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## FISCAL IMPACT REPORT

		<b>LAST UPDATED</b>	<u>2/20/2025</u>
<b>SPONSOR</b>	<u>Hochman-Vigil</u>	<b>ORIGINAL DATE</b>	<u>2/3/2025</u>
	Distribution System and Electrification	<b>BILL</b>	House Bill 13/a
<b>SHORT TITLE</b>	<u>Plans</u>	<b>NUMBER</b>	<u>HENRC</u>
		<b>ANALYST</b>	<u>Rodriguez</u>

### ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT\* (dollars in thousands)

Agency/Program	FY25	FY26	FY27	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
PRC	No fiscal impact	\$251.1	\$251.1	\$502.2	Recurring	General Fund
NMAG	No fiscal impact	\$97.0	\$97.0	\$194.0	Recurring	General Fund
Total	No fiscal impact	\$348.1	\$348.1	\$696.2	Recurring	General Fund

Parentheses ( ) indicate expenditure decreases.  
\*Amounts reflect most recent analysis of this legislation.

### Sources of Information

LFC Files

Agency Analysis Received From  
Public Regulation Commission (PRC)  
Energy, Minerals and Natural Resources Department (EMNRD)  
New Mexico Office of the Attorney General (NMAG)

## SUMMARY

### Synopsis of HENRC Amendment to House Bill 13

The House Energy, Environment, and Natural Resources Committee's amendment to House Bill 13 (HB13) removes the section establishing a virtual power plant program entirely. It permits utilities to incorporate performance-based compensation for aggregated distributed energy resources in their distribution system plans. Additionally, the amendment revises the definition of “beneficial electrification,” explicitly excluding the avoidance of non-electric fuel sources in new construction or industrial applications.

### Synopsis of Original House Bill 13

HB13 requires electric public utilities to develop and file detailed distribution system plans and beneficial electrification plans with the Public Regulation Commission (PRC). The proposed distribution system plans would allow utilities to proactively plan, engineer, and upgrade their electrical distribution system to ensure customers can connect without delays and meet air quality and decarbonization standards. HB13 beneficial electrification programs encourage the transition from fossil fuels to electricity in residential, commercial, and industrial sectors. The

original bill also establishes a virtual power plant program, which enables electric utilities to aggregate distributed energy resources for the purpose of enhancing grid reliability and efficiency and requires PRC to set performance targets and compensation structures. HB 13 allows utilities to recover costs related to beneficial electrification programs and distribution system upgrades through base rates, tariff riders, or both.

***Detailed Synopsis***

Section 1 enacts a new section to Article 62-8 NMSA 1978 that requires electric utilities to plan and upgrade their distribution systems to meet air quality and decarbonization standards and ensure customers can connect without delays, while submitting detailed plans to PRC including costs, timelines, and strategies for using distributed energy resources. Utilities will also need to file plans every three years and may apply for cost recovery through tariffs or rate changes, with PRC approving plans based on cost-effectiveness and benefits.

Section 2 amends the Efficient Use of Energy Act to include additional definitions. The bill defines “beneficial electrification” as converting a customer’s energy use from a non-electric source, such as like gas or oil, to a more efficient electric source or avoiding the use of non-electric fuel sources in new construction.

Section 3 creates a new section of the Efficient Use of Energy Act that establishes and oversees beneficial electrification plans for utilities, requiring them to set targets for greenhouse gas reductions, file plans every three years, ensure participation from all customer types, and allocate funds for low-income households while allowing utilities to recover program costs.

Section 4 enacts a new section to the Public Utility Act that requires PRC to create rules for a virtual power plant program, allowing both utilities and third parties to manage distributed energy resources, with a deadline for implementation by February 1, 2026.

This bill does not contain an effective date and, as a result, would go into effect 90 days after the Legislature adjourns if enacted, or June 20, 2025.

**FISCAL IMPLICATIONS**

HB13 would require additional staff hours at PRC to implement the various provisions of the bill, including establishing beneficial electrification targets, reviewing applications and plans submitted by utility companies, and reviewing and approving tariff riders and changes in base rates. The agency indicates that the bill would require additional staff hours for its attorneys, economists, engineers, and hearing examiners. The New Mexico Office of the Attorney General (NMAG) also indicates the need for additional staffing to review rule making and utility applications required by HB13. The estimated impact to NMAG is based on the partial costs of an attorney.

LFC estimates a total recurring fiscal impact of \$696.2 thousand in FY26 and FY27, since, if enacted, the bill would not go into effect until June 20, 2025, for PRC and NMAG to complete the necessary steps required in HB13.

## SIGNIFICANT ISSUES

**Recovery of Costs.** HB13 allows public utilities to recover reasonable costs associated with distribution system upgrades and beneficial electrification programs through tariff riders, base rates, or a combination of both approved by PRC. While it is hard to determine the actual costs, PRC may have to approve plans that, while increasing grid reliability, could cost millions of dollars to utility companies; this could result in an increase to ratepayers.

Additionally, EMNRD raises concerns that, while the bill does support reducing unnecessary grid upgrades through distributed energy resource planning, the bill does not address the existing rate structures guiding utilities. These existing structures incentivize utilities to maximize electricity sales and capital expenditure. EMNRD argues that the existing rate structure could hamper this bill's objective, but the issue could be addressed by enabling PRC to establish shared savings mechanisms that incentivize distributed energy resources.

**Rulemaking.** HB13 requires two different rules to be promulgated:

- Distribution plan rules by December 1, 2025, and
- Beneficial electrification rules by January 30, 2026.

PRC notes that the timeline to promulgate the rules in HB13 may be insufficient.

**Review and Filings tied to Beneficial Electrification Plans.** HB13 requires PRC to take final action on beneficial electrification plans and any related recovery rate recovery mechanism within 180 days. PRC notes issue with the timeline, as it may create uncertainty with other programming and decisions regarding the Efficient Use of Energy Act. Currently, the Efficient Use of Energy Act has no statutory deadlines, and PRC normally takes longer than 180 days to vet, adjudicate, and approve programs and cost mechanisms. PRC notes that the combined filing of beneficial electrification plans with unapproved or new plans pursuant to the Efficient Use of Energy Act may result in PRC reviewing plans on separate tracks and on different timelines. As noted in the "Fiscal Impact" section, NMAG also anticipates increased workload to review submitted plans and for the required rulemaking in HB13.

**Preordering Equipment.** Permitting utilities to preorder equipment could result in stockpiling materials at significant cost that would be passed on to ratepayers. The Legislature will need to weigh the possible costs of preordering transformers and equipment and, therefore, possible costs to ratepayers, against the possibility of reducing wait times for customers to be connected to the grid. As addressed by the National Infrastructure Advisory Council in their June 2024 report, an electric utility or generation developer that orders a transformer may have to wait 2 to 4 years for it to be delivered. The price of transformers has also increased by 80 percent compared to the beginning of the pandemic.

## ADMINISTRATIVE IMPLICATIONS

HB13 allows utilities to submit tariff riders or changes in the base rate for approval to recover costs for distribution system plans and beneficial electrification programs. The requirements for PRC in HB13 would be a significant burden to the agency. Typically, general rate cases in New Mexico can take nine months to a year for full review and approval, depending on complexity,

stakeholder input, and the need for hearings or modifications. For filings and approvals for tariff riders, the general timeline is between three months and one year, depending on the type of case, issues being raised, and the number of interveners.

## OTHER SUBSTANTIVE ISSUES

**Renewable Energy Goals.** The Energy, Minerals and Natural Resources Department (EMNRD) notes that the purpose of HB13 is to support the state’s broader energy transition goals, such as reducing greenhouse gas emissions, while maintaining, and possibly increasing, affordability for ratepayers. EMNRD states that HB13 “would help push the state’s public electric utilities to meet the renewable energy goals as set forth in the Renewable Energy Act (Section 62-16-4 NMSA 1978) and the greenhouse gas emission reduction goals as set forth in the Governor’s executive order 2019-003.”

**Filing Cadence.** EMNRD argues that the proposed filing cadence outlined in HB13 could support greater system efficiency by leveraging linkages between the distribution system, transmission system, and generating resource procurement. EMNRD argues that distribution system planning should come first, as allowed in HB13, as the information would guide utilities’ integrated resource plan processes in determining generation and transmission asset needs.

**Distribution System Planning Requirements Already in Progress.** EMNRD notes that many of the distribution system planning requirements in HB13 are currently being addressed in the draft rule proposed in PRC Docket No. 22-00089-UT. The required hosting and additional load capacity maps as outlined in this bill could augment requirements currently under deliberation at PRC, specifically as they relate to distributed energy resource solutions for grid upgrades

**Performance-Based Compensation.** The HENRC amendment to HB13 allows utilities to propose and include performance-based compensation for aggregated distributed energy resources in their distribution plans, which could incentivize utilities to expand distributed energy resources based on how the resources support the grid, such as by improving efficiency or enhancing reliability. Utilities companies could propose a variety of ways to include performance-based compensation, such as proposing a high rate of return on aggregate distributed energy resources.

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