TESTIMONY
OF
KYLE W. KEMPF

Senior Director, Government Affairs

NATIONAL SMALL BUSINESS ASSOCIATION

"Innovative Practices to Create Jobs and Reduce Pollution"

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Good morning Chairman Sanders, Ranking Member Boozman, and members of the committee; thank you for inviting me here today to discuss the benefits of an innovative practice that is of great benefit to small businesses, the U.S. economy, and the environment: On-Bill Financing.

My name is Kyle Kempf and I am the senior director of government affairs for the National Small Business Association (NSBA), America's oldest small-business advocacy organization. Since 1937, NSBA has worked in a nonpartisan manner to promote policies beneficial to the small-business community.

On-Bill Financing: How It Works

On-Bill Financing is a collaborative mechanism among utilities, contractors, and customers aimed at making it as easy as possible for small-business owners to invest in energy-efficiency upgrades and alternative-energy sources, while realizing immediate financial benefit.

Before an On-Bill Financing program is enacted, a utility must identify a source of capital for the program. While some utilities are able to use their own capital, most rely on ratepayer funds to finance them. Unfortunately, such ratepayer funds are not available in all areas. The scarcity of capital sources has significantly impeded the spread of On-Bill Financing programs around the country.

Once a utility has located a capital source, it must identify and certify a network of contractors—usually with backgrounds in remodeling, lighting, heating, ventilation, or air conditioning—who will perform energy audits.

It is worth noting that that vast majority of these contractors are themselves small businesses. In fact, small firms provide most of the services now offered in any utility-operated energy-efficiency program, usually including everything except program administration and quality assurance, which the utilities operate. For example, more than 92 percent of the Air Conditioning Contractors of America membership base (providing services to the HVAC industry) has fewer than 50 employees—and 96 percent has less than 100 employees.

Frequently, these contractors then help identify the small-business utility customers who would most benefit from the program. Having identified a potential participant, the contractor performs an energy audit of the business premises to identify possible cost-effective efficiency measures. These audits typically take from one to four hours. At the end of the audit, the contractor sets an appointment with the small-business owner to return and present his results.

The contractors usually then enter the data they gathered during the energy audit into a standardized program and database, which produces a report detailing the measures and potential energy and cost savings for the small-business owner.

At this point, the contractor also usually works with the utility to evaluate the loan application. Ordinarily, this evaluation is based on factors such as how many years the applicant has been in business and his or her bill-payment history.

Once the application has been evaluated, the contractor once again visits the small-business owner to outline the specific improvements that could be achieved. The small-business owner may choose some or all of the measures, depending on how large a project he or she financially wants to commit to, how significant the financial benefit is, etc., but at this point he or she commits to the On-Bill Financing program.

The terms of the existing On-Bill Financing programs differ but utilities generally offer small-businesses loans at a zero percent interest rate for two to five years. Utilities also usually offer rebates ranging from 10 percent to as high as 70 percent of the total project cost.

Subsequently, the contractor—again, normally another small business—performs the upgrades and submits his invoice to the utility for payment. The utility oftentimes conducts a post-installation inspection; with the contractor remedying any identified deficiencies.

The utility then pays the contractor and begins placing a new energy-service charge for repayment on the small business's bill. The charge generally should be less than the energy cost savings. While small-business energy-efficiency projects vary greatly according to a variety of factors, they generally range from $8,000-$12,000.

Why On-Bill Financing is Attractive to Small-Business Owners

Energy is a very high overhead expense for many small businesses, one for which most have little control. This is most obviously reflected in the fact that small businesses often pay more for energy than comparable large firms.

A 2008 report, "Characterization and Analysis of Small Business Energy Costs," from the U.S. Small Business Administration Office of Advocacy found "significant price differentials between what the smallest and largest entities paid for energy in the commercial and manufacturing sectors." Many small businesses—particularly those with fewer than 35 employees in the manufacturing sector—pay 35 percent more per unit for their electricity than their largest counterparts.

Given this situation, one might surmise that small-business owners have rushed to invest in energy-efficiency upgrades or alternative-energy sources for their firms. This is not the case. Only 40 percent of the respondents to NSBA's 2011 Energy Survey—which will be released next week—reported investing in energy-efficiency improvements in the last 18 months or plans to do so; and only 16 percent said they had conducted an energy audit in the previous two years.

Small-business owners obviously are eager to cut costs whenever and wherever they can, so what is holding them back? When asked why they had not conducted an energy audit, 30 percent of the respondents cited the cost, 22 percent identified a lack of information on service providers or the auditing process, and 18 percent said a shortage of time. Forty percent of the respondents cited cash flow as the main obstacle to them making their small business more energy efficient.

In short, small-business owners lack the necessary money, time, and reliable information to invest in energy-efficiency upgrades and alternative-energy production. On-Bill Financing resolves each of these impediments.

The Potential Benefits of On-Bill Financing

In 2009, NSBA issued—conducted with funding from the Bipartisan Policy Center—the report, "On-Bill Financing: Helping Small Business Reduce Emissions and Energy Use While Improving

Profitability." The report outlined how On-Bill Financing programs work and explored their track record of success.

The study highlighted how much small-business owners could save by using On-Bill Financing programs to invest in their firms.

On-Bill Financing program administrators report that utility bill savings of 15-30 percent are highly typical—usually by the simple adoption of existing energy-efficiency strategies. Lighting alone can represent up to 40 percent of typical energy consumption in a commercial building and improved lighting is a simple and easy way to improve a small-business's efficiency.

Although energy cost savings will vary greatly from one small firm to another, the report found that an average small business could save $4,932 each year on its energy bills—with many saving much more.

Specific Examples

To illustrate, I would like to share some specific examples of actual small-business owners who used On-Bill Financing to reduce their energy costs.

In West Haven, Connecticut, Chick's Drive In—a small, family-owned restaurant known for its hot dogs and lobster rolls—used the Energy Efficiency Fund's Small Business Energy Advantage (SBEA) program at United Illuminating (UI) to improve its energy efficiency.

The UI SBEA program is designed to provide cost-effective energy-saving services for small commercial and industrial customers lacking the financial resources or in-house expertise to analyze and reduce their energy usage.

Following the energy audit from an approved UI vendor, obsolete T12 fluorescent interior lighting was replaced with high-efficiency T8 lighting, occupancy sensors were installed in work areas where there generally was little activity, high-intensity exterior lights were replaced with more efficient pulse-start technology, and motors and evaporator fan controls were upgraded. In total, the upgrades cost about $32,000—although the Energy Efficiency Fund subsidized approximately $15,000.

The upgrades are expected to reduce Chick's annual electricity consumption by approximately 48,639 kilowatt-hours a year, however. This equals a remarkable savings of roughly $9,000 per year, which means that Chick's loan should be paid off in about two years.

A small grocer in California used the On-Bill Financing program offered by San Diego Gas & Electric to invest $20,292 in improved lighting and refrigeration efficiency. The grocer received a rebate of $5,916.50, leaving him with $14,375.50 to pay back to the utility. The estimated annual energy costs savings resulted from the improvements were $5,737.45.

This translates into a payback period of 30 months. The loan term extended to the grocer by San Diego Gas & Electric was 31 months. This resulted in a customer fixed monthly loan payment of $463.73. This will loan go will practically unnoticed, given that the grocer is expected to realize $478.12 in monthly energy savings which will be used for loan repayment. Following the 31-month payback period, this small grocer simply will get to keep all of his savings.

A small retailer used San Diego Gas & Electric's On-Bill Financing program to invest $7,512.70 in lighting-efficiency improvements. This small-business owner also received a rebate for $817, leaving a total customer loan of $6,695.70. The loan term extended by the utility was 29 months. This left the small retailer with a fixed monthly loan payment of $230.89, but expected monthly energy savings of $236.43.

A health care center in Santa Ana, California installed $18,900 worth of Ozone Technology at its laundry facility to reduce the use of hot water and dryers' gas consumption. With a $9,450 incentive, this left the small-business owner with a total loan amount of $9,450. This investment left the owner with an estimated annual energy savings of $17,217 and a payback period of only ten months.

In areas that lack On-Bill Financing programs, the decision to invest in energy-efficiency upgrades or alternative-energy production is more difficult—even when potential cost savings are evident. Walco, a remanufacturing company located in Providence, Rhode Island took advantage of an energy-savings initiative sponsored by its local utility. Through the program, Walco was able to update the lighting system in its 40,000 sq. ft. production area with energy-efficient lighting. Roughly 50 percent of the approximately $52,000 cost was underwritten by the utility. The balance

was covered by Walco. Although the net energy costs saved by the new lighting allowed for a 12 month return on investment, Walco was unable to upgrade the lighting of the entire plant because of cash-flow issues. Opportunities like this need not be squandered.

Conclusion

In addition to significant financial savings for small-business owners, NSBA's "On-Bill Financing: Helping Small Business Reduce Emissions and Energy Use While Improving Profitability" report found that the environmental outcome of the widespread adoption of On-Bill Financing would be enormous.

The report found that small businesses as a whole could reduce greenhouse gas emissions by 259 million tons each year if they improve their energy efficiency by 30 percent. Remarkably, this is the equivalent of the emissions from 51 coal-fired power plants.

On-Bill Financing represents an effective way to help small business afford critical efficiency improvements. These improvements benefit: small-business owners' bottom lines; the sizable sector of the small-business community engaged in energy audits, efficiency retrofits, and alternative energy production; and the environment.

Thank you again for the opportunity to appear before you today. I thank you for your time and welcome any questions.