

## **5.3 Small Business Initiative**

### **5.3.1 Overview**

The Small Business Initiative provides turnkey efficiency services and financial incentives that cater to the needs of small businesses with peak demand of 25 kW or less. The program is designed to overcome the barriers experienced by small businesses, including the lack of capital for improvements and lack of time and expertise to analyze energy options in-house. Due to their relatively small size and lower energy use, these businesses tend to receive less attention from contractors and vendors seeking to develop new projects. This program brings information and technical support to the customer's doorstep to schedule and execute energy upgrades using a direct-install approach.

#### **Customer Segments**

During Triennial Plan II, this program targeted commercial and industrial customers having a peak demand of 100 kW or less. Starting with the Triennial Plan III period, the Trust focused the program on a smaller subset of businesses having a peak demand of 25 kW or less; these businesses are typically defined as Small General Service or General Service customers. That peak-demand limit will remain the same during the Triennial Plan IV period. More than 75,000 small business accounts are in this target market statewide; there are approximately 90,000 C&I electric customers in the State.<sup>1</sup>

Eligible customers include non-residential customers in selected geographical areas. The program has historically targeted rural and more remote areas of the State; the Trust anticipates expanding the program to more densely populated areas during the Triennial Plan IV period. The program may accelerate inclusion of an area served to meet Non-Transmission Alternative needs or reduce grid constraints. In those cases, the Trust may apply additional measures or larger business-size criteria.

#### **Channels**

This initiative is delivered through a "direct-install" approach: "direct-install" describes delivery of efficiency measures that are brought directly to the attention of the property owner at the property site, and where the equipment procurement, scheduling, and installation (with the consent of the customer) are arranged by the program delivery team and installation contractor. This differs from the prescriptive and custom program delivery approaches in which the customers (or their contractor) initiate and manage purchases and project installation.

### **5.3.2 Objectives**

- Target at least 10% of the Electricity Efficiency Procurement or \$2.6 million, whichever is greater, to programs for small business customers;
- Increase consumer awareness of cost-effective options;
- Create favorable market conditions for increased use of energy conservation;

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<sup>1</sup> Maine Public Utilities Commission, "Electricity: Delivery Rates," December 31, 2015, [https://www.maine.gov/mpuc/electricity/delivery\\_rates/shtml](https://www.maine.gov/mpuc/electricity/delivery_rates/shtml)

- Reduce total energy costs for electricity consumers in the State by increasing the efficiency with which electricity or other fuels is consumed; and
- Maintain a cost-effective, strategic approach to deliver efficiency and conservation resources to Maine's small businesses.

### 5.3.3 Market Barriers

- *Upfront costs:* Small businesses typically have limited access to capital, making it hard to invest in energy efficiency improvements that require a large, upfront payment. The increased price of the energy-efficient option is also a barrier.
- *Lack of information:* Few customers are familiar with high-efficiency choices: the program educates customers and takes the guesswork out of efficiency upgrades.
- *Lack of in-house capacity:* Few small businesses have the capacity to identify, manage, and install efficiency projects.
- *Small project size:* A small business may not have a large enough efficiency project to be viewed by a contractor as worth the time and expense of a sales call. This program incentivizes contractors to visit and market efficiency upgrades to small commercial customers by bundling the opportunity to do multiple projects at small businesses in targeted geographic areas.
- *Split incentives:* Sometimes the entity making decisions on energy conservation investments does not pay the energy bills, and therefore has little incentive to reduce them. For example, tenants in commercial rental properties may pay their own electric utility bills, but the building owner is in the position to purchase and install equipment. In cases where energy costs are included in rent, the renter does not always see the benefit from energy conservation.

### 5.3.4 Opportunity Analysis

For Triennial Plan IV, the Trust examined the retrofit lighting opportunity in Maine's smallest businesses. The assessment also explored whether the direct-install method would be a good strategy for promoting non-lighting efficiency measures in this customer group.

#### Methodology

As described in the C&I Prescriptive Program section, Efficiency Maine commissioned a study to assess the retrofit opportunity to improve lighting efficiency in Maine. The study provided an estimate of the cost-effective statewide opportunity and projections of program uptake during the Triennial Plan IV period. This statewide projection includes small, medium, and large businesses; this section and program focus only on the study findings that pertain to small businesses.

In addition to lighting savings opportunities, site assessments conducted at small businesses visited over the Triennial Plan III period indicate that there are also refrigeration and HVAC efficiency opportunities in Maine small businesses. Those findings, as well as the studies conducted on the entire C&I sector, are reflected in the C&I Prescriptive Program and Distributor Initiatives section.

## **Findings**

The lighting study found a significant lighting efficiency opportunity in the State. Much of this opportunity resides in the numerous small businesses across Maine. This opportunity and the budget associated with it can be found in Appendix A, some in this section and some in the C&I Prescriptive Program. Because the Small Business Initiative is a direct-install program, the budget allocations are driven by the planned program outreach and the geographic locations to be targeted during the Triennial Plan IV period.

Refrigeration and HVAC measures face numerous challenges to be included in the Small Business Initiative. First, in the context of this initiative these would be retrofit measures, which carry a significantly higher burden in terms of program cost. Second, their design and installation would require different trade professionals from those involved in lighting, and are not as good a fit for the turnkey, direct-install approach. With the possible exception of ductless heat pumps, the economies of scale achieved through the lighting options installed in Maine businesses would be more difficult to achieve with refrigeration and HVAC measures. Providing discounted HVAC measures through distributors is, at the moment, a more cost-effective approach. That said, the Trust will continue to assess non-lighting efficiency opportunities and consider direct installation or other approaches to provide enhanced incentives for small businesses with peak demand of 25 kW or less. These non-lighting efficiency opportunities are included in the budgets for the C&I Prescriptive Program and Distributor Initiatives.

### **5.3.5 Program Design**

#### **Addressing Market Barriers**

The Small Business Initiative is designed to overcome the primary barriers preventing Maine's very small businesses from implementing efficiency upgrades. The program addresses the upfront cost barrier by paying a larger percentage of the project cost than the incentive offered in other programs. In addition, the customer is only required to pay its portion of the project costs; the Trust pays the balance to the installing contractor. This arrangement means the customer does not need to "float" the full cost of the project upon completion and then wait for the incentive payment. In some areas, for smaller projects, customers may be able to pay their portion on their electric bill through on-bill financing.

The Small Business Initiative approach to incentives and delivery helps overcome split incentives between the landlord and small business tenant: many landlords and tenants are able to share the customer portion of the project costs. Limiting the program to a given region for a limited time (typically six months) helps spur action for participating businesses, and the limited-time offer may be all the more critical to spur action in situations where the tenant and the landlord are splitting the benefits.

The program addresses a lack of information about efficiency options and a lack of in-house capacity by providing turnkey assessment and installation services. Potential customers receive a free site assessment that details costs and benefits of lighting upgrades; if the customer is interested in upgrading, a qualified Small Business Initiative I contractor will complete the installation. Customers are

not required to identify opportunities or identify contractors, simplifying the process and allowing customers without in-house project management capacity to participate.

Small General Service customers are the focus of this program because these small businesses' efficiency projects may not be large enough to be viewed by a contractor as worth a sales call. This program incentivizes contractors to visit these small commercial customers by bundling a number of small businesses together in one targeted geographic area and negotiating attractive pricing for lighting products. The program will continue to use procurement mechanisms to ensure the lowest costs possible for the direct installation of efficiency measures.

### **Measures Promoted**

Eligible measures will continue to include LED lamps and fixtures and lighting controls for both interior and exterior applications. In addition, the Trust will continue to collect site-specific data regarding refrigeration, compressed air, and HVAC equipment, to inform consideration of expanding future eligibility of program measures.

### **Incentives and Financial Considerations**

This program model offers the small business owner a free initial, on-site assessment of select efficiency opportunities, a proposal with recommended energy-efficient upgrades, and the installation of chosen measures. This turnkey approach is paired with efficiency incentives that are higher than those offered through the C&I Prescriptive Program. The combination of direct installation and higher incentives helps overcome the greater number of barriers experienced by small businesses upgrading to efficient equipment. In some regions, the program also offers on-bill financing in cooperation with the electric utility.

To support the program, the Trust will choose an equipment distributor through a competitive bid process, and contractors who commit to a timely direct installation of select measures. Equipment distributors will be invited to participate in periodic, competitive bids for equipment; those bids will set the price for a given equipment list, for a specified region, for a limited period of time.

### **Marketing and Outreach**

Geographic targeting is a significant component of the marketing campaign: the Trust attempts to create a local "buzz" in a given region to interest potential customers. In the past, the program has mailed information to eligible customers in a given region, advertised in local papers, and worked with local business leaders to announce the opportunity to the small business community. These strategies will continue to be a focus of the Small Business Initiative's marketing and outreach. Other marketing tactics have included working with iconic local businesses to participate in the program; these local businesses then host business-to-business events and act as case studies in targeted mailings or advertisements.

Through customer lists provided by the local electric utility, the Trust also conducts direct outreach to eligible customers. This includes phone calls, on-site sales calls, and targeted mailings. Participating contractors and distributors also identify potential customers and conduct outreach and sales calls.

**Quality Assurance/Quality Control**

Potential participants must present a utility bill to verify load and eligibility for participation in the program. A customized calculator tool is used to evaluate the cost-effectiveness of every measure proposed in each project; measures that are not cost-effective on their own will be screened out of the project. A random number of projects will be inspected on-site to verify the work of each participating contractor. In addition, participants will be asked about their experience through a customer satisfaction survey.

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