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## FISCAL IMPACT REPORT

ORIGINAL DATE 2/7/08

SPONSOR Cisneros LAST UPDATED \_\_\_\_\_ HB \_\_\_\_\_

SHORT TITLE Renewable Energy Production Tax Credit Cap SB 506

ANALYST Francis

### REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY08	FY09	FY10		
	(1,677.0)	(3,333.0)	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Taxation and Revenue Department (TRD)

Energy Minerals and Natural Resources Department (EMNRD)

### SUMMARY

#### Synopsis of Bill

Senate Bill 506 increases the renewable energy production tax credit cap to four million megawatt hours (MWh) and introduces a two tier rate structure. The first tier for the first two million MWh of electricity will receive a \$0.01 credit per MWh, which is the current rate, and the second two million MWh would receive a \$0.005 credit per MWh. The credit is for electricity generated by wind or biomass electricity generation facilities.

Under current law, EMNRD can approve the credit for no more than two million MWh in a year and no more than 400 thousand MWh per qualified electric generator. The current rate per MWh is \$0.01.

The effective date is July 1, 2008.

### FISCAL IMPLICATIONS

According to TRD, the original 2,000,000 megawatt-hour limit is very near full subscription, but the additional 500,000 megawatt-hours reserved for solar-light- or solar-heat-derived energy remains unsubscribed. Of the proposed 2,000,000 megawatt-hour limit increase, EMNRD

predicts that one-half will be subscribed within three years, at equal annual increments, but the rest would not be subscribed for at least eight years. This is based on the prediction that in about three years the electrical transmission lines will be operating at full capacity, and that this capacity will not be increased until at least 2016. Thus no more electricity production could come on line and the \$5,000,000 revenue impacts estimated for FY11 and FY12 would remain constant until near the end of the period of eligibility, January 1, 2018.

Estimated Revenue Impact*						R or NR**	Fund(s) Affected
FY2008	FY2009	FY2010	FY2011	FY2012	FY 08-12		
\$0	(\$1,667)	(\$3,333)	(\$5,000)	(\$5,000)	(\$15,000)	R	General Fund

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

Source: TRD

### SIGNIFICANT ISSUES

Although forecast to phase-in much more slowly, the 2007 enacted renewable production tax credit was immediately used and EMNRD certified all of the credits for wind and biomass (although wind is by far the major source). In the fiscal analysis for SB463 from the 2007 session, the credit was not expected to reach its maximum until 2012 but in fact reached it in 2007.

EMNRD:

The federal tax credit for wind power is due to expire at the end of 2008. New Mexico's tax credit is fully allocated except for \$500,000 set aside for solar. EMNRD has approved applications for five wind facilities. One application for biomass was denied and the appeal is pending. Other wind applications are in line if the program cap is increased. Expanding the PTC will be beneficial for New Mexico's economic development in rural areas due to the great wind, solar, and biomass resources available. With the federal production tax credit scheduled to expire in December 2008, an expanded PTC will help maintain New Mexico's position as a leader in offering renewable energy incentives and attracting renewable energy development.

### ADMINISTRATIVE IMPLICATIONS

TRD reports that the agency will require an additional FTE at the cost of \$30,000 to handle the additional administrative and tracking responsibilities.

### TECHNICAL ISSUES

TRD notes that the limits imposed by the Renewable Energy Production Tax Credit apply to both the Corporate Income and Franchise Tax Act and the Income Tax Act. A corresponding amendment should be made to Section 7-2-18.18 of the Income Tax Act.

NF/mt