

HR1 Impacts & Strategies to Lower Energy Costs in New Mexico

Science and Technology Interim Committee

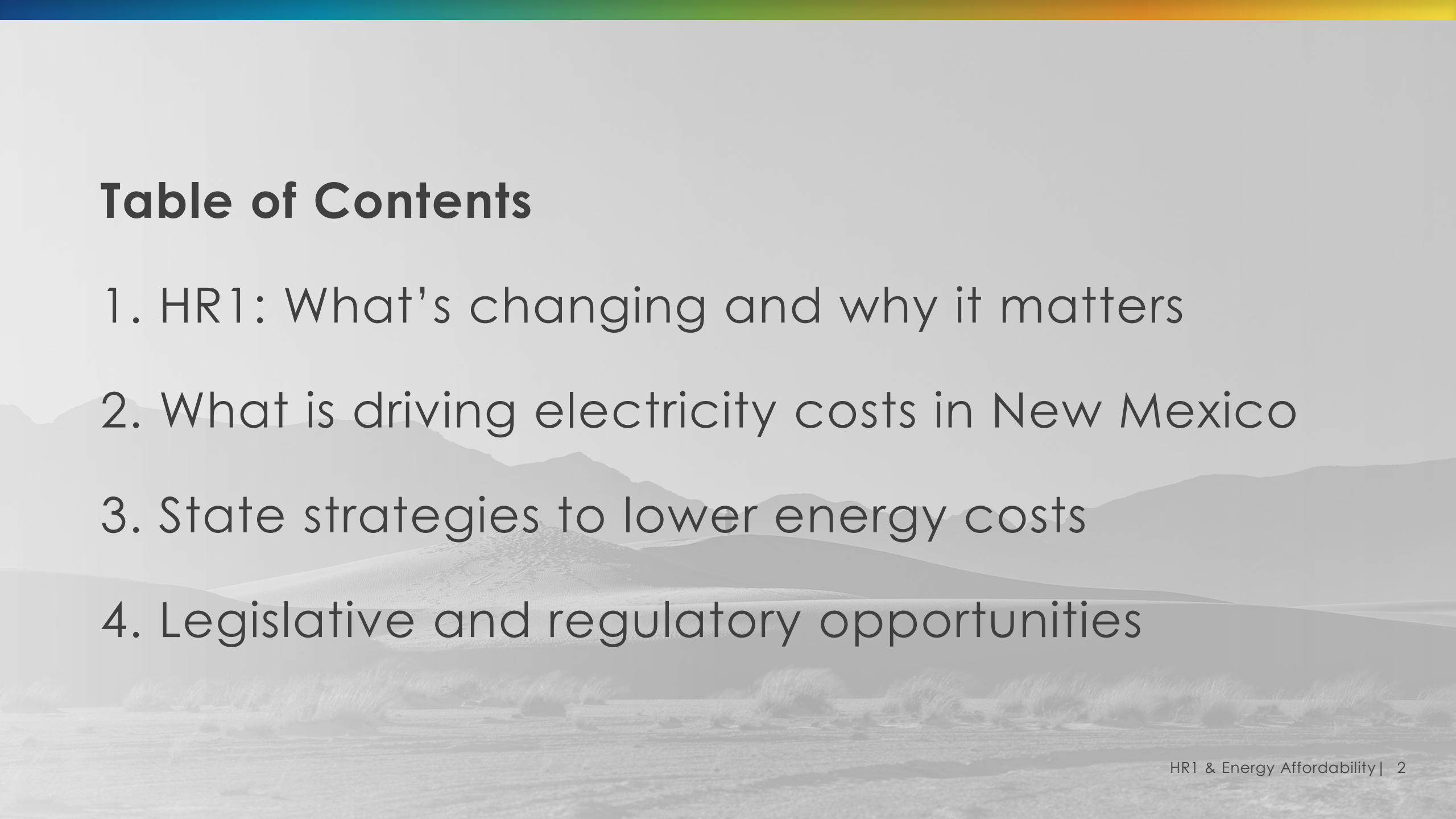
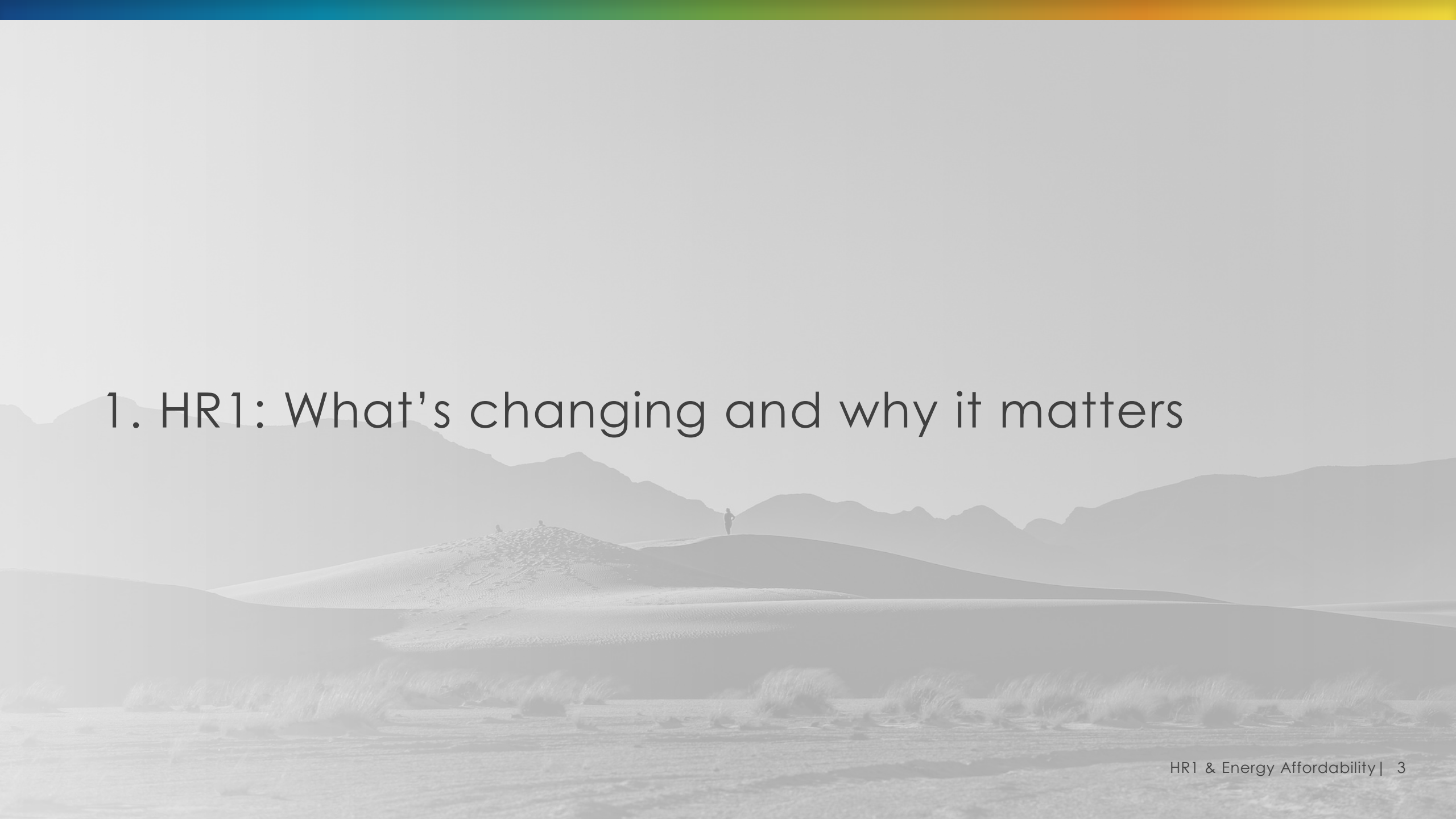


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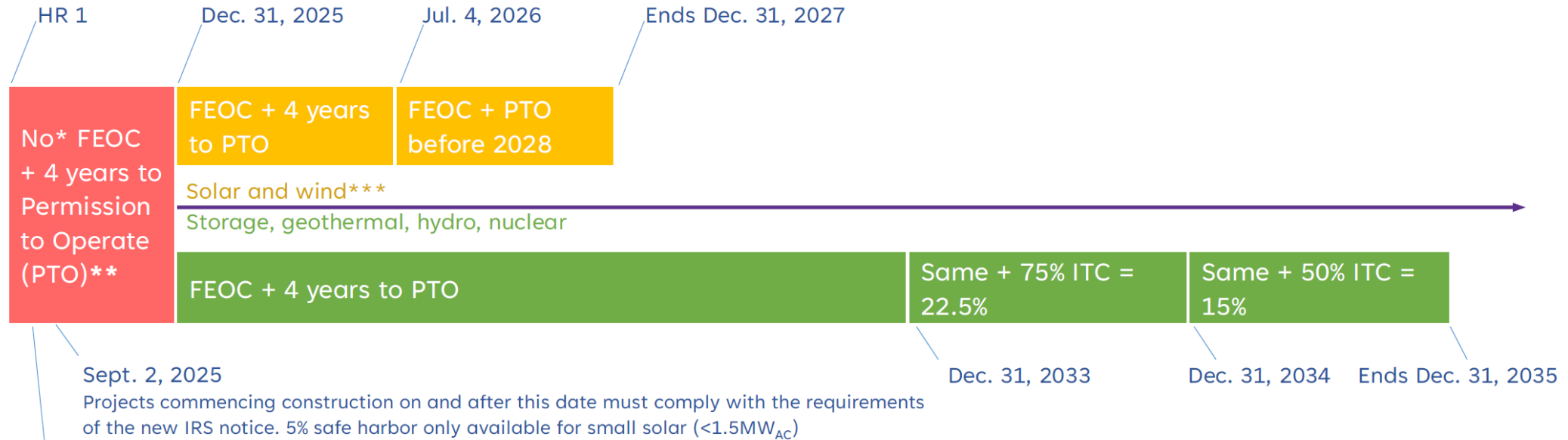
1. HR1: What's changing and why it matters

What We Had Before HR1

Incentive Type	Federal tax credit amount
Solar & Wind (utility-scale)	Varying amounts
EVs	Up to \$7,500
Home Efficiency	Up to \$3,200 for heat pumps, insulation, water heaters, etc
Residential Clean Energy	Up to 30% for solar, batteries, heat pumps

What We Are Losing

HR 1 48E investment tax credit (ITC) and 45Y production tax credit (PTC) phase-out



Aug. 15, 2025

IRS [Notice 2025-42](#) changed commence construction rules

- IRS Notice 2025-42 changes “commence construction” rules
- Projects starting after Sept 2, 2025 must meet new FEOC compliance
- Safe harbor (4 years to PTO) applies only to small solar (<1.5MW_{AC})
- ITC phases down:
 - 75% credit by 2033 → 22.5%
 - 50% credit by 2034 → 15%
 - Ends Dec 31, 2035
- Offshore wind follows separate rules

What We Are Losing

In addition to 48E ITC and 45Y PTC

- EV tax credit expired Sept 30, 2025
- Home efficiency and residential clean energy credits expire Dec 31, 2025
- Loss of federal grants (e.g., \$35M VPP grant to PNM, SFA)
- Treasury rules still pending
- Industry confusion = investment paralysis

Silver Linings

- Still available:
 - Utility-scale battery credits
 - Ground-coupled heat pumps that are third-party owned
 - Elective pay (tax credit for entities that don't pay taxes)

Compounding the losses of HR1, electricity prices are rising

On November 11, 2025, DNV* released a report predicting that "average household energy costs in North America will rise 22% after adjusting for inflation between now and 2035."

***DNV** is a global assurance and risk management firm headquartered in Norway. It specializes in energy systems forecasting, sustainability consulting, and infrastructure certification. DNV's *Energy Transition Outlook*



2. What is driving electricity costs in New Mexico

What's currently driving electricity costs in New Mexico?

- **Not large loads like data centers or crypto mining.** Correlation is not causation. These are often scapegoated, but aren't common in NM (yet). And we have lots of electrons.
- **Not transmission.** New transmission lines often unlock access to cheaper electrons, which offsets their own costs.
- **It's distribution.** The local poles, wires, and transformers in your neighborhood are aging, stressed, and increasingly expensive to maintain and upgrade.
- **Also, fluctuating natural gas costs are passed directly along to ratepayers.** This volatility makes electricity bills even more unpredictable.
- **Why it matters:** Distribution and fuel costs are embedded in every ratepayer's bill.

Why Distribution Costs Are Rising

Distribution is no longer “business as usual”—it’s a climate resilience challenge.

- **Deferred maintenance:** Because they are not allowed to ratebase operations costs, utilities may have postponed maintenance for years. Now the bill is coming due.
- **Climate adaptation:** Hotter temperatures reduce wire capacity. Hotter temperatures need thicker wires, more circuits, and smarter controls.
- **Extreme weather:** High winds, wildfires, hail, and ice storms demand stronger poles, buried lines, and hardened substations.
- **Disaster recovery:** Rebuilding damaged infrastructure is costly and recurring.
- **Supply chain constraints:** COVID-era shortages persist—especially for transformers, which are custom-built and backlogged.
- **Tariffs, high interest and inflation:** Steel, copper, and grid components are now more expensive due to global trade dynamics.

Why Distribution (& Transmission) Investment Matters

Strategic investment in transmission and distribution can unlock savings.

- **Pattern Energy's wind is curtailed.** Transmission congestion prevents cheap electrons from reaching customers.
- **Investing in distribution and transmission =** unlocking cheaper electrons to flow from where they're generated to where they're needed.
- **Distribution bottlenecks limit grid flexibility.** We average only ~50% grid utilization. Let's fully use the grid we already built and paid for.
- **Policy takeaway:** Modernizing transmission and distribution is one of the most cost-effective ways to lower rates and improve reliability.



3. State strategies to lower energy costs

State strategies to lower energy costs

- 1) Cost control – reduce unnecessary costs
- 2) Cost distribution – distribute costs fairly across the correct (and large) group
- 3) Increase customer agency and choice
- 4) Align electric utility incentives

1) Cost Control

Avoiding Unnecessary Costs

- The cheapest electron is the one we don't use. Support energy efficiency measures such as CEED, community solar, grid modernization
- Consider creating an independent third party to manage our energy efficiency programs, especially for commercial or industrial (like CA and VT)
- .. and since energy efficiency can also lower peak demand and thus avoid building more peaker plants and infrastructure, also support demand response, flexible interconnection, time-varying rates
- Deploy batteries: increase grid utilization, avoid peaker plant emissions, and enable consumer energy arbitrage
- Mitigate fluctuating natural gas prices, ask the PRC to investigate fuel cost sharing
- Streamline permitting (consider Massachusetts)
- Wildfire cost reduction: see SM2 report

1) Cost Control

Case Study: Massachusetts' 2024 Climate Act

Centralized Oversight

Executive Office of Energy and Environmental Affairs (EEA) coordinates permitting across agencies and provides standardized guidance.

Streamlined Permitting

Applies to both small-scale and utility-scale solar projects, reducing duplicative reviews and accelerating approvals.

Enforceable Timelines

Local jurisdictions must act within defined timeframes; state agencies can intervene when delays occur.

Why It Matters for New Mexico

- Permitting delays can slow the addition of more electrons to the grid
- Local jurisdictions may need state support in evaluating new technologies such as batteries.
- A state-level backstop modeled on Massachusetts would:
 - Ensure timely approvals while honoring local control
 - Reduce red tape
 - Unlock stalled projects

2) Cost Distribution

Who pays? Distribute costs fairly across the correct (large) group

- Support regulatory innovation to accompany ongoing utility innovation and system transformation (new tech suggests we consider new regulations)
- Support grid planning from the state's perspective too (NMRETA transmission study)
- Embrace distributed generation and storage for resilience, affordability
- Consider unique rates and/or tariffs for the new unique large loads (data centers, crypto)
- Support public dollars joining private dollars for grid modernization (California: transmission public-private partnership revolving loan or Alabama pre-purchasing transformers in bulk)

2) Cost Distribution

Case Study: Australia's 2026 Solar Sharer Plan

Daytime Rate Reform: Federal policy mandates energy retailers to offer *free electricity during midday hours* to households, using surplus rooftop solar.

Universal Access: Applies to all customers, including renters and apartment dwellers — extending solar benefits beyond rooftop ownership.

Grid Optimization: Shifts demand to solar-rich hours, reduces curtailment, and displaces coal and gas generation with clean daytime supply.

Why It Matters for New Mexico

- NM has abundant solar but limited midday demand.
- Rooftop solar benefits are unevenly distributed across income and housing types.
- A Solar Sharer-style policy could:
 - *Expand access to clean energy without requiring rooftop panels*
 - *Reduce curtailment and improve grid utilization, eg "soak up" midday sun*
 - *Lower peak-hour costs and emissions*
 - *Support renters and low-income households with zero-cost midday power*

3) Increase Customer Agency & Choice

Open, fair markets for distributed assets

- Enable third-party participation in distributed energy markets (solar, storage, demand response)
- Reduce barriers to interconnection, compensation, and aggregation
- Promote competition and innovation while maintaining grid reliability
- Example: Community solar and VPPs that allow non-utility ownership and operation

Ratepayer autonomy: third-party access & choice

- Allow customers to choose among service models and energy offerings, even within regulated markets
- Expand access to time-varying rates, green power options, and bundled DER services
- Policy levers: SBTC reform, tariff redesign, and pilot programs to test flexible customer offerings

Virtual Power Plants (VPPs)

- Aggregate distributed resources (solar, batteries, EVs, smart thermostats) into grid-responsive fleets
- Provide grid services like peak shaving, frequency regulation, and emergency backup
- Empower customers to participate in wholesale markets or utility programs
- VPPs reduce system costs and improve resilience without new generation or wires

4) Align IOU Incentives

So that the more ratepayers save money/electrons, the more utilities earn.

- Replace capex ROI with totex (Total Expenditure) or cost-of-service
- Decouple revenue from electricity sales
- Consider multiyear rate plans or multiyear performance framework
 - *For investor-owned utilities (IOUs), by the Public Regulation Commission (PRC)*
- Performance-Based Regulations (PBR) (e.g., Hawaii's MWh savings bonus)

4) Align IOU Incentives

Case Study: Hawaii's MWh Savings Bonus

Performance-Based Incentive Utilities earn bonuses for verified reductions in electricity use, measured in actual MWh saved through efficiency, demand response, and distributed energy.

Outcome-Driven Regulation Rewards customer savings and grid optimization instead of capital spending.

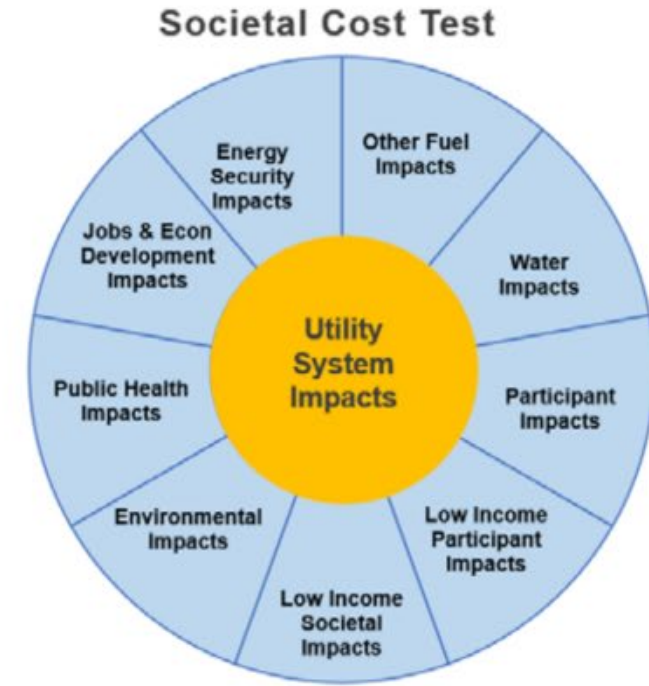
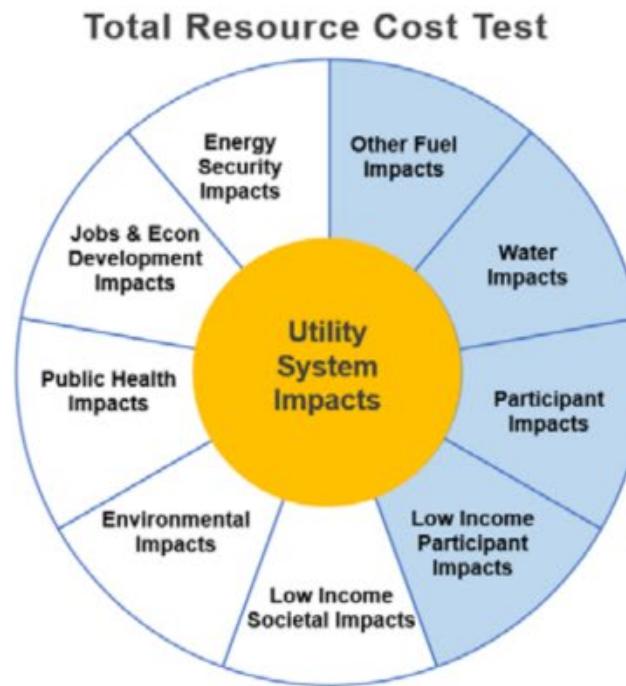
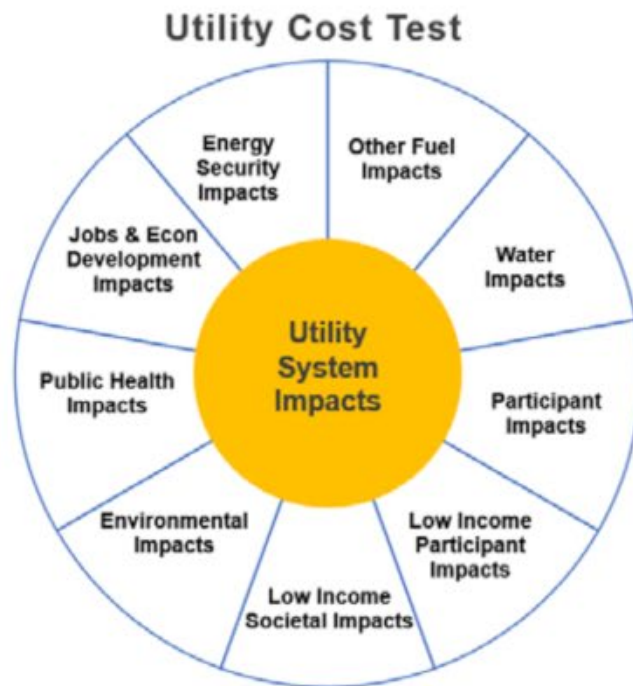
Why It Matters for New Mexico

- Aligns utility profits with public benefit
- Encourages non-wires alternatives
- Supports CEED, VPPs, and battery deployment

4) Align IOU Incentives: Expand Utility Cost Test

Include non-monetary benefits in Efficient Use of Energy Act such as:

1. Avoided greenhouse gas emissions
2. Public health improvements





4. Legislative and regulatory opportunities

Support PRC Action

*The PRC already has tools to lower costs and improve equity.
Legislative support can unlock their full potential.*

- **Low-Income Rates:** Statutory authority exists to create targeted rate structures for vulnerable households.
- **Performance-Based Regulation (PBR):** Enables outcome-driven oversight—rewarding reliability, affordability, and emissions reductions.
- **Percentage-of-Income Payment Plans (PIPP):** Aligns energy bills with household income, reducing arrears and disconnections.
- **Totex Accounting:** Allows utilities to earn returns on both capital and operating expenditures, encouraging non-wires alternatives.
- **Why It Matters:** These tools shift utility incentives, protect ratepayers, and modernize regulation without new legislation.

Support Statewide Planning

New Mexico needs a coordinated roadmap to guide transmission and electrification investments.

- **Transmission Strategy:** Identify regions desiring economic growth, interconnection bottlenecks, and regional coordination opportunities (support RETA's transmission plan).
- **Beneficial Electrification Roadmap:** Align building decarbonization, EV deployment, and grid readiness with affordability goals, while avoiding a utility death spiral.
- **Cross-Agency Coordination:** Support EMNRD, PRC, and DOT efforts to align on infrastructure, permitting, and funding.
- **Why It Matters:** Without a plan, we risk stranded assets, over- or under-building, missed federal funding, inefficient grid buildout, and missed economic development.

Support ORA

EMNRD's Office of Regulatory Affairs (ORA) is essential for ratepayer representation in complex utility proceedings.

- **Quasi-Public Advocate:** ORA provides technical expertise and legal representation on behalf of residential customers.
- **Balances Utility Influence:** Ensures rate cases, IRPs, and rulemakings reflect the holistic public interest—not just utility priorities, and not just cost (DOJ's role).
- **Deep Dive:** Nuanced analysis of utility economics and long-term best interest of the state as a whole
- **Why It Matters:** A well-resourced ORA helps enact state policy and protects ratepayers from unjustified costs.

Conclusion

*New Mexico can lead on affordability, resilience, and clean energy,
if we act strategically.*

- HR1 creates uncertainty, but NM can lead with clarity and coordination
- Distribution is the cost frontier. Modernizing it lowers bills and improves reliability and resilience.
- Smart policy = aligned incentives, empowered customers, and durable regulation.

Let's build a grid that works for everyone



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