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FISCAL IMPACT REPORT

		LAST UPDATED	<u>2/06/2025</u>
SPONSOR	<u>Hochman-Vigil</u>	ORIGINAL DATE	<u>2/3/2025</u>
	Distribution System and Electrification	BILL	
SHORT TITLE	<u>Plans</u>	NUMBER	<u>House Bill 13</u>
		ANALYST	<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	\$376.6	\$376.6	\$753.2	Recurring	General Fund
NMAG	No fiscal impact	\$145.5	\$145.5	\$291.0	Recurring	General Fund
Total	No fiscal impact	\$522.1	\$522.1	\$1,044.2	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 House Bill 13

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 decarbonization standards. HB13 Beneficial electrification programs encourage the transition from fossil fuels to electricity in residential, commercial, and industrial sectors. The 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.

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 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, report staffing needs, and may apply for cost recovery through tariffs or rate changes, with the PRC approving plans based on cost-effectiveness and benefits. The bill defines “distributed energy resource” as distributed generation, energy storage systems, electric vehicles, microgrids, fuel cells and demand-side management measures.

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 through approved tariffs and ensuring regular reporting on the program’s impact.

Section 4 enacts a new section to the Public Utility Act that requires PRC to create rules for a virtual power plant program, including performance targets, compensation for participants, and allowing both utilities and third parties to manage distributed energy resources, with a deadline for implementation by February 1, 2026. Notably, the bill defines “virtual power plant” as a system where different distributed energy sources, like solar panels or batteries, are controlled by software to help manage the electricity grid.

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 adopting rules for the virtual power plant program, 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 average cost of an attorney.

LFC estimates a total recurring fiscal impact of \$1 million 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

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 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.”

Reviewing Applications and Rule Making

HB13 requires three different rules to be promulgated at roughly the same time.

- Distribution plan rules by December 1, 2025,
- Beneficial electrification rules by January 30, 2026, and
- Virtual power plant program rules by February 1, 2026.

The bill then requires EPE, PNM and SPS to file their initial plans between July 1, 2026, and July 1, 2027, which would include their distribution plan, beneficial electrification plan and proposed virtual power plant tariff.

HB13 requires PRC to take final action on beneficial electrification plans and any related recovery rate recovery mechanism within 180 days, set electrification targets, approve funding levels, establish performance-based tariffs for the virtual power plant program, and review annual reports and requested adjustments from utilities—all which increase PRC’s workload. PRC notes that the timeline to promulgate the multiple rules in HB13 is insufficient. Additionally, because the bill introduces multiple new regulatory filings, PRC's review process could become more time-consuming as utilities may submit overlapping requests for cost recovery, tariff approvals, and program compliance updates. PRC further explains:

For new programs, the Efficient Use of Energy Act has no statutory deadline and often requires more than 180 days to fully vet, adjudicate, and approve. Under Section 62-17-6, the Commission must act on a tariff rider to fund approved programs within 180 days. A combined filing of a beneficial electrification plan along with an unapproved or new Efficient Use of Energy Act plan may result in the Commission addressing these plans on two separate tracks within a single proceeding. Alternatively, combined filings may create uncertainty regarding a potential de facto deadline of 180 days for the Commission to act upon Efficient Use of Energy Act plans.

As noted in the “Fiscal Impact” section, NMAG also anticipates increased workload to review submitted plans and for the required rule making in HB13.

Rate Filings

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 bill also requires PRC to oversee the tariff structure based on performance requirements and performance-based compensation for the virtual power plant program and allows utilities to submit tariff proposals from utilities tied to the program. 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.

Fair and Reasonable Rates

HB13 allows public utilities to recover reasonable costs associated with distribution system upgrades, beneficial electrification programs, and the virtual power plant program through tariff riders, base rates, and regulatory asset deferrals approved by PRC. While it is hard to determine the actual costs upfront, PRC may have to approve plans that could cost millions of dollars to utility companies and, therefore, increase costs to ratepayers.

Preordering Transformers

HB13 requires utilities to preorder transformers and other needed equipment to ensure customers can be connected to the electric distribution system and establish adequate load capacity. However, as addressed by the National Infrastructure Advisory Council in their June 2024 report, the transformer manufacturing industry was among the industries that experienced the most severe supply chain disruptions during the Covid-19 pandemic. The report notes that an electric utility or generation developer that orders a transformer may have to wait 2 to 4 years for it to be delivered, compared to a wait of just months before the pandemic. Additionally, there has been a rise in demand for transformers—driven by national trends in increasing electrification, the building out of renewable electricity generation, and the growth of large-load customers. The price of transformers has increased by 80 percent compared to the beginning of the pandemic.

Virtual Power Plant Programs

As defined by the U.S. Department of Energy, virtual power plants are “aggregations of distributed energy resources, such as rooftop solar with behind-the-meter batteries, electric vehicles and chargers, electric water heaters, smart buildings and their controls, and flexible commercial and industrial loads, that can balance electricity demand and supply and provide utility-scale and utility-grade grid services like a traditional power plant”. EMRND highlights how virtual power plants can help manage peak loads and increase the state’s resilience. The agency notes:

By implementing advanced metering infrastructure across New Mexico, utilities and third-party aggregators will soon have greater ability to incorporate distributed resources into virtual power plants that will optimize local electricity demand to better manage peak loads (and increase resilience). This benefits grid affordability by reducing the peak capacity and thus the associated grid infrastructure a utility needs to procure to meet that peak demand.

By 2030, New Mexico is forecast to install over 160 megawatts of potential virtual power plant capacity in the form of behind-the-meter storage, smart thermostats, and electric water heaters. Discounted cash flow analysis suggests that these resources, if aggregated, would serve the top yearly demand hours at a fraction of the cost of equivalent natural gas peaker plants or utility-scale storage capacity. However, in addition to peak load management benefits, virtual power plants also incentivize distributed resource adoption which provides other grid services (including upgrade deferrals and cost-effective grid frequency maintenance). HB13’s requirement for utility virtual power plant programs would spur utilities to take advantage of these benefits and pass savings onto ratepayers while also compensating distributed resource owners for the services they provide.

PRC raises concerns over the term “slate of programs” used in the virtual power plant section of HB13. The agency notes:

In Section 4(E), the term “slate of programs” is used for the first time in this section, and it is unclear what the difference would be between a virtual power plant program and a

slate of programs—it is unclear if a virtual power plant program would encompass a slate of programs, or if it refers to multiple virtual power plant programs.

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