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

SPONSOR B. Lujan **ORIGINAL DATE** 1/24/08 **LAST UPDATED** **HB** 305

SHORT TITLE Utility Customer Load Management **SB**

ANALYST Haug

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY08	**FY09**		
	NFI		

(Parenthesis ( ) Indicate Expenditure Decreases)

SOURCES OF INFORMATION
LFC Files

Responses Received From
Energy, Minerals & Natural Resources Department (EMNRD)

No Response
Public Regulation Commission (PRC)

SUMMARY

Synopsis of Bill

House Bill 305 amends the Efficient Use of Energy Act of 2005, NMSA 1978, Section 62-3-1, to provide for energy efficiency and load management for public utility customers. HB 305 directs electric and gas utilities to acquire all cost-effective and achievable energy efficiency resources. Electric utilities must achieve a five percent energy efficiency savings from 2005 electricity sales by 2014, and 10 percent by 2020. The Public Regulation Commission (PRC) can set alternative energy efficiency requirements if the electric utility demonstrates it cannot meet the minimum requirements. Beyond the current law that allows utilities a mechanism to recover the costs of their energy efficiency programs, HB 305 directs the PRC to develop incentives that allow utilities "…the opportunity to earn a profit on cost-effective energy efficiency…that…is financially more attractive than developing supply-side resources," such as new electric power plants.

HB 305 authorizes the PRC to approve "energy efficiency programs designed to reduce the burden of energy costs on low-income customers". The bill also declares that it is necessary to provide financial incentives to energy efficiency and load management resources; maintains and

clarifies that PRC-approved energy efficiency programs must be cost effective, that is, less expensive than pursuing new sources of supply; allows the PRC to require utilities to solicit competitive bids from third party contractors for energy efficiency services; maintains the existing total per customer cost impact cap of $75,000/year; strengthens the energy efficiency measurement and verification requirement; and requires a detailed assessment of the utility's energy efficiency programs every three years by an independent program evaluator.

SIGNIFICANT ISSUES

The EMNRD states:

> The Efficient Use of Energy Act of 2005 directs electric and gas utilities to develop, fund, and implement comprehensive, cost-effective energy efficiency programs. As energy costs continue to rise, there is a desire to strengthen the act to more rapidly deliver cost effective energy efficiency to utility customers instead of building costly new power plants. Utilities in New Mexico currently have no incentive to aggressively pursue effective energy efficiency, as electric utilities' profits are currently tied to building new power plants and selling electricity
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> While energy efficiency programs have some upfront costs, the intermediate and long-term savings are substantial. For example, it is in the utility consumer's best interest to spend 3 to 5¢ per kilowatt hour (kwh) on energy efficiency, rather than spend over 8¢/kwh building a new natural gas-fired power plant. Energy efficiency programs need to begin as soon as possible to be effective in eliminating some of the utilities' anticipated supply generation needs.
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> HB 305 requires utilities to conduct an energy efficiency potentials study to determine all the energy efficiency measures that are less expensive than building new supply, then fund and implement all those measures. Experience in other states indicates that utility energy efficiency programs will be the most robust if incentives are developed that make achieving energy efficiency more profitable to the utility than selling more electricity or natural gas. Some argue that utilities should be required to do energy efficiency because it's in the consumers' best interest and the right thing to do. For funding and implementing energy efficiency measures, rewarding a utility slightly more for doing the right thing than for pursuing more costly new supply generation makes sound fiscal sense. The savings of pursuing energy efficiency over building new power plants is so great that consumers are still better off, even if they share a small portion of that savings with the utility.
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> There are currently nearly 120,000 low-income New Mexico households in need of energy efficiency retrofits. Natural gas and propane prices have increased in recent years and are likely to continue their upward climb. Energy price increases disproportionately affect low- and moderate-income households by significantly raising the percentage of income required for utility bills: while most people pay 3% of income on energy bills, the poor pay 15%. Energy efficiency retrofits can reduce energy usage and result in savings of several hundred dollars per household per year. HB 305 authorizes the PRC to approve energy efficiency programs designed to reduce the burden of energy costs on low-income customers.

EMNRD comments that HB 305 would assist EMNRD to meet its strategic goal to promote energy conservation in New Mexico's economy including the residential, commercial, institutional, and industrial sectors. It would also help meet Executive Order 2007-053, which requires New Mexico to reduce energy consumption 10% by 2012 and 20% by 2020.

OTHER SUBSTANTIVE ISSUES

ENMRD states that:

HB 305 maintains and clarifies that PRC-approved energy efficiency programs must be cost effective, that is, less expensive than pursuing new sources of supply. This ensures that utility consumers only fund efficiency programs that truly are less expensive than building new supply.

The bill allows the PRC to require utilities to solicit competitive bids from third party contractors for energy efficiency services. This allows the PRC to consider whether some utility-delivered energy efficiency programs might be more effective or less costly if delivered by experienced energy efficiency contractors.

HB 305 strengthens the energy efficiency measurement and verification requirement by requiring a detailed assessment of the utility's energy efficiency programs every three years by an independent program evaluator. Measurement and verification is a critical component to verify both the amount of energy savings actually realized and the costs of achieving those savings. The granting of utility financial incentives for energy efficiency programs is usually directly tied to the measurement and verification findings.

GH/bb