

STATEMENT OF
BRENDA DeGRAFFENREID
SUPERVISORY ACQUISITION MANAGER
OFFICE OF SMALL AND DISADVANTAGED BUSINESS UTILIZATION
U.S. DEPARTMENT OF ENERGY
BEFORE THE
COMMITTEE ON SMALL BUSINESS & ENTREPRENEURSHIP
UNITED STATES SENATE

OCTOBER 6, 2009

The Recovery Act for Small Business: What is Working and What Comes Next?

I want to thank the Chairwoman, the ranking member, and rest of the committee for giving me the opportunity to discuss how small business is central to the goal of “The American Recovery and Reinvestment Act of 2009” (Recovery Act), both in terms of creating jobs and driving innovation. This morning, I thought I would do two things: Give you an update on the Department of Energy’s overall Recovery Act implementation and then discuss those programs of greatest benefit and interest to the small business community.

Recovery Act Overview

When President Obama took office, he faced the most serious economic and financial crisis of any President since Franklin Roosevelt. He acted quickly, implementing a Financial Stability Plan to help restore confidence in our financial markets, launching an aggressive effort to stabilize the housing market, and by signing the Recovery Act into law. The Recovery Act’s \$787 billion came in three pieces: in tax cuts directly to the American people, in emergency relief for hard-hit families, businesses, and state governments, and in investments in the infrastructure and technology that will be the platform for the 21st century economy. The Department of Energy’s Recovery program focuses on the third leg, i.e., reinvesting in America’s future by investing in the infrastructure, innovation, and technology to achieve our energy and environmental goals while creating platforms for long-term economic growth.

More specifically, in support of President Obama’s initiatives for Recovery, Secretary Chu has laid out four goals for Recovery Act implementation: (1) move the money out the door quickly to support job creation and economic revitalization; (2) use competitive review to select great projects; (3) create clear accountability and unprecedented transparency; and (4) make a meaningful down payment on the nation’s energy and environmental future. DOE has taken tangible steps to achieving these four goals.

To fully understand DOE’s mission as it relates to the recovery, I want to provide a general overview of how Recovery Act funds were allocated. Of the \$36.7 billion DOE

received in Recovery Act funds, most of it is being allocated for the following departmental program areas and offices:

- Electricity Delivery and Energy Reliability
- Energy Efficiency and Renewable Energy
- Environmental Management
- Fossil Energy
- Science
- Loan Guarantee Program Office

With the exception of the Office of Environmental Management, most of the Recovery Act funding has been dispersed in the form of financial assistance instruments. The Office of Environmental Management funds are being awarded as contracts and subcontracts.

The Department of Energy has made significant progress since the signing of the Recovery Act, nearly eight months ago. From February until Memorial Day, we focused on translating the funding into 155 Funding Opportunity Announcements for businesses, organizations, and individuals. During the summer months, we concentrated on reviewing applications and making selections from the proposals received, with 250 reviewers on average working daily. In the fall, we are focusing on finishing the selection process and acquisition process to make additional awards. The focus of FY 2010 will be to ensure that projects deliver the impact expected in the Recovery Act objectives.

At the close of FY 2009, DOE was appropriated \$36.7 billion in contract, grant, and loan guarantee authority (down \$2 billion from the original appropriation due to “Cash for Clunkers”). Approximately \$4 billion of the appropriated budget authority is available for loan guarantees. Of the \$36.7 billion, we have announced selections for \$23.3 billion. We have obligated \$17.4 billion, exceeding our goal of \$16.3 billion, for FY 2009, and we now have \$734 million dispersed to the awardees. In total, 53% of DOE’s Recovery Act grant and contract authority has been awarded

DOE Recovery Act and Small Businesses

Although the Recovery Act did not provide agencies with any special or enhanced authorities with respect to agency requirements and goals for small business program achievement, DOE developed guidance in its “Acquisition and Financial Assistance Implementation Guide” that for financial assistance special attention is to be given to the utilization of small businesses in projects that promote and enhance the objectives of the recovery. Further, the guide instructs DOE acquisition officials to emphasize small business participation in acquisition strategy development for new actions under the Recovery Act. This guidance has meant that small businesses have participated in many of DOE’s Recovery Act programs and projects. The following programs illustrate the role small business is playing in DOE recovery.

Small Business Innovation Research (SBIR) and Small Business Technology Transfer Programs: The SBIR and STTR Programs (managed by the Office of Science) are one of the primary ways DOE interacts with and supports small businesses and women and minority-owned enterprises. The SBIR and STTR programs are designed to involve small businesses in DOE's R&D efforts to foster the development of innovative new technologies. With a budget of approximately \$155 million, in FY 2009, the programs are a significant source of R&D seed funding for new start-up as well as established technology-oriented small business concerns. DOE is now working to expand its efforts in technology transfer and commercialization support for the small businesses in the program. Women and minority-owned firms are important participants in the programs, submitting 27% of all applications and winning 21% of Phase I awards are from FY 2001-2005. They submitted 20% of all Phase II applications, and were awarded 17% of all Phase II grants during the period. DOE is working to further increase the success rate of women and minority participants.

In an effort to increase the award success rate of all SBIR/STTR applicants, the DOE provides open access to a web-based, Technical Assistance Portal (TAP). To win a DOE Phase I award, a small business' technology must be unique, useful, and responsive to the DOE mission needs. The DOE TAP web portal provides self-help tools and tutorials designed to help all small business applicants answer these questions. In addition, the TAP portal offers a Go/NoGo™ assessment which shows small business applicants how to build upon their TAP research and write a better Phase I proposal.

On August 20, 2009, Secretary Steven Chu announced that \$37 million in funding from the Recovery Act will be made available to small businesses through the Department's Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) programs. The funding announcement emphasizes the Department's commitment to developing near-term, clean energy technologies while allowing small businesses to take part in the new industrial revolution that the sustainable energy economy will bring to the nation.

Of this announcement Secretary Chu said: "Small businesses are engines of job creation and innovation, and we need their ingenuity and entrepreneurial spirit to drive a clean energy economy. By helping small businesses bring clean technologies to market, we can create jobs, reduce our dependence on foreign oil, and reduce carbon pollution."

DOE's SBIR/STTR programs target U.S. companies with fewer than 500 employees. Small businesses with strong research capabilities in science and engineering are encouraged to apply. Applications were solicited for topic areas related to improving energy efficiency including:

- Advanced building air conditioning and refrigeration, thermal load shifting, and cool roofs
- Water usage in electric power generation and industrial processes
- Power plant cooling
- Advanced gas turbines and materials

- Sensors, controls, and wireless networks
- Advanced water power technology development
- Smart controllers for smart grid applications
- Advanced solar technologies
- Advanced industrial technologies development
- Advanced manufacturing processes

The deadline for submission of applications was September 4, 2009. Approximately \$8.5 million is expected to be available for new Phase I awards. Successful applicants may receive up to \$150,000 for a Phase I grant for a period of six months to demonstrate the feasibility of their concept. Selections are expected early in November.

Environmental Management (EM): EM received \$6 billion in funding under the Recovery Act. As part of the Department of Energy corporate goal of 5.87%, which was negotiated with the U.S. Small Business Administration, EM's prime contracting small business goal for FY 2009 was 4.8%. Each EM site is expected to meet or exceed EM's corporate small business goal and maximize small business prime and subcontracting opportunities. Consistent with the EM goal for its base program, EM's Recovery Act program targeted more than 4.8%, or \$288 million of the \$6 billion, in Recovery funds for small business prime contractors. This exceeded EM's overall small business target goal with \$393 million obligated, or 136% of its goal, as of Sept 30, 2009. Additionally, EM has encouraged all large business contractors receiving Recovery funds to meet subcontracting goals as established in existing small business Subcontracting Plans. Under the current DOE business model, the majority of work is performed by facility management contracts at EM sites.

Advance Research Projects - Energy (ARPA-E): Through the Recovery Act, ARPA-E received \$400 million to fund R&D for transformational energy technologies. ARPA-E's first \$150 million open solicitation resulted in the submission of thousands of concept papers, approximately 45% of which included small businesses in their research teams. When projects are selected, later this fall, small businesses across the country are likely to be part of teams receiving \$0.5-20 million each to conduct advanced energy R&D over the next two to three years.

Weatherization Assistance Program: \$5 billion of Recovery Act funding is dedicated to low-income families (defined as 200% of the poverty line) for use in weatherization (\$6,500 per home). Additionally, 900 community action agencies are receiving weatherization money. The agencies utilize a pool of approximately 2,500-3,000 private contractors, the vast majority of which are small businesses with 5-25 employees each. Of the community action agencies, half use private contractors for every line of work (HVAC, insulation installation, caulking etc.), and the remaining half use private contractors only for HVAC installation. In addition, the State Energy Program and Energy Efficiency Conservation Block Grants are also funding thousands of small business throughout the country as contractors and subcontractors.

Small Business Financing

The Recovery Act did not provide special financing authorities for small businesses to the agencies. These authorities were granted to SBA for several of their programs. DOE's Loan Guarantee Program administers Section 1705 of the Recovery Act. Although there are no special provisions pertaining to small business participation in Section 1705, the Loan Guarantee Program is exploring mechanisms to facilitate small business access to federal loan guarantees. DOE's Loan Guarantee Program is providing other opportunities to small businesses as noted below.

Loan Guarantee Program: To date DOE has approved a \$535 million loan to Solyndra, a small business, under the Recovery Act. Additionally, DOE has entered into conditional commitments with two other small businesses, Beacon (\$47million and Nordic Windpower (\$16million). As an example of the benefits to small business -- since DOE made its conditional commitment, Solyndra was able to secure \$132 million in additional corporate funding and \$198 million in additional equity for only \$40 million in DOE funded credit subsidy. The pipeline for small business transactions remains strong, and DOE is taking proactive steps to assist smaller companies with their financing processes.

Other Grant Programs: Lastly, the DOE-Treasury 1603 tax grant program has funded roughly 12 projects worth \$13 million to small businesses to date. The Advanced Battery and Electric Drive Component Manufacturing, and Transportation Electrification program will help fund roughly \$600 million in projects for small business. Together together, these programs represent very large opportunities for small businesses to become leaders in a clean energy economy.

Challenges and Opportunities:

Ongoing Small Business Contractor Eligibility: One of the challenges identified as an unintended consequence of the Recovery Act funding for small business firms is that the increased funding may cause affected firms to be ineligible for future small business contract awards, which are based on the small business size standard applied to the industrial classification of the contract. Small business size status is based on the "North American Industry Classification System" (NAICS) code and corresponding small business size standard assigned to each contract. The small business size standard can be either the number of employees averaged over a 12 month period or the average annual gross receipts over a 3 year period, but not both. Since the size determination is based on a 1-year or 3-year average, EM is unable to determine how many potential small businesses will outgrow their size standard.

Small Business Participation in Loan Guarantee Programs: Many small businesses chose not to apply for the initial Title XVII solicitations due to the relatively high transaction costs. As a result, small business participation in the 1703 program is relatively low. The Loan Guarantee Program is exploring new ways to facilitate small business participation in the Title XVII program, including developing mechanisms to assist small businesses through State and Regional Finance Development Organizations under both the Title XVII and Advanced Technology Vehicle Manufacturing (AVTM)

programs to facilitate small business participation in these programs as a top priority for the Department.

This statement is submitted for the record.

Thank you. I will be happy to answer questions.