National Association of Convenience Stores (140,655 stores). Overall, there are 150 trade associations headquartered in Washington, DC, whose memberships are overwhelmingly small business in their composition.

- **A model for Electric Utilities**

On-Bill-Financing (OBF) makes small business energy efficiency as easy as falling off a log. Under OBF, an electric utility offers upgrades to its small business customers and loans to pay for the upgrades. The energy savings are used to pay back the loan, so the monthly utility bill is no higher than it was before. When the loan is paid off, the small business owner's utility bill is permanently lower.

The model here is the Small Business Energy Advantage program offered by United Illuminating Company (UI) an independently owned and operated utility in Connecticut. UI provides electricity and energy services to about 323,000 residential, commercial and industrial customers in Connecticut.

Recently, California took OBF to a new level. In late 2007 the California Public Utilities Commission issued an order instructing the state's utilities to begin offering OBF in 2009, so the program will be available on a larger scale.

If this model were replicated throughout the country, it could reach at least half of the small business owners nationwide. If OBF could facilitate a 30 percent reduction in energy use by half of the small businesses in the country, it would save nearly $9 billion on energy bills and prevent more than 67.5 million tons of global warming emissions (the equivalent to the emissions of about 14.1 million cars).

- **A model for Small Business Development Centers**

There are about 1,000 Small Business Development Centers (SBDC) located around the country, but only a handful offer technical assistance to small business owners on environmental and energy matters. A splendid exception is Pennsylvania Small Business Development Center's Environmental Management Assistance Program. This program

has conducted over 300 on-site energy assessments showing that clients can reduce their costs between 25 and 30 percent. The types of businesses helped range from auto repair shops, restaurants, grocery stores, organic farms, and small office buildings. This model should be expanded through the SBDC system.

The icing on the cake …

Making small businesses more energy efficient can be achieved quickly. It doesn't require years of expensive R&D. All the technology needed is available now. And a fast turnaround is possible because, basically, energy efficiency upgrades for small businesses involve doing the same thing over and over again in lots and lots of places. Examples: installing improved lighting, better thermostats and occupancy sensors in bathrooms, offices and storerooms.

Small business leading the way in renewable energy

Small business is the fount of innovation. This has been true throughout history. Tinkerers working in garages created the Industrial Age, remember? Their modern day counterparts, working on computers, are now creating the post-Industrial Age, the new green economy. So it's not surprising that something like 80 percent of all clean tech companies are small firms.

These green entrepreneurs are flooding the market with hundreds of new clean and renewable energy technologies, most of them small-scale. These micropower devices make possible the "distributed generation" of energy; that is energy generated from small sources on-site – solar, wind, fuel cells – and used nearby, maybe even in the same building.

Here's a terrific example: Southwest Windpower in Flagstaff, Arizona, is the world's largest producer of small wind generators. (www.windenergy.com)

This small company has produced nearly 110,000 generators used everywhere from homes, farms and ranches to telecom transmitters. Sales are growing at double digit rates, as interest in wind power among businesses and consumers accelerates.

Southwest Windpower has attracted about $20 million in two rounds of venture capital funding. The company estimates that, through its network of dealers, it has created about 500 jobs.

Of course, Southwest Windpower is but one of many examples of new clean tech companies that are taking off. Despite the economic downturn, the boom in clean technology continues unabated. Clean Edge reports a 40% increase in revenue growth for solar photovoltaics, wind, biofuels, and fuel cells in 2007, up from $55 billion in 2006 to $77.3 billion in 2007.

The rapid and extensive deployment of technological innovations devised by green entrepreneurs is a sure path to economic recovery.

Policy Recommendations

Here are measures we think would promote (a) small business energy efficiency; and (b) the process of green entrepreneurship.

(1) Needed Research

Because we know small business constitutes half of the economy, and we know it wastes much of the energy that it buys, we argue that small business probably represents *the largest untapped reservoir of potential for energy efficiency*. But we don't have the numbers to prove it because virtually no research has been done on small business and energy.

Neither DOE nor EPA has researched small business energy use *as such*. So we don't have reliable on numbers of businesses involved, or jobs created by green businesses. Our solution is to rely on case studies to tell the story, like the description of Southwest Windpower provided above.

But if we are to fully deploy the genius to small business to solve environmental and energy problems, then we need targeted research programs to serve up needed information.

Congress should mandate basic research on small business energy use. The only locus in the federal establishment with the knowledge and experience to take this task on is the Energy Star Small Business program. We recommend it be vested with the authority and responsibility for this research.

(2) Implement existing law

Thanks to the House Small Business Committee and the Senate Committee on Small Business and Entrepreneurship, several beneficial provisions were included in both the Energy Policy Act of 2005 (EPACT05) and the Energy Independence and Security Act of 2007 (EISA07).

Among other things, these present laws, if implemented, would:

- Educate consumers and small business owners about the need for proper maintenance of existing equipment small business;

- Require the20US Small Business Administration (SBA) to help small business owners to become energy efficient;

- Expand the capacity of Small Business Development Centers (SBDC) to offer environmental and energy technical assistance;

- Facilitate the spread of On-Bill-Financing; and

- Create a priority status within the Small Business Innovation Research and Small Business Technology Transfer programs for small-business energy research and development projects.

Attached are summaries of these provisions.

Sad to report, none of these provisions have yet been funded or implemented. We hope that the Select Committee will help their colleagues on Appropriations understand the importance of actually funding these programs.

(3) A stronger federal initiative to "green" small businesses

We urge greater support and funding for the invaluable but grievously underfunded ENERGY STAR Small Business program in EPA. We envision a program that has the staff and resources needed to help 27 million small businesses to become good energy stewards.

We urge this because EPA's ENERGY STAR management consistently neglects small business even though it constitutes one-half of the economy. Therefore, it is critical that Congress inserts language in the appropriations bill directing EPA to make outreach/assistance to small businesses a priority. The agency should be directed to report to the Congress each year on its progress/initiatives.

Specifically, we recommend that ENERGY STAR Small Business be funded to expand its cooperative alliances with small business trade associations, such as the Energy Stewardship Initiative of the National Automobile Dealers Association (NADA).

In addition, we recommend that ENERGY STAR Small Business be funded to launch an initiative to promote the strong affinity that exists between micropower devices and small businesses.

Small business owners have no better way to get reliable and affordable energy than from installing their own on-site20generating equipment. But they are largely unaware of this option. This initiative would educate small business owners on micropower generation, net-metering to optimize cost-effectiveness, power reliability, and power quality. It would move small businesses beyond energy efficiency and into energy independence.

(4) Sponsor Research and Development of "Green" Technologies by Small Businesses

As noted, above, a key provision in the *Energy Independence and Security Act of 2007* (*H.R. 6*) "ensures high priority be given to small business concerns participating in energy efficiency or renewable energy system research and development projects." We urge the federal government to increase the 2.5 percent SBIR set aside to 5 percent. Also, the various agencies administering SBIR should be directed to reach out to small businesses regarding the availability of SBIR for green entrepreneurship

(5) Assist Small Business in Deploying New Technologies—Transferable Tax Credit

Policymakers frequently employ tax credits to help businesses commercialize new technologies, but small entrepreneurial firms seldom are profitable in their early stages so tax incentives are of little to no use to them. To circumvent this, we propose the creation of a variation of the current R&D Tax Credit: a Transferable Tax Credit. Under this proposal, an entrepreneur with a new green technology could strike a strategic alliance or investment with a profitable firm that possesses the resources needed to commercialize the technology. The entrepreneur then could assign the tax credit to the firm and/or investor that commercializes the technology.

Thank you for the opportunity to present these views.

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SUMMARY OF SMALL BUSINESS PROVISIONS IN EPACT 2005 & EISA 2007

EPACT 2005

• Mandated that the U.S. Department of Energy (DOE), in cooperation with the Environmental Protection Agency (EPA), create a consumer education program focused on the energy savings available from properly conducted maintenance of air conditioning, heating, and ventilating (HVAC) systems;

• Required the U.S. Small Business Administration (SBA), in consultation with the DOE and EPA, to implement a government-wide program, built on the ENERGY STAR Small Business program, to help small businesses: (a) become more energy efficient, (b) understand the potential cost savings from improved energy efficiency, and (c) identify financing options for energy-efficiency upgrades;

• Required the DOE to convene an organizational conference for the purpose of establishing an ongoing, self-sustaining national public energy and energy-efficiency education program, examining the interrelationship between energy and its role in the economy and on the environment; and

• Required the DOE to carry out a national public information program on energy efficiency focused on: (a) the need to reduce energy consumption, (b) the benefits of reduced consumption, (c) the benefits of lower energy costs to economic growth and job creation, and (d) ways to reduce consumption through increased efficiency.

EISA 2007

• Required the SBA to implement a government-wide program, built on the ENERGY STAR Small Business program, to help small businesses (a) become more energy efficient, (b) understand the potential cost savings from improved energy efficiency, and (c) identify financing options for energy-efficiency upgrades.

• Required the SBA to establish a Small Business Energy Efficiency Program through select Small Business Development Centers (SBDC)—through this provision, an SBDC would have been eligible, consistent with State public utility regulations, to act as a "facilitator" for on-bill financing agreements between small businesses, electric utilities, lenders, and the Administration;

• Expanded the list of permissible uses for Express Loans to include renewable energy and energy efficiency improvements;

• Rendered plant projects that reduce the borrower's energy consumption by at least 10 percent or that generate renewable energy or renewable fuels, such as ethanol, eligible for 504 loans and increased the maximum debenture to $4 million;

• Established a pilot program for reduced 7(a) fees for the purchase of energy-efficient technologies;

• Created a telecommuting pilot program at the SBA aimed at education and outreach;

• Created a priority status within the Small Business Innovation Research and Small Business Technology Transfer programs for small-business concerns participating in energy efficiency or renewable energy research and development projects;

• Authorized Small Business Investment Companies to issue a new class of debentures, called Energy Saving debentures, for small businesses primarily engaged in the researching, manufacturing, developing, or providing products, goods, or services that reduce the use or consumption of non-renewable energy resources;