BILL ANALYSIS AND FISCAL IMPACT REPORT
Taxation and Revenue Department

February 21, 2025

Bill: SB-418 **Sponsor:** Senator Michael Padilla

Short Title: Qualified Microgrid Income Tax Credit

Description: This bill adds a new section of law under Chapter 62 permitting power generation and distribution of self-sourced power by persons and entities located within New Mexico.

The bill also adds a new section to the Income Tax Act creating the qualified microgrid income tax credit. This credit is equal to the costs to construct and install the microgrid in an underserved community in New Mexico, not to exceed $100,000 per qualified microgrid. The Energy, Minerals and Natural Resources Department (EMNRD) will certify the credit. The credit is transferrable at full value and any portion that exceeds a taxpayer's income tax liability may be carried forward for 20 consecutive taxable years until the amount is exhausted. Qualifying microgrids must be constructed prior to January 1, 2031, effectively sunsetting the credit and must be capable of generating at least 20 megawatts (MW) of power.

Effective Date: Not specified; 90 days following adjournment (June 20, 2025). Applicable to taxable years beginning on or after January 1, 2025.

Taxation and Revenue Department Analyst: Pedro Clavijo

Estimated Revenue Impact*					R or	
FY2025	FY2026	FY2027	FY2028	FY2029	NR**	Fund(s) Affected
--	(Unknown but negative)				R	General Fund

* In thousands of dollars. Parentheses ( ) indicate a revenue loss. ** Recurring (R) or Non-Recurring (NR).

Methodology for Estimated Revenue Impact: Depending on the complexity, microgrids can have high upfront capital costs. On average, constructing a microgrid costs between $2 million and $5 million per MW.[1] This means a 20 MW microgrid – the minimum power the bill requires to apply for the credit – might cost $40 to $100 million. In New Mexico, Kit Carson Electric has announced plans to invest $23 million in three new microgrids in its service territory around Taos (Taos Ski Valley, Peñasco, El Rio West).[2] However, these projects could not apply for the tax credit since their estimated power is lower than 20 MWs. Microgrids come in a wide variety of sizes and complexity levels, making it difficult for the Taxation and Revenue Department (Tax & Rev) to estimate a precise fiscal impact. Finally, Tax & Rev cannot anticipate whether the proposed non-refundable credit of $100,000 per microgrid will incentivize a taxpayer to undertake a project of this magnitude.

Policy Issues: Tax incentives can support specific industries or promote desired social and economic actions, but the proliferation of more tax incentives has two primary effects. First, it creates special treatment and exceptions within the tax code, resulting in an expansion of tax expenditures and potentially narrowing the tax base. This, in turn, has a negative impact on the general fund, affecting overall revenue; Second, it imposes a heavier compliance burden on both taxpayers and Tax & Rev. The proliferation of tax incentives and the subsequent complexity they introduce do not align with the principles of sound tax policy. While tax incentives can serve a purpose, it is crucial to strike a balance that ensures fairness,

[1] Microgrid Guidebook 2022
[2] Microgrids and green hydrogen near Taos - Big Pivots

simplicity, and effectiveness in the tax system.

As one numeric example, a taxpayer that builds a 20MW microgrid at a cost of $3.5 million per MWwould receive a $100,000 credit, representing 0.14% of the costs of constructing the microgrid. The tax incentive proposed appears low to incentivize this type of project. By way of comparison, New York has established a $40 million grant program to create community microgrid projects, and New Jersey created a $200 million resilience bank for the development of distributed energy resources.[3]

Microgrids generally offer significant environmental, economic, and social benefits due to their versatility. They provide an opportunity to reduce greenhouse gas emissions; can balance generation from non-controllable renewable power sources with distributed, controllable generation; are especially useful in areas where there is no connection to a primary grid, serving as backups if there is a prominent grid disruption; require less power to meet the level of demand, making productive use of energy; also alleviate grid congestion, thereby lowering electricity prices and reducing peak power requirements. In this manner, microgrids may support underserved communities with high energy costs. Typically, these communities spend more of their disposable income on electricity than in affluent areas and struggle to attract financing for developing or maintaining local energy resources. Microgrid projects might help meet these communities-specific needs.

Technical Issues: None.

Other Issues: [Section 2]: Tax & Rev notes that while there is a definition of "underserved community" under Section 2, the definition may need further clarification for EMNRD to certify a taxpayer's project for credit eligibility. Tax & Rev suggests that "at or near the federal poverty level" be strengthened by stating "at or below the federal poverty level." Further, Tax & Rev suggests that a reference to a U.S. Census Bureau survey be included such as the "most recent five-year American Community Survey" to guide how to compare median incomes against the federal poverty level. Finally, the geographical references of "neighborhood" or "a subset of such an area" may be too vague for ascertaining "median income of the area" given U.S. Census Bureau's geographical area designations. Tax & Rev recommends that a taxpayer applying for the credit be required to delineate the geographical boundaries of the area that the microgrid will serve.

Administrative & Compliance Impact: Tax & Rev will update forms, instructions, and publications and make information system changes. This implementation will be included in the annual tax year changes.

Tax & Rev's Administrative Services Division (ASD) will test credit sourcing and perform other systems testing. It is anticipated this work will take approximately 40 hours split between 2 FTE of a pay band 70 and a pay band 80 at a cost of approximately $2,500.

This bill will have a moderate impact on Tax & Rev's Information Technology Division (ITD) of approximately 480 hours or 3 months for an estimated staff workload cost of $31,987

Estimated Additional Operating Budget Impact*				R or NR**	Fund(s) or Agency Affected
FY2025	FY2026	FY2027	3 Year Total Cost		
--	$2.5	--	$2.5	NR	ASD - Operating

[3] Microgrids - Center for Climate and Energy Solutions Center for Climate and Energy Solutions

--	$31.9	--	$31.9	NR	ITD - Staff Workload Cost

* In thousands of dollars. Parentheses ( ) indicate a cost saving. ** Recurring (R) or Non-Recurring (NR).