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FISCAL IMPACT REPORT

SPONSOR: Cisneros DATE TYPED: 3/15/03 HB _____

SHORT TITLE: Expand Renewable Energy Tax Credit SB 813/aHTRC

ANALYST: Neel

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY03	FY04			
		(\$75.0)	Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

Relates to:

HB 146a Expand Renewable Energy Tax Credit

SOURCES OF INFORMATION

LFC files

US Energy Information Administration (EIA)

Responses Received From

Taxation and Revenue Department (TRD)

Public Regulatory Commission (PRC)

Energy, Minerals and Natural Resources Department (EMNRD)

SUMMARY

Synopsis of HTRC Amendment

The House Taxation and Revenue Committee amendment:

- Strikes language on page 4 of the bill that would have made the current and proposed credits transferable to third parties.
- Strikes changes on page 5 that provided conformity with the credit transfer mechanism.
- On page 2 of the bill, in the definition of a “qualified energy generator” the amendment would reduce the minimum size requirement from 20 megawatts to 10 megawatts.

Synopsis of Original Bill

Senate Bill 813 changes the Renewable Energy Production Credit adopted last year (Laws 2002, Chapter 59). The credit is equal to \$0.01 per kilowatt-hour for the first 400 thousand megawatt hours of power supplied per taxpayer per year. The credit may be taken against the taxpayer's corporate income tax liability. Proposed changes include:

1. In addition to solar and wind-powered facilities, the proposal would make biomass facilities eligible for the credit. "Biomass" is defined as agricultural or animal waste, tree thinning and lumbermill or sawmill residues.
2. Qualified energy resources would be expanded to include "a fluidized bed technology or similar low emissions" technology in addition to zero-emissions technology.
3. The total amount of eligible electricity for which credits could be allowed to all energy generators in a year would be increased from 800 thousand megawatt-hours to 2 million megawatt-hours. This increases the maximum potential annual revenue impact from \$8 million to \$20 million. The actual impact of the proposal is unlikely to reach these levels.

Taxpayers are eligible for the tax credit for ten consecutive years, beginning when the qualified energy generator begins producing electricity. A qualified energy generator must operate a facility with at least 20 megawatts generating capacity in New Mexico employing one or more of the sources listed above, and must sell the electricity to an unrelated person. The Energy, Minerals and Natural Resources Department (EMNRD) is responsible for determining if taxpayers qualify for the credits. Credits can be carried forward for up to five consecutive years when a firm's credits exceed their current tax liability.

SB 813 allows for the tax credit to be sold, exchanged or transferred for a period of up to five years.

FISCAL IMPLICATIONS

TRD notes the near-term impact of the proposal is limited by the small number and capacity of eligible facilities in the state. At present there are only a small number of eligible facilities under development. However, the Public Regulation Commission ("PRC") has recently ordered the state's utilities to significantly increase the share of renewable energy in their total sources of supply to New Mexico consumers. Thus, revenue impacts of the proposal will probably increase as facilities are developed to meet the new PRC requirements. The total impacts are unlikely to reach the maximum amounts permitted (up to \$20 million per year) because of the limited amount of eligible capacity and also because the corporate income tax liabilities of the producers and their affiliates are unlikely to be that large. The fiscal impacts shown for FY 2005 assume two eligible facilities of 20 Mwe capacity each are operating in the state. Actual capacity in the state may not increase that quickly, but it is likely that total capacity—and the fiscal impact—will exceed this level after a period of several years.

Longer term impacts are noted by EMNRD in a study on the *Potential Economic Benefits from Commercial Wind Power Facilities in the State of New Mexico* conducted by the BBC Research & Consulting Group which concluded that five facilities, each with a generating capacity of 40 megawatts, would produce \$60 million in statewide sales, \$20 million dollars in wages for one

year, \$2.5 million in on-going sales, 60 on-going jobs statewide, \$225,000 in annual royalty revenues for the state land fund and \$400,000 each year to the general fund from gross receipts and income taxes.

TECHNICAL ISSUES

The PRC notes that SB 813 defines a “qualified energy resource” to include “a fluidized-bed technology”. But this technology is currently also used in some coal-fired generation units, which are probably not intended to receive a renewable energy production tax credit.

OTHER SUBSTANTIVE ISSUES

According to TRD, the Public Regulatory Commission (PRC) has regulations requiring energy providers to distribute 2 percent of their total energy supplies through renewable energy sources by September 1, 2003. However, according to EIA, New Mexico in 1998 generated only 235 megawatt-hours or 0.7 percent of its energy needs from renewable sources - substantially short of PRC’s requirement. PRC’s renewable energy requirements are scheduled to increase to 5 percent on September 1, 2005 and 10 percent on September 1, 2007.

TRD’s analysis notes other state, local and federal incentives for renewable power generators that include federal renewable production tax credits, federal renewable energy production incentives, accelerated depreciation and systems benefits charges that provide financial support for renewable energy development.

According to EIA, bio mass is organic material which has stored sunlight in the form of chemical energy. Biomass fuels include wood, wood waste, straw, manure, sugar cane, and many other byproducts from a variety of agricultural processes and account for 38 percent of the renewable energy market; however in 2000 renewable energy accounted for only 7 percent of the total energy consumed in the U.S.

SN/yr/njw