

STATEMENT OF
BRENDA DeGRAFFENREID
SUPERVISORY ACQUISITION MANAGER
OFFICE OF SMALL AND DISADVANTAGED BUSINESS UTILIZATION
U.S. DEPARTMENT OF ENERGY
BEFORE THE
SUBCOMMITTEE ON CONTRACTING AND TECHNOLOGY
COMMITTEE ON SMALL BUSINESS
U.S. HOUSE OF REPRESENTATIVES

MARCH 12, 2009

Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity to address the subcommittee on the Department of Energy's (DOE) plans and strategies that will ensure that small businesses, including veteran-owned and service-disabled veteran-owned small businesses, can participate in government contracting opportunities resulting from the American Recovery and Reinvestment Act of 2009 (hereafter referred to as "the Recovery Act") to the maximum extent. Small businesses are critical to the health of the United States economy. According to the U.S. Small Business Administration (SBA), small businesses comprise more than 99% of all employers in the United States, employ approximately one half of all private sector employees, and have generated 60 to 80 percent of the net new jobs annually for the last decade. It is understandable that this Congress wants to ensure that small businesses play a significant role in the recovery of the nation's economy.

DOE has always been a strong advocate for the participation of small businesses, including small disadvantaged, women-owned, HUBZone, veteran, and service-disabled veteran-owned small businesses, in its procurement process at both the prime and subcontracting levels, and we look to continue that trend in implementing the Recovery Act. At the prime contract level, DOE has increased its impact in the small business community over the past eight years, by increasing prime awards to small businesses from \$500.2 million in FY 2000 to \$1.4 billion in FY 2008. Before discussing DOE's strategies for inclusion of small businesses in the recovery, I would like to explain DOE's unique business or procurement model in order to place these achievements and recovery opportunities in context with the system under which the Department operates.

DOE Business Model

The business or procurement model has two distinct types of DOE contracts: (1) Facilities Management Contracts (FMCs) and (2) Non-FMCs. FMCs represent the primary procurement model utilized at DOE for the operations of its network of government-owned contractor-operated laboratories and other facilities. FMCs include Management and Operating (M&O) contracts, Management and Integration contracts, and environmental restoration management contracts. These are generally awarded to

large businesses, educational institutions, and non-profit organizations. Through the FMC contracting model, DOE directs the mission-related areas and the overall performance objectives that it wants to accomplish. FMCs range from the hundred millions to billions of dollars, are complex, and generally contain periods of performance of five or more years.

Historically, FMCs have represented from 85 to 90 percent of the Department's procurement dollars. In FY 2008, for example, FMC contracts represented 84.3 percent of the DOE procurement base. The remaining non-FMC dollars, or 15.7 percent of the procurement base, were used to fund a wide range of prime contracts with both small and large businesses.

Recovery Act Opportunities

As for strategies that will ensure that small businesses can participate in government contracting opportunities resulting from the Recovery Act, the Department is in the process of developing guidance and an implementation plan to execute the requirements of the Recovery Act. Therefore, we cannot yet provide detailed acquisition methods that will be used to implement each program, or subprogram, designated in the Recovery Act. However, we will attempt to provide the subcommittee with a general overview of the types of acquisition methods we anticipate, and a few examples of specific work that will be performed with recovery funds. As you stated in your letter, DOE will receive approximately \$39 billion (\$38.7 billion) in appropriated funds under the Recovery Act. These funds primarily have been directed to the following program offices:

- Office of Electricity Delivery and Energy Reliability;
- Office of Energy Efficiency and Renewable Energy;
- Office of Environmental Management;
- Office of Fossil Energy;
- Office of the Inspector General
- Office of Science

The funds appropriated in the Recovery Act will be awarded principally through several methods: financial assistance agreements, on-going contract vehicles held by both small and large businesses, and through DOE's established network of FMCs. The Department has already provided information and tools to assist the acquisition workforce in ensuring that the requirements of the Recovery Act provide maximum opportunities for small businesses to participate in the recovery. Through regularly scheduled conference calls with the acquisition workforce, and a Policy Flash (PF 2009-27) issued March 4, 2009, the Office of Procurement and Assistance Management has provided guidance on standard language for use in Funding Opportunity Announcements (FOA), as well as interim standard terms and conditions for use in contract, grant, cooperative agreement and technology investment agreement awards and modifications. The guidance instructs prime contractors to give preference to small businesses in the award of subcontracts for projects funded by Recovery Act dollars.

A significant portion of the recovery funds will be obligated on financial assistance agreements, and statutorily require that some of these monies be used for block grants and other agreements. A smaller portion of these funds will be used for loan guarantees. Financial assistance agreements are not subject to small business preference procedures. Nonetheless, there are some programs and areas in which DOE remains fully committed to the inclusion of small businesses.

DOE's Small Business Innovation Research Program (SBIR) will receive funds under the Recovery Act. As you probably are aware, the SBIR Program was established to provide funding to stimulate technological innovation in small businesses to meet federal agency research and development needs. The Office of Science plans to award Phase I SBIR grants this fiscal year, some of which will be from recovery funds. Projects that will be further developed using recovery funds include: solar energy, wind energy technology development, and biofuels.

Small businesses will be able to compete for research and development funds within the Recovery Act, as they always have within the Small Business Investment Research /Small Business Technology Transfer funding. Small businesses may apply to competitive R&D announcements as a prime. However, for programs with restricted eligibility, such as the Weatherization, State Energy Programs and Block Grants, they will not be able to apply. States and other recipients may offer the opportunity to contract with them to provide services at the State and local level.

A portion of the Recovery funds will be obligated on current procurement awards such as contracts and task orders, pursuant to the Federal Acquisition Regulation (FAR), Part 15 procedures. These awards are held by both large and small businesses. DOE's Office of Environmental Management (EM) will be the primary beneficiary of Recovery funds that will be used for contracting. They are one of the Department's strongest performers in awarding contracts to small businesses, awarding a total of \$1.3 billion in prime and subcontracts to small businesses in FY 2008. EM identified a number of projects across the country for funding under the Recovery Act. These projects include several types of work suitable for small business participation such as building decontamination and decommissioning and environmental remediation. EM is committed to continuing its success of the last several years in the realm of small business participation by meeting or exceeding the Department's goals for participation at the prime contract level.

DOE will also utilize its established network of FMCs to perform some of the work either directly or through subcontracts. We plan to aggressively pursue opportunities for small businesses at the subcontracting level. Accordingly, DOE's contracting officers have been asked to consider whether or not subcontracting plans need to be adjusted to reflect the Recovery Act funds. We anticipate that awards also will be made through new contract vehicles, and contracting personnel have been advised to maximize contracting and subcontracting opportunities to small businesses. Wherever applicable, contracting officers will implement the provisions of the Federal Acquisition Regulation (FAR), Part 19, for small business, 8(a), HUBZone, service-disabled veteran-

owned business set-asides, and to meet subcontracting plan requirements. Further, contracting officers will utilize market research (FAR, Part 10), as appropriate, whenever small business sources capable of performing the work have not been identified.

As you will note from this discussion, DOE has taken every opportunity to ensure that small businesses will participate in government contracting opportunities resulting from the Recovery Act. We also will continue to implement the strategies that have helped the Department maintain a consistent track record of increasing opportunities to small businesses, including service-disabled veteran-owned small businesses. There is every reason to believe that these strategies will have similar results in DOE's recovery efforts.

Small Business Prime Contract Achievements

First, it is important to review DOE's prime and subcontract achievements and the initiatives taken to reach these achievement levels. DOE establishes annual prime and subcontracting goals through negotiations with the SBA. We exceeded the FY 2008 small business prime contract goal of \$1.3 billion, or 5.87 percent, of a projected procurement base of \$22.2 billion. DOE awarded \$1.4 billion of its actual procurement base of \$24.2 billion, in direct contracts to small businesses. We believe that DOE's strategies of tracking achievements quarterly, screening acquisitions, and extensive outreach to small businesses helped us place more than a billion dollars into the small business community. The specific strategies are:

- Goaling – Adjust goals where necessary in order to reflect the additional Recovery funds. Tracking goals quarterly.
- Advanced Planning Acquisition Team (APAT) – The APAT, comprised of top management from Procurement, Program Elements, and the Office of Small and Disadvantaged Business Utilization (OSDBU), will review certain contract acquisitions generated by Recovery funds and not designated for small business participation.
- Procurement Reviews -- Review all acquisitions exceeding \$3 million that have not been reserved for small business participation.
- Subcontracting Plan – Work with prime contractors to adjust subcontracting goals where necessary.
- Alignment with Program Offices – Continue to work with program offices through FY 2009 and 2010 to seek Recovery Act opportunities for small businesses.
- Identification of sources - Participate in and sponsor outreach activities, e.g. Business Opportunity Sessions, and DOE's Annual Small Business Conference, to identify small business sources capable of performing work generated by the Recovery Act.

Service-Disabled Veteran-Owned Business Prime Contract Achievements

Service-disabled veteran-owned business achievement is counted in the total small business achievement. Of the \$1.4 billion awarded directly to small businesses in FY 2008, \$128.4 million, or 0.53 percent of the procurement base of \$24.2 billion, was awarded directly to service-disabled veteran-owned businesses, falling short of the goal of \$155.1 million, or 0.70 percent of the total procurement base of \$24.2 billion. DOE, like most Federal agencies, continues to work hard to achieve its goals for service-disabled veteran-owned small businesses, as evidenced by the substantial increase in awards to these firms over the seven years since goals were established. For example, from FY 2002 to FY 2008, service-disabled veteran-owned prime contracts grew from \$1.4 million to \$128.4 million; or from 0.01 to 0.53 percent over the period.

The SBA-negotiated goals were the same for FY 2008 and FY 2009. To facilitate achievement of the FY 2009 prime contract goal of \$155.1 million, or 0.70 percent, for service-disabled veteran-owned small businesses, DOE developed strategies to conduct outreach to these firms and more effectively collaborate with internal personnel and external stakeholders. I would like to highlight a few of these outreach initiatives:

- Establish and track service-disabled veteran-owned small business quarterly goals as part of the Department's socioeconomic annual small business goals negotiated with the SBA.
- Inform service-disabled veteran-owned small business firms that they should register with the Center for Veterans Enterprise database.
- Promote the utilization of the Department of Veteran Affairs' (VA) website at <http://VIP.vetbiz.gov/search/default.asp> and the Center for Veterans Enterprise (CVE) website at <http://www.vetbiz.gov> in conducting market research to identify service-disabled veteran-owned small businesses.
- Promote establishment of service-disabled veteran-owned small businesses as protégés in DOE's Mentor-Protégé Program.
- Recognize the accomplishments of service-disabled veteran-owned small businesses in the Secretarial Small Business Awards Program.
- Foster relationships with service-disabled veteran-owned business organizations as a part of DOE's Small Business Advisory Team.
- Participate in conferences dedicated to reaching service-disabled veteran-owned small businesses, such as the annual Department of Veteran's Affairs Conference.
- Identify projects that could/should be set aside for participation by service-disabled veteran-owned small business concerns.
- Provide training about the Service-Disabled Veteran-Owned Business Program to internal staff, program staff and small business staff. This training will be provided through guides, desk manuals and group training.

Other Socioeconomic Achievements

Insofar as the other prime socioeconomic goals are concerned, DOE met its FY 2008 small disadvantaged businesses goals, achieving \$681.1 million, or 2.81 percent. Similarly, DOE met its women-owned small business goal and its HUBZone business goal, achieving \$234.0 million, or 0.97 percent; and \$59.0 million, or 0.24 percent, respectively. For FY 2007, DOE was one of only three Federal agencies that met all of its goals outlined in the SBA Scorecard.

Small Business Subcontract Achievements

DOE also provides opportunities to small businesses through subcontracting with its network of FMCs, and its other prime contractors. DOE established a FY 2008 small business subcontracting goal of \$3.5 billion, or 46.4 percent. (This achievement represents awards at the subcontracting base for FMCs.) Since subcontracting achievement data are not yet available from the “electronic Subcontracting Reporting System (eSRS)” for FY 2008, I can only report on FY 2007 subcontracting data, the latest year for which data is available. Small businesses received \$3.5 billion, or 47.2 percent in subcontracts, surpassing the goal of \$3.2 billion, or 42.6 percent.

Service-Disabled Veteran-Owned Business Subcontract Achievements

Of the \$3.5 billion subcontracted through FMCs, service-disabled veteran-owned small businesses received \$68.1 million, or 0.9 percent in subcontracts, against a goal of \$108.4 million, or 1.4 percent. Despite the shortfall in meeting that goal, DOE has made steady progress in increasing the service-disabled veteran-owned business subcontracting goal over the seven year period from \$755,000 to \$68.1 million, or stated as a percent from 0.0001 to 0.9 percent during the period. DOE continues to seek opportunities to do business with service-disabled veteran-owned small businesses, and develop strategies at the subcontracting level. Two of the strategies are to:

- Require that all DOE major prime contractors establish their service-disabled veteran-owned small business goals pursuant to the goals negotiated with SBA and include those goals in their subcontracting plan, i.e., at 3 percent or higher; and
- Promote the continuation of the flow down of the service-disabled veteran-owned small business procurement preference to facility management contractors, authorizing service-disabled veteran-owned small business set-asides at the subcontracting level.

Office of Small and Disadvantaged Business Utilization (OSDBU) Initiatives

The Department is optimistic that the aggressive strategies outlined for the Recovery Act funds, along with procedures already in place, will ensure that small businesses play a significant role in the projects generated by the Recovery Act. The OSDBU within the Office of Economic Impact and Diversity has advised the

Department's Small Business Program Managers assigned to each program element, field office, and FMC, to seek opportunities to place Recovery funds with small businesses. In addition, the OSDBU hosted DOE's first Business Opportunity Session (BOS) held since the Recovery Act was enacted. Forty-four (44) small businesses attended the BOS, which was held on Thursday, March 5, 2009, at the Forrestal Building. These firms attended the BOS to participate in discussions of opportunities generated by the Recovery Act for the Offices of Environmental Management, Fossil Energy, and Energy Efficiency and Renewable Energy. Speakers from these program offices discussed both upcoming opportunities outside of the Recovery Act and potential opportunities from Recovery monies, in both contracts and financial assistance.

Conclusion

In summary, let me assure you that DOE recognizes the important role that small businesses play in revitalizing the economy through the creation of employment opportunities and business sustainability. Secretary Chu is committed to making small businesses a valuable and integral part of the Department's contractor base. The Recovery Act provides an opportunity for the Department to fully engage the small business community in this national effort to make small businesses more competitive in U.S. and world markets. As you will note from the numerous programs, processes, and strategies outlined in this statement, DOE has made small business achievement a priority within the Department. We are confident that our actions and our continued diligence will have broad, positive results for DOE's small business contractors.

Thank you for the opportunity to appear before this Subcommittee. That concludes my prepared remarks. I would be pleased to answer any questions you may have.