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FISCAL IMPACT REPORT

SPONSOR SCORC **ORIGINAL DATE** 03/10/17
LAST UPDATED 03/11/17 **HB** _____
SHORT TITLE Five Percent Biodiesel Standards **SB** 368/SCORCS
ANALYST Sánchez

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

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

(Parenthesis () Indicate Expenditure Decreases)

Relates to HB245, HB360

SOURCES OF INFORMATION

LFC Files

SUMMARY

Synopsis of SCORC Substitute

The Senate Corporations and Transportation Committee substitute for Senate Bill 368 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.

The bill 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 section adds the months (March through October) 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), and

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- The blend stock meets D6751 specifications.

The bill also allows the director to suspend the provisions outlined above if

- Biodiesel plants with the capacity to produce 15 million gallons of biodiesel annually are not operating in the state by December 31, 2022,
- The biodiesel is not available,
- Use of biodiesel is not economical compared to adjacent states' markets,
- In-state biodiesel inventory drops below one month's supply, or the federal renewal fuels standards equals or exceeds five percent of biodiesel by volume, or
- Federal renewable fuel standards meet or exceed 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.

SIGNIFICANT ISSUES

The NMDA notes the following:

- There are two refineries and six terminals in New Mexico that supply diesel fuel. Of the eight supply points within New Mexico, one supplier has the ability to blend year round and three suppliers have the ability to blend biodiesel during the warmer months of the year (typically April- September). The four remaining supply points do not have the infrastructure to support biodiesel blending.
- 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 bill, as written, 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

The short-term administrative effects to NMDA would be the costs of training current staff on the use and maintenance of the new equipment, which it does not currently have expertise in operating.

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The long-term administrative effects on NMDA include additional instrumentation of the required testing machinery and increased testing run times to conduct analyses. Long-term effects will also increase the work load of the lab and facilitate the need of an additional FTE.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Relates to HB360 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/jle