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

		ORIGINAL DATE	02/22/11		
SPONSOR	SCONC	**LAST UPDATED**	03/15/11	**HB**	
SHORT TITLE	Renewable Energy Transmission Cost Recovery			**SB**	57/SCONCS/aSJC/ aHENRC
				ANALYST	Hanika-Ortiz/Daly

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY11	FY12	FY13	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
Total		*See fiscal implications				

(Parenthesis ( ) Indicate Expenditure Decreases)

SOURCES OF INFORMATION
LFC Files

Responses Received From
New Mexico Renewable Energy Transmission Authority (RETA)
Public Regulation Commission (PRC)

SUMMARY

Synopsis of HENRC Amendment

The House Energy and Natural Resources Committee amendment adds to the list of factors that can be recovered by a qualified electric utility in a transmission cost recovery clause the costs of transmission infrastructure improvements due to New Mexico renewable portfolio standard needs to serve the utility's own customers.

Synopsis of SJC Amendment

The Senate Judiciary Committee Amendment removes from the list of requirements for a transmission cost recovery clause, the ability of an investor owned electric utility to file an application for new rates to be collected under a new transmission cost adjustment clause, during the maximum 36 month period a transmission adjustment clause is in effect.

Synopsis of Original Bill

The Senate Conservation Committee Substitute for Senate Bill 57 amends the Public Utility Act by directing PRC to adopt rules that would allow investor-owned electric utilities to recover reasonable transmission infrastructure improvement costs. Recovery of these costs would be allowed on an annual basis through a "transmission cost adjustment clause" (TCAC) and would make changes in the utility's wholesale transmission charges under a regional transmission tariff.

Cost recovery can only be to the extent that the costs or charges have been incurred since the end of the test year in the utility's most recent base-rate case.

Requirements and procedures for a TCAC are as follows:

- the utility must be investor-owned with at least 100,000 electric retail customers;
- PRC may allow the utility to recover costs necessary to reliably serve its own customers;
- PRC shall not allow the utility to recover more revenue than what is authorized by the TCAC;
- the utility can amend its TCAC only once each calendar year;
- rates for the TCAC shall be in effect for 36 months, but the utility may file for new rates under a new TCAC;
- upon completion of a base rate case, the TCAC will be set at zero; and
- at the end of a TCAC any over-recovery shall be refunded, but under-recovery must be absorbed by the utility.

Ratepayers will be held harmless if a utility declines to construct or own the transmission facility, and the resultant charges are higher than the costs would have been if the utility had built or owned it. The utility will report annually to the PRC and wholesale customers that its excess costs due to declining to own or construct a transmission facility that are not recovered from its retail customers, will not be passed on to wholesale customers. The utility will also need to inform the PRC and the wholesale customers if it elects to not construct or own the new transmission facilities.

FISCAL IMPLICATIONS

The utility may not recover more revenue than what is authorized through the TCAC. After the rates of a TCAC expire, the commission may order the refund of any over-recovery that may have occurred during the period when the TCAC was in effect. Any over-recovery shall be considered to have occurred if the revenues collected under the TCAC were greater than the costs and charges that the TCAC was intended to recover.

Additional cost recovery could result in higher rates for government facilities. The actual amounts are unknown, and would be determined by a PRC rate case. In FY10 the state incurred electric utility costs of $2.1 million for its state-owned buildings.

SIGNIFICANT ISSUES

PRC claims that the committee substitute is the result of compromise negotiations among affected parties. The substitute provides protections for rural electric cooperatives and sets forth specific requirements and procedures for PRC approval of any TCAC.

The bill isolates transmission facilities from other elements of the overall utility plant or system and provides for a separate regulatory treatment for those facilities.

The bill may help facilitate the construction of new transmission lines as well as enhancement of existing lines in New Mexico.

PERFORMANCE IMPLICATIONS

The lack of sufficient transmission capacity is one of the biggest impediments to developing significant amounts of utility-scale renewable energy in New Mexico. Adjacent renewable energy producing states are ahead of New Mexico in providing transmission capacity for renewable energy.

OTHER SUBSTANTIVE ISSUES

Xcel Energy is the only utility in the State that is part of a regional transmission organization. Xcel asserts that based upon its experience with the State’s rulemaking process, the earliest a utility could file for a transmission cost recovery rider would be late in 2012. After the utility files its application, the PRC conducts a case to consider the application which could take eight months or more. Only then would a utility begin charging rates to electric customers under the transmission cost recovery rider. Thus, the earliest the first rate rider would take effect would be during the second quarter of 2013—and more realistically after July 1, 2013.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

Utilities will continue to petition the PRC for cost recovery from ratepayers for any system improvement construction.

AHO/bym:mew