FISCAL IMPACT REPORT

BILL NUMBER: CS/Senate Bill 235/SCONCS
SHORT TITLE: Microgrid Oversight Act

SPONSOR: Senate Conservation Committee
LAST UPDATE: 2/12/2026 **ORIGINAL DATE:** 2/07/2026 **ANALYST:** Rodriguez

REVENUE*
(dollars in thousands)

Type	FY26	FY27	FY28	FY29	FY30	Recurring or Nonrecurring	Fund Affected
Microgrid oversight fee		Indeterminate but minimal gain	Indeterminate but minimal gain	Indeterminate but minimal gain	Indeterminate but minimal gain	Recurring	General Fund

Parentheses indicate revenue decreases.
*Amounts reflect most recent analysis of this legislation.

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT*
(dollars in thousands)

Agency/Program	FY26	FY27	FY28	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
PRC		At least $300.0	At least $300.0	At least $600.0	Recurring	General Fund

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

Conflicts with Senate Bill 39
Relates to Senate Bill 78

Sources of Information

LFC Files

Agency or Agencies Providing Analysis
Public Regulation Commission
Energy, Minerals, and Natural Resources Department

Agency or Agencies That Were Asked for Analysis but did not Respond
New Mexico Attorney General
University of New Mexico
Economic Development Department

SUMMARY

Synopsis of Senate Conservation Committee Substitute for Senate Bill 235

The Senate Conservation Committee substitute for Senate Bill 235 (SB235/SCONCS) enacts the

Microgrid Oversight Act, requiring the Public Regulation Commission (PRC) to regulate and enforce renewable and zero-carbon standards for microgrids, establish escalating targets reaching 100 percent zero-carbon by 2045, require annual compliance reporting, and authorize the PRC to halt noncompliant operations. SB235/SCONCS allows limited compliance credit through low-income solar projects and restricts utility energy purchases and approvals for self-generation when such actions would increase rates to cover microgrid infrastructure costs. The provisions outlined in SB235/SCONCS apply only to investor-owned utilities (IOUs) and do not apply to rural electric cooperatives.

The bill establishes renewable portfolio standards for microgrids as such:

Target Date	Minimum Renewable and Zero-Carbon Requirement	Notes
January 1, 2028	40 percent renewable	For microgrids that begin operation prior to May 20, 2026
Upon startup	40 percent renewable	For new microgrids that begin operation on or after May 20, 2026
January 1, 2030	50 percent renewable	Applies to all microgrids
January 1, 2040	80 percent renewable	Applies to all microgrids
January 1, 2045	100 percent zero-carbon	Applies to all microgrids

SB235/SCONCS allows microgrid owners or operators to meet up to 10 percent of their renewable portfolio standard requirement by purchasing and installing residential or community solar systems that benefit low-income households. Eligible systems must be located in New Mexico, installed on or after May 20, 2026, and generally within the same county as the microgrid, with priority given to nearby residents. The estimated annual energy output of these systems may be credited toward compliance over their projected lifespan. Operators must demonstrate that the generation is not double-counted and must document their compliance calculations. Solar systems used to meet this compliance option are not eligible for state solar tax credits.

Additionally, SB235/SCONCS permits microgrid owners to purchase energy from utilities, provided that such purchases do not increase rates to cover the cost associated with microgrid infrastructure development. Finally, SB235/SCONCS strikes definitions in Section 62-17-12 that are duplicated elsewhere in the bill.

SB235/SCONCS also amends Section 62-17-12 NMSA 1978, which governs public utilities' acquisition of self-source generation resources and energy. The bill removes the existing requirement that rates for self-source generation consider public interest, need, reliability, and affordability. Instead, SB235/SCONCS directs PRC to deny approval for the acquisition of self-source generation resources or energy if doing so would raise rates to cover the cost associated with microgrid infrastructure development. The bill also strikes language specifying that energy generated or sold from a self-source generation resource that is owned in whole or in part by a qualified microgrid will not be considered retail sales or energy under Sections 62-15-34, 62-16-4, and 62-18-19 until 2035 and that by 2045, all energy produced by a microgrid must be from net-zero carbon resources.

SB235/SCONCS requires microgrid operators to report compliance with the act every January starting in 2027.

The committee substitute defines low-income households as those whose annual income is at or below 80 percent of the area median income, enrolled in a state or utility-run low-income assistance program, or otherwise designated as low-income by PRC. The committee substitute

also adds definitions for renewable energy, renewable energy sources, and zero carbon energy.

This bill does not contain an effective date and, as a result, would go into effect 90 days after the Legislature adjourns, which is May 20, 2026.

FISCAL IMPLICATIONS

SB235/SCONCS could have a positive impact on the general fund by authorizing the PRC to collect fees from microgrid owners and operators to cover the cost of agency oversight. However, the amount of fee revenue that could be generated is difficult to estimate. See "Technical Issues" for additional discussion of fee collection.

SB235/SCONCS would increase PRC's administrative responsibilities, including compliance review, verification of the installation and calculation of residential solar energy system off-sets, and enforcement proceedings to prohibit the operation of microgrids that fail to meet the requirements of the act. SB235/SCONCS also allows microgrid owners to buy electricity from a utility only if the purchase does not raise customer rates to pay for microgrid infrastructure, and it prohibits PRC from approving utility purchases from microgrids if those purchases would increase rates for the same reason. In both cases, the PRC would have to review and approve the rates to ensure they comply with the act. The extent of the additional responsibilities for PRC would depend on the level of microgrid deployment and compliance with the renewable portfolio standards adopted by PRC rule. The fiscal impact report anticipates additional staff capacity for the agency to complete all the above activities.

SIGNIFICANT ISSUES

Microgrids. A microgrid is a self-sourced power generation facility, capable of operating independently of the grid but able to be connected to the grid to dispose of surplus power. Microgrids are not limited to renewable energy and may include a combination of renewable and nonrenewable generation resources, such as natural gas, diesel, or nuclear, in order to ensure reliability, resiliency, and continuous operation. Microgrids do not require a certificate of convenience and necessity from PRC but do require zoning approval of the local jurisdiction and a building permit.

Chapter 93, Laws 2025, addressed public utilities' ability to acquire self-source generation resources and energy. Chapter 93 allows public utilities to acquire and dedicate self-source generation resources for retail, wholesale, or self-generation purposes, subject to PRC approval.

As noted by EMRND, increasingly large load facilities, such as data centers, are developing their own power plants and microgrids to augment or forgo traditional, utility-supplied electricity.

Clean Energy Standards for Microgrids. As noted by EMNRD, SB235/SCONCS directs PRC to subject relevant microgrids to clean energy standards and bring them into compliance with the Renewable Energy Act. EMNRD notes that SB235/SCONCS aligns the new energy segment with state clean energy goals as the electricity sector evolves to accommodate large industrial loads, behind-the-meter resources, and microgrids.

Alternative Compliance Through Residential Solar Energy. The committee substitute

allows microgrids to satisfy up to ten percent of its required renewable portfolio standard by purchasing and installing residential solar energy systems that would serve low-income households. PRC notes:

> [The bill] lacks specificity regarding the long-term ownership of the systems, leaving open the possibility that the microgrid could purchase and own the systems serving these low-income consumers, which may conflict with or subject this activity to the definition of a public utility under NMSA 1978 Section 62-3-3. Additionally, the act is silent on who must cover the costs associated with grid and interconnection upgrades that may be necessary for the installation of these residential solar systems.

PRC further notes that residential solar systems must be coordinated with the serving utility to ensure safe interconnection and adequate capacity, but the bill is unclear whether that responsibility falls on the microgrid operator or the individual customer. It also lacks explicit consumer protection provisions for low-income residents.

Striking Language that Excludes Self-Source Generation Resources from Retail Sales. SB235/SCONCS strikes language from Chapter 93 that excludes self-source generation resources from being considered retail sales. Chapter 93 specifies that energy generated or sold from a self-source generation resource that is owned in whole or in part by a qualified microgrid are not considered retail sales or energy under the renewable portfolio standards (Section 62-16-4) and the section of the Energy Transition Act that outlines energy transition bonds (Section 62-18-10) until 2035. Essentially, this existing language provided an exception to such energy transactions from being regulated as traditional retail sales until 2035, allowing utility companies to still meet renewable portfolio standards despite purchasing energy from microgrids, which may not be from renewable resources.

By striking this language, energy generated from self-source generation resources acquired by public utilities would be considered retail sales under the renewable energy standards and the Energy Transition Act. Therefore, utility companies would have to consider such purchases and uses of self-source energy in their compliance with existing renewable energy standards.

Energy Needs. For similar legislation, the Economic Development Department (EDD) noted the current microgrid policy infrastructure, established in Chapter 93, Laws 2025, creates the opportunity for expedient deployment of electric microgrids that can appease the high needs energy intensive industries, such as advanced manufacturing and data centers, as long as the developer is willing to pay for the infrastructure. EDD also noted that microgrids are attractive to companies looking to become operational quickly. EDD argued that changes to existing regulatory processes can add years to electric infrastructure deployment and make the state less competitive for investment.

Other Types of Generation. EDD also noted that the portfolio requirements for microgrids could hinder the opportunity for microgrids to test next generation energy technologies without a risk to ratepayers. EDD argues that the requirement of renewable energy resources eliminates the possibility of microgrids using technologies like nuclear, fusion, or small modular reactors.

Energy Burdened Households. As noted by EMNRD for other legislation addressing affordability, electricity inflation will exacerbate cost-of-living issues for New Mexicans, most acutely for the state's low-income population. Approximately 30 percent of New Mexican households earn between zero percent to 60 percent of the statewide area median income, and,

on average, these low-income households spend more than 6 percent of their annual income on energy costs, meaning they are already energy burdened.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

SB235/SCONCS conflicts with Senate Bill 39, which enacts the Microgrid Oversight Act, giving the Public Regulation Commission authority over the approval, operation, and oversight of microgrids, and establishes renewable portfolio standards for microgrids.

SB235/SCONCS relates to Senate Bill 78, which amends the Renewable Energy Act (Chapter 62, Article 16) and Rural Electric Cooperative Act and would allow public utilities and rural electric cooperatives to include nuclear energy in its electric energy supply portfolio to meet the renewable portfolio standard requirements.

TECHNICAL ISSUES

Collection of Fees. SB235/SCONCS would benefit from clearer language specifying how fees are calculated, collected, and remitted. For example, the PRC currently collects inspection and oversight fees from utilities doing business in New Mexico equal to 0.59 percent of the utility's total New Mexico gross receipts from the previous calendar year, with fees collected on the last day of July, remitted to the state treasurer the following day, and credited to the general fund. SB39 could benefit from similar fee-related provisions.

As noted by PRC, the fees in SB235/SCONCS would likely revert to the general fund and would not mitigate the additional administrative responsibilities required for the regulatory function proposed in SB235/SCONCS.

Zero Carbon Resources. For similar legislation, the New Mexico Attorney General (NMAG) noted that the definition for "zero carbon resources" is different than the one established in the Renewable Energy Act. The renewable energy act defines "zero carbon resource" as an "electricity generation resource that emits no carbon dioxide into the atmosphere, or that reduces methane emitted into the atmosphere in an amount equal to no less than one-tenth of the tons of carbon dioxide emitted into the atmosphere, as a result of electricity production." SB235/SCONCS defines "zero carbon resource" as electricity generating resource that emits no carbon dioxide into the atmosphere. NMAG noted that it would not likely create a conflict of law, as it is not uncommon for terms to have slightly varied definitions throughout statute.

Costs Associated with Microgrid Infrastructure Development. SB235/SCONCS prohibits PRC from approving utility purchases of self-source or microgrid energy—and microgrid purchases of utility energy—if those transactions would raise rates to pay for microgrid infrastructure development costs. EMNRD notes the bill could be enforced inconsistently because it does not define what counts as "microgrid infrastructure development" costs and would benefit from clearer limits on which interconnection or power purchase costs are disallowed. EMNRD elaborates:

> It is unclear whether the prohibition applies only to infrastructure physically located within the microgrid boundary, or whether it also extends to interconnection related upgrades, system protection equipment, transmission or distribution system modifications such as regulation and frequency response, regulation and voltage support, spinning or

supplemental reserves, or other utility side costs necessary to connect a microgrid to the grid. If the intent is to prevent any microgrid-related costs from being allocated to other ratepayers, additional statutory clarity would help avoid future disputes in PRC proceedings.

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