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

SPONSOR: Wilson DATE TYPED: 02/27/01 HB

SHORT TITLE: Renewable Energy Corporate Income Tax Credits SB 325/aSCONC

ANALYST: Valenzuela

APPROPRIATION

Appropriation Contained		**Estimated Additional Impact**		**Recurring or Non-Rec**	**Fund Affected**
FY01	**FY02**	**FY01**	**FY02**		
	$ 100.0			Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

REVENUE

Estimated Revenue		**Subsequent Years Impact**	**Recurring or Non-Rec**	**Fund Affected**
FY01	**FY02**			
	$ (8,000.0)		Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files
Taxation and Revenue Department (TRD)
Economic Development Department
Public Regulation Commission
Energy, Minerals and Natural Resources Department (EMNRD)

SUMMARY

Synopsis of SCONC Amendment

The Senate Conservation Committee (SCONC) amendment to Senate Bill 325 adds further clarification to the definitions in the bill. First, the amendment defines, in Sections 2 and 3, a “qualified energy generator” as one that has a generation capacity of 250 MW or more. Second, the amendment makes technical correction to the definition for “small energy producer.”

A “qualified energy generator” is eligible for both tax credits, while the “small energy producer” is only eligible for the investment tax credit.

Synopsis of Original Bill

Senate Bill 325 establishes two tax credit against corporate income tax obligations for developers of electric generation via renewable energy resources, i.e., generation produced from low or zero emissions generation technology. The first is a renewable energy investment tax credit against corporate income tax of 20 percent of the investment not to exceed $50.0. The second is a renewable energy production tax credit of 1.5 cent/KWh produced, as of July 1, 2001 from low or zero emissions generation technology. The Public Regulation Commission (PRC) will be required to administer the program and is appropriated $100.0 and 1.00 new FTE to manage the program. The bill limits the total annual tax credits combined to no more than $8.0 million, available on “first come, first served" basis. Senate Bill 325 has a carry forward provision that would allow a developer to take full advantage of the investment tax credit over five years.

Low or zero emissions generation technology includes solar light, solar heat, wind, geothermal, landfill gas, anaerobically digested waste biomass, and fuel cells.

Significant Issues

The Energy, Minerals and Natural Resources Department (EMNRD) is responsible for energy conservation and renewable energy projects. It recently completed a study of the potential of wind energy generation in New Mexico and determined that five sites throughout the state could provide sufficient wind energy supply. The limiting factor is the high cost of capital needed to develop these wind projects. Senate Bill 325, with the investment tax credit, addresses the initial investment costs of these projects and provides incentives for increasing production with the production tax credit.

In 1999 alone, U.S. wind generation capacity grew by 40 percent, bringing the nationwide total to 2,500 megawatts (MW).[1] Aside from being the fastest growing energy source in the world today, the increase in production is attributed to four main factors: consumer demand for renewable, or "green" energy; the steadily decreasing cost per kilowatt-hour of wind-generated electricity; a 1.5 cent/KWh federal production tax credit, and the increasing reliability of the technology. One result of this new "green" market has been a boom in the construction of wind power facilities. This boom provides revenue for rural landowners. Most landowners receive quarterly payments from wind developers in compensation for wind turbines built on their property.

New Mexico's neighboring states have been especially aggressive in developing wind power. Texas' electric industry deregulation law sets a goal of developing 2,000 MW of new renewable energy sources by 2009.

FISCAL IMPLICATIONS

The appropriation of $100.0 contained in this bill is a recurring expense to the general fund. This appropriation should be adequate to administer the program as identified in the bill.

The bill caps the total credit at $8.0 million for claims made against corporate income tax. If developers take full advantage of the credits, the general fund will be reduced by $8.0 million.

ADMINISTRATIVE IMPLICATIONS

Enactment of Senate Bill 325 will impose substantial administrative burdens on the Taxation and Revenue Department (TRD) and the PRC. It requires the PRC to adopt rules and provide forms for administering the statute. This is normally a function of TRD.

MFV/ar:sb