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F I S C A L I M P A C T R E P O R T

SPONSOR: McSorley DATE TYPED: 02/06/02 HB

SHORT TITLE: Renewable Energy Production Tax Credit SB 264

ANALYST: Valenzuela

APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY02	**FY03**	**FY02**	**FY03**		
	$100.0			Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY02	**FY03**			
	($8,000.0) See Narrative	($8,000.0)	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

Duplicates SB 187

SOURCES OF INFORMATION

LFC files
Public Regulation Commission (PRC)
Taxation and Revenue Department (TRD)
Energy, Minerals and Natural Resources Department (EMNRD)

SUMMARY

Synopsis of Bill

Senate Bill 264 establishes a tax credit against corporate income tax for developers of electric generation through renewable energy resources, i.e., generation produced from low or zero emissions generation technology. Low or zero emissions generation technology includes solar light, solar heat, wind, geothermal, landfill gas, anaerobically digested waste biomass, and fuel cells. The bill defines a qualified energy generator as a facility with at least 20 megawatts of generation capacity from a qualified energy resource.

This renewable energy production tax credit is 1.0 cent/KWh for the first 400,000 megawatt-hours produced. The maximum benefit to any single generator is $4 million per year; the total incentive program cost is capped at $8 million per year (800,000 megawatt-hours per year). A generator may receive the credit for up to ten consecutive years from the production start date; the credit can be carried forward for five years. The Energy, Minerals and Natural Resources Department (EMNRD) is appropriated $100.0 to manage a certification program.

Significant Issues

In 1999 alone, U.S. wind generation capacity grew by 40 percent, bringing the nationwide total to 2,500 megawatts (MW).[1] Aside from being the fastest growing energy source in the world today, the increase in production is attributed to four main factors: consumer demand for renewable, or "green" energy; the steadily decreasing cost per kilowatt-hour of wind-generated electricity; a 1.5 cent/KWh federal production tax credit, and the increasing reliability of the technology. One result of this new "green" market has been a boom in the construction of wind power facilities. This boom provides revenue for rural landowners. Most landowners receive quarterly payments from wind developers in compensation for wind turbines built on their property.

New Mexico's neighboring states have been especially aggressive in developing wind power. Texas' electric industry deregulation law sets a goal of developing 2,000 MW of new renewable energy sources by 2009.

FISCAL IMPLICATIONS

The appropriation of $100.0 contained in this bill is a recurring expense to the general fund. Any unexpended or unencumbered balance remaining at the end of FY03 shall revert to the general fund. The EMNRD further reports that it would require a 0.5 FTE to administer its certification program.

The maximum revenue impact is a reduction of $8.0 million to the general fund. It is not likely that in the first years after enactment the impact would be this substantial because it would take time for generators to grow its capacity to the limits identified in the bill. The Taxation and Revenue Department reports that the impact would approximate to $300.0 reduction to the general fund for each 40 megawatt facility. The TRD analysis is provided below:

> "Estimate shows the annual impacts for a single 40 megawatt (Mwe) facility. The capital cost of the facility is assumed to be $30 million, and equity financing is assumed to represent 50% of this capital. Assuming a 40% availability factor, the facility would generate $1.4 million in tax credits each year, but the corporate tax liability under the above assumptions would be limited to a few hundred thousand dollars per year."

[1]Gagliano, T.: "Wind Power Development: Policy Options." National Conference of State Legislatures State Legislative Report, Vol. 25, Number 12, October 2000.

ADMINISTRATIVE IMPLICATIONS

The administrative impact would be substantial on the EMNRD and TRD to revise its rules and processes to be able to certify the generators. EMNRD reports the need for an additional 0.5 FTE for this purpose.

OTHER SUBSTANTIVE ISSUES

The Public Service Company of New Mexico recently was reported to be pursuing interests either directly or through contractual agreements to increase its generation capacity from wind energy.

POSSIBLE QUESTIONS

How many facilities are estimated to take advantage of this tax credit within the first five years?

MFV/njw:ar