June 5, 2025

The Honorable Chris Wright
Secretary of Energy
US Department of Energy
Washington DC, 20585

Dear Secretary Wright,

The Small Business Technology Council (SBTC) is concerned that the Department of Energy's recent directive limiting indirect costs rates of for-profit companies performing DOE research to no more than 15% of total project costs[1] risks substantially harming its technology development mission, as well as its ability to partner with high-tech small busiensses, like those that participate in the Small Business Innovation Research Program (SBIR). A rate of 15% is far below actual costs, which typically average 50% for small research-focused businesses, and would require them to absorb losses of 30%-35% of grant value.

Real-World Impact: A small energy technology company receiving a typical $250,000 Phase I SBIR grant would face unreimbursed costs of approximately $76,000. These indirect costs aren't bureaucratic overhead but essential functions: contract administrators ensuring federal compliance, payroll systems, IT infrastructure, shared laboratory equipment, researcher health insurance, facility rent, and office supplies. For small businesses with typical profit margins of 7-10%, absorbing a 30% loss is impossible without external subsidy.

Unintended Consequences: Rather than selecting the best companies to address DOE technology challenges, this policy will:

- Fund only companies that can afford heavy R&D losses – i.e. firms with VC backing or already-developed products – at the expense of smaller and newer companies
- Create incentives for fraud and abuse (15% de minimis rate not subject to audit)
- Redirect DOE research funding away from innovative research towards activities that would happen anyway

Policy Distortion: Instead of competition and merit driving selection, private sector subsidy availability would become the key factor. This would:

- Force R&D towards mature products and away from major advances DOE most wants
- Hamstring innovation in areas uninteresting to venture capital
- Concentrate funding in VC-supported regions contrary to Congressional intent

This policy threatens to undermine the incredible success of small business innovation programs like SBIR and STTR, and also contradicts the innovative framework created by the Bayh-Dole Act,

[1] https://www.energy.gov/articles/energy-department-aligns-award-criteria-profit-non-profit-organizations-and-state-and

which has driven scientific advancement for 45 years by encouraging technology transfer from basic research to commercial application.

DOE has been successful in stimulating America's energy economy in part by leveraging high-tech small business innovation. For America to continue its leadership in global energy technology, it must continue to partner with and encourage small business participation in its mission. **The SBTC urges the DOE to withdraw the self-destructive indirect rate cap of 15% for for-profit entities**, which will harm DOE's innovation ecosystem, and risks America's position as the global leader in energy technology innovation.

Thank you for your consideration, and we are happy to follow up with a discussion on this matter with you or your designee,

Jere W. Glover

Jere W. Glover
Executive Director
Small Business Technology Council

The Small Business Technology Council (www.SBTC.org) is the nation's largest association of small, technology-based companies in diverse fields. SBTC advocates on behalf of firms who participate in the Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) programs.