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FISCAL IMPACT REPORT

ORIGINAL DATE 3/02/07
 LAST UPDATED 3/07/07

SPONSOR Heaton HB 1291/aHHGAC

SHORT TITLE Energy Efficient Appliance Financing Rules SB _____

ANALYST Earnest

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY07	FY08		
NFI	NFI		

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Energy, Minerals, and Natural Resources Department (EMNRD)
 Public Regulation Commission (PRC)

SUMMARY

Synopsis of HHGAC Amendment

The House Health and Government Affairs Committee (HHGAC) amendment adds the new section to the Efficient Use of Energy Act (62-17 NMSA 1978) instead of Chapter 62, Article 8. The amendment deletes 'electricity' and inserts 'energy' for the pay as you save program, effectively expanding the types of utilities and appliances to be considered in the PRC rule. Finally, the amendment addresses a concern of the PRC by deleting the requirement that utilities implement the program propose a tariff for PRC consideration; instead, the amendment puts a June 30, 2008, deadline for the adoption of a rule by PRC to establish the program.

Synopsis of Original Bill

House Bill 1291 would require the Public Regulation Commission (PRC) to establish a pilot "Pay as you Save Program" that provides financing options through utility service billing for purchase of energy efficient appliances and heating and cooling systems.

FISCAL IMPLICATIONS

None identified.

SIGNIFICANT ISSUES

HB 1291 allows a residential public utility customer to purchase energy-efficient appliances and heating and cooling systems with no upfront payments by allowing for payment of the cost of the products over time on the customer's electricity bill. The bill requires that no later than June 30, 2008, each public utility propose a tariff to the PRC to implement this program for residential customers. PRC is required to review the proposed tariff, hold a hearing and require modifications to the proposed tariff if necessary.

HB 1291 provides that PRC ensure that all reasonable costs incurred by public utilities to start and implement the program are recovered as part of the utility's rate base, including necessary billing system adjustments and any costs for "Pay as You Save Pilot Program" efficiency measures that are not recovered from residential customers' payments.

HB 1291 delineates program requirements that include the estimated life cycle electricity savings from the product exceeds the product's cost; provides for billing and payment of the product on the utility bill; provides for disconnection of utility service for nonpayment of the "Pay as You Save" product payments; and allows for assignment of the product repayment costs attached to the meter location.

According to PRC:

The Efficient Use of Energy Act and the commission's Energy Efficiency rule, 17.7.2 NMAC, currently address the implementation of cost-effective energy efficiency and load management investments in their energy resources portfolios. Programs proposed under existing rules have focused on offering rebates to individual customers, funded by a general rate rider. The system anticipated by the bill could be more equitable, in that the customers directly benefiting from energy efficient appliances will ultimately pay the full initial cost of the appliances. The pay as you save approach could remove the barriers faced by lower income consumers to participating in the current programs because they lack the upfront cash. It could also remove equity considerations that have caused consumer advocates to oppose incentives for energy efficient, but expensive appliances (such as front-loading washing machines) that will only be of interest to wealthier consumers.

This bill requires the commission to adopt rules to establish a pilot pay as you save program. As required by the bill, "No later than June 30, 2008, each public utility shall implement by tariff a pay as you save pilot program for residential customers. (See Page 2, Beginning on Line 15) Given the six month prior notice to the commission to allow for commission review prior to implementation of proposed tariff the three independently owned gas companies, four independently owned electric utilities and the twenty rural electric cooperatives would all need to file by January 1, 2008 in order to have in place its "pay as you save" tariff by June 30, 2008.

Assuming the normal commission process of issuing a Notice of Proposed Rulemaking, it will require at least an eight to nine month period for the commission to give notice and allow the opportunity for comments on the rule considered in this Bill before the rule would become effective. Once a rule is adopted by the commission, a reasonable period of time would be required by the utility to develop its own “pay as you save” pilot program before being filed with to the commission for approval. Thus it might be more appropriate for the commission to establish timetables for the utilities through the rulemaking process, rather than to have them set by statute.

As proposed, the “pay as you save” pilot programs will not be self sustaining since the Bill allows start up and implementation costs of such programs to be rate based by the utility and recovered from all rate payers.

According to EMNRD, the use of energy-efficient appliances and products can offset significant increases in utility costs that can result in savings of several hundred dollars per household per year. HB 1291 provides a new mechanism for utility customers to purchase energy efficient appliance that reduce a household’s energy consumption. The pilot program would provide a way for low- and moderate-income households to afford the energy-efficient appliances that are frequently too expensive for these households to consider.

HB 1291 provides that the repayment costs be tied to the meter location. EMNRD indicates that this may become an issue if the customer purchasing the appliance moves from that location, leaving the next utility customer with the financial burden.

EMNRD reports that an Energy Star furnace or air conditioning system, when properly sized and installed, can provide considerable savings to consumers on heating and cooling bills and reduces greenhouse gas pollution. EPA reports indicate that for every kilowatt-hour (kWh) of electricity saved, one and a half pounds (1-1/2 lbs.) of CO₂ are prevented from being pumped into the atmosphere. If Americans bought only Energy Star products over the next 15 years, we would shrink our energy bills by more than \$100 billion and eliminate as much greenhouse gas pollution as is produced by 17 million cars for each of those 15 years.

The cost for the utility to implement has not been provided for this analysis, and thus any change in the base rate for utility customers cannot be estimated.

ADMINISTRATIVE IMPLICATIONS

PRC indicates that the commission may not be able to develop and adopt the proposed pay as you save pilot program rule within the implementation time frame proposed by this bill. Sufficient time may not be allowed by the rule for utilities to develop and implement pay as you save pilot programs. If all electric and gas utilities are required to file programs on January 1, 2008 in order to have their programs in place by June 30, 2008, the commission will have twenty-seven cases to review and approve on an expedited schedule in addition to its normal work load. In addition, there may need to be further proceedings to review and verify the implementation of these programs.

TECHNICAL ISSUES

PRC notes that the is not clear as what type of utility, i.e. gas, electric, independently owned or rural electric cooperative, will be required to implement by tariff a “pay as you save” pilot program.

BE/csd