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FISCAL IMPACT REPORT

ORIGINAL DATE 02/22/11

SPONSOR Wirth LAST UPDATED _____ HB _____

SHORT TITLE Utility Cost Test Cost Effectiveness SB 276

ANALYST Daly

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY11	FY12	FY13	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
Total	NFI	NFI	NFI			

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Public Regulation Commission (PRC)

Energy, Minerals & Natural Resources Department (EMNRD)

New Mexico Environment Department (NMED)

SUMMARY

Synopsis of Bill

Senate Bill 276 amends the Efficient Use of Energy Act [Section 62-17-4 & 5 NMSA 1978] (the Act) to redefine when a public utility's proposed energy efficiency programs may be considered to be cost effective. Currently the PRC applies what is called the "total resource cost test," to be weighed against the energy savings in the proposed programs.

The phrase "total resource cost test" is replaced with the term "utility cost test." This means that the costs borne by the program participants are no longer to be considered in the evaluation of whether a proposed program's benefits outweigh its costs.

FISCAL IMPLICATIONS

Agencies report there is no fiscal implication to the State.

SIGNIFICANT ISSUES

The NMED explains the effect of SB 276:

When deploying new energy efficiency strategies, the PRC requires the cost of these strategies to be less than supply side resources such as electricity generated from coal or

natural gas. The current cost test, the “Total Resource Cost Test”, includes the non-utility costs borne by the customer. The proposed utility cost test does not include participants’ costs in the determination of costs of energy efficiency or load management programs. Assessing only the utility costs when comparing supply and demand side resources would result in more energy efficiency programs meeting the cost-effectiveness requirement of the Act than using the currently required test.

The EMNRD further clarifies:

The current method of making the calculation allows utilities to include unspecified costs beyond those incurred directly by its energy efficiency programs, thus potentially inflating costs of those programs and enabling fewer programs to be determined “cost-effective” in comparison to conventional power generation costs.

The PRC reports that energy efficiency programs could be more expeditiously reviewed with fewer factors to consider, but warns:

On the other hand, the cost to consumers, in the short run, will increase if more energy efficiency programs are found to be cost-effective and are approved. Costs to consumers include the actual costs of the energy efficiency programs themselves, plus tariff riders that, pursuant to the Act, 1) remove regulatory disincentives for utilities to pursue energy efficiency and 2) provide incentives to utilities to pursue energy efficiency.

PERFORMANCE IMPLICATIONS

The ENMRD advises that SB 276 will further decouple utility rates from revenue, assisting it in meeting a significant condition for its receipt of federal stimulus funding. The Department is implementing \$31.8 million of that funding for DOE State Energy Program projects, benefiting New Mexicans throughout the state. To obtain that funding, New Mexico made a commitment to DOE for the PRC to provide cost recovery for utilities undertaking cost-effective energy efficiency programs (decoupling).

The NMED reports that the objective of the legislative air quality performance measures is to improve and protect air quality by decreasing the number of non-attainment areas and proactively address air quality where it is degrading. The Department’s Air Quality Bureau has a legislative performance measure to reduce annual statewide greenhouse gas emissions to a target level. This bill will assist NMED in achieving this performance measure.

OTHER SUBSTANTIVE ISSUES

The NMED advises it can take credit for pollutants averted through renewable energy production in state implementation plans required pursuant to the Clean Air Act. Increased renewable energy production and energy efficiency programs decrease the need for energy production from fossil fuels, resulting in reduced greenhouse gas and ozone precursor (nitrogen oxide and volatile organic compound) emissions. This could result in fewer requirements for other sources of these emissions in potential nonattainment areas.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

The NMED notes that it will rely on energy efficiency or load management programs meeting the cost-effectiveness requirement of the Total Resource Cost Test in existing law in determining credit for state implementation plans required pursuant to the Clean Air Act. An unknown additional number of such programs would not meet cost-effectiveness requirements and could not be used for state implementation credit.

MD/svb