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## FISCAL IMPACT REPORT

**ORIGINAL DATE** 02/17/17  
**LAST UPDATED** 02/22/17    **HB** 360  
**SPONSOR** Gonzales  
**SHORT TITLE** Five Percent Biodiesel Standards    **SB** \_\_\_\_\_  
**ANALYST** Sánchez

### ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY17	FY18	FY19	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
<b>Total</b>		\$400.0		\$400.0	Nonrecurring	General Fund
<b>Total</b>		\$88.0	\$137.1	\$225.1	Recurring	General Fund
<b>3 Year Total</b>		\$488.0	\$137.1	\$625.1	Recurring/Nonrecurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

Relates to HB245  
 Duplicates SB368

#### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

New Mexico Department of Agriculture (NMDA)  
 Energy, Minerals and Natural Resources Department (EMNRD)

#### SUMMARY

##### Synopsis of Bill

House Bill 360 proposes to amend the Petroleum Products Standards Act requiring the retailers to maintain records of diesel fuel sold that contains at least five percent biodiesel. It removes the requirement that the director consult with the Energy, Minerals and Natural Resources Department. The bill strikes in its entirety subsections B and C of the “Quality Standards” section and adds new requirements effective from January 1, 2017 and ending December 31, 2022. The new sections adds the months (April through September) in which the five percent biodiesel shall be used if

- there is sufficient supply to meet the demand;
- the Taxation and Revenue Department (TRD) has established a system (method) to report total diesel sales to the New Mexico Department of Agriculture (NMDA),
- adequate blending infrastructure is in place throughout New Mexico to avoid economic

disruptions,

- the necessary blending infrastructure regulatory protocols are in place, and
- the blend stock meets D6751 specifications.

The bill also allows the director to suspend the provisions outlined above if the biodiesel is not available, use of biodiesel is not economical compared to adjacent states' markets, and in-state biodiesel inventory drops below one month's supply, or the federal renewable fuels standards equals or exceeds five percent of biodiesel by volume.

## **FISCAL IMPLICATIONS**

NMDA would have to purchase new laboratory equipment to analyze biodiesel and biodiesel blends at a cost of \$400 thousand plus annual maintenance of \$72 thousand, a subscription to a service that provides oil price information at an annual cost of \$16 thousand, and annual salary and benefits of \$49.1 thousand if an additional FTE is required.

In the analysis of HB245, LFC staff notes that using average component prices in an Iowa study<sup>1</sup>, implementing the mandate of that bill in New Mexico would increase diesel prices at the pump by \$.09 per gallon, which would probably be an insignificant increase to budgets of all state agencies except the school transportation budget (Public Education Department) and direct cost of road construction and maintenance (NM Department of Transportation).

## **SIGNIFICANT ISSUES**

The NMDA notes the following:

- There are two refineries and six terminals in New Mexico that supply diesel fuel. Of these eight supply points within New Mexico, one supplier has the ability to blend year round; three suppliers have the ability to blend biodiesel during the warmer months of the year (typically April- September). The four remaining supply points within New Mexico do not have the infrastructure to support biodiesel blending at their facilities.
- Terminals and refineries outside of New Mexico that supply diesel fuel into the state have similar infrastructure issues and are not bound by a mandated requirement to blend biodiesel, making availability of biodiesel vary from supply point to supply point.
- The statute would require between 1.9 million to 2.1 million gallons of biodiesel per month to meet the retail obligation. There is no active biodiesel production in New Mexico. Because there is no pipeline availability for this product, biodiesel necessary to fulfill the obligation will need to be imported by rail or truck.
- Monitoring biodiesel availability on a monthly basis to determine the in-state biodiesel inventory/availability will need to be based on data supplied by the New Mexico taxation and revenue department.

## **ADMINISTRATIVE IMPLICATIONS**

NMDA will have to train its current staff on the use and maintenance of the new equipment.

**CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP**

Duplicates SB368 Five Percent Biodiesel Standards  
Relates to HB245 Biodiesel Standards Suspension

**OTHER SUBSTANTIVE ISSUES**

The U.S. Energy Information Administration reports that U.S. production of biodiesel reached 142 million gallons in November of 2016 with 67 percent of that production being from the Midwest Region. The annual estimated capacity production for New Mexico was reported to be 1 million gallons per year. However, New Mexico has limited infrastructure in place. Many factors such as production, blending infrastructure, compliance with standards and reporting systems must be resolved before biodiesel can be sold in our state. There are currently two refiners, six terminals and eight supply points with some having limited ability to blend in state.

ABS/sb

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<sup>1</sup>[www.agmrc.org/.../biodiesel/biodiesel-economics-costs-tax-credits-and-co-product/](http://www.agmrc.org/.../biodiesel/biodiesel-economics-costs-tax-credits-and-co-product/)