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## FISCAL IMPACT REPORT

SPONSOR <u>SFC</u>	LAST UPDATED ORIGINAL DATE <u>03/09/23</u>
SHORT TITLE <u>Geothermal Resources Development</u>	BILL NUMBER <u>CS/Senate Bill 8/SFCS</u>
ANALYST <u>Sanchez</u>	

### ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT\*

(dollars in thousands)

	FY23	FY24	FY25	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
	No fiscal impact	\$526.5 to \$600.0	\$526.5 to \$600.0	\$1,053 to \$1,200.0	Recurring	ECMD Operating Budget (EMNRD)
	No fiscal impact	Indeterminate but substantial	Indeterminate but substantial	Indeterminate but substantial	Recurring	NMIMT Operating Budget
<b>Total</b>		<b>More than \$600.0</b>	<b>More than \$600.0</b>	<b>More than \$1,200.0</b>	<b>Recurring</b>	

Parentheses ( ) indicate expenditure decreases.  
 \*Amounts reflect most recent analysis of this legislation.

Relates to Senate Bill 45, Senate Bill 74, Senate Bill 173, and House Bill 365.

### Sources of Information

LFC Files

Responses Received (for Committee Substitute) From  
 Energy, Minerals and Natural Resources Department (EMNRD)  
 Attorney General’s Office (NMAG)

Responses Received (for Original Bill) From\*  
 Higher Education Department (HED)  
 New Mexico Institute of Mining and Technology (NMIMT)

No Response Received  
 Department of Finance and Administration (DFA)

\*Because of the short timeframe between the introduction of this bill and its first hearing, LFC has yet to receive analysis from state, education, or judicial agencies. This analysis could be updated if that analysis is received.

## SUMMARY

### Synopsis of SFC Substitute for Senate Bill 8

The Senate Finance Committee Substitute for Senate Bill 8 creates a geothermal resources center for excellence at the New Mexico Institute of Mining and Technology (NMIMT). The bill also

amends Section 71-9 NMSA 1978 and retitles it as the “Geothermal Resources Development Act” (the act) while adding a definition for “geothermal development project.”

The Senate Finance Committee Substitute for Senate Bill 8 amends the duties of the energy conservation and management division (ECMD) of the Energy, Minerals and Natural Resources Department (EMNRD) and creates two new funds; the geothermal projects development fund and the geothermal projects revolving loan fund, which will be used to fund projects seeking to use the heat of the earth to generate electricity or support industrial, commercial, or residential uses. The bill tasks ECMD with the administration of these funds and empowers the division to ensure all applicable state economic development incentive programs are used for grants and loans from these funds to foster the growth of geothermal resources in New Mexico. The bill also adds a requirement that ECMD apply for federal grants related to geothermal resources development.

Finally, the bill assigns EMNRD the responsibility of reporting annually, by December 1st of each year, on the status of grants approved by the Secretary of EMNRD, the status of studies funded by the grants, the status of money used for administrative and reimbursable costs under the Act, and the status of the geothermal projects development fund and geothermal projects revolving loan fund.

The effective date of this bill is July 1, 2023.

## FISCAL IMPLICATIONS

The Senate Finance Committee Substitute for Senate Bill 8 does not contain an appropriation and the current House Appropriations and Finance Committee Substitute for House Bill 2 does not contain an appropriation to EMNRD or NMIMT to carry out the purposes of this bill.

Analysis from EMNRD estimated the department would incur approximately \$600 thousand in recurring operating budget costs in the form of:

- 1 regulatory specialist FTE in ECMD – a highly technical position – and 1 or 2 (depending on rate of industry growth) underground injection well specialists in the Oil Conservation Division, whose duties are assigned first and foremost to evaluation of geothermal wells; expected annual salary and benefits for all three would be approximately \$325 thousand;
- 1 program manager with policy expertise to manage the grant program in ECMD (pay band 75);
- 1 program manager with policy expertise to manage the loan program in ECMD (pay band 75);
- Operational costs for the above five FTEs, including equipment and travel; and
- Annual IT support costs around \$20 thousand.

However, EMNRD’s analysis made clear that without a recurring appropriation to cover the costs of administering the program, the department would be unable to implement it.

Similarly, the lack of appropriations means that the concerns expressed by EMNRD are likely to apply to NMIMT as well, and will result in challenges for attempts to meet the geothermal

resource development goals set forth in the bill. Although NMIMT had not yet provided analysis on the Senate Finance Committee Substitute for Senate Bill 8, for the purposes of this analysis, the operating budget impacts are estimated to be “indeterminate but substantial.”

## SIGNIFICANT ISSUES

The creation of a new geothermal resources center for excellence at NMIMT without recurring funding will present administrative challenges. NMIMT’s analysis of the original bill suggests that the geothermal center for excellence would be “difficult to sustain” without recurring funding.

The Energy, Minerals and Natural Resources Department’s analysis expresses concerns about the lack of funding and the expectation that the department provides the staff and resources necessary to administer both the fund and the revolving loan program. EMNRD’s analysis estimates the approximate annual operating costs to implement the grant and loan programs would run upwards of \$526.5 thousand annually. EMNRD voices concerns about the expanded scope of work directed to ECMD, citing existing workloads and the additional administrative and reporting duties created by the bill.

Analysis from the Office of the Attorney General stated:

There are two utility-scale geothermal projects in New Mexico, the 14 MW Lightning Dock Resource Area [and] the 11 MW Dale Burgett facility. However, it is worth noting that despite NM’s geothermal resources, the state’s public utilities have not considered geothermal a resource option in their most recent Integrated Resource Plans filed with the Public Regulation Commission.

## ADMINISTRATIVE IMPLICATIONS

EMNRD’s analysis includes an explanation of the agency’s concerns related to the requirement that the agency applies for federal grants for geothermal resources development:

Historically, [such] grants have been targeted to research universities or other geothermal research and development organizations that often perform direct research or exploration of geothermal resources or technologies. While the division may be able to assist those institutions and organizations with grant proposals, the chance that the division would be eligible for federal funding under those existing programs could be limited.

## CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Senate Bill 45 reinstates the geothermal ground-coupled heat pump tax credits in the Personal Income Tax Act and Corporate Income and Franchise Tax Act through December 31, 2033.

Senate Bill 74 amends Section 62-13-1 NMSA 1978, also known as the Public Utility Act, to include a definition for “clean energy” as only energy generated from solar heat, solar light, wind, *geothermal reservoirs*, biomass, or hydropower.

Senate Bill 173 amends the Tax Administration Act, Income Tax Act, Corporate Income and Franchise Tax Act, and Gross Receipts and Compensating Tax Act to create deductions and tax credits to assist in developing the technology to generate electricity from deep geothermal formations.

House Bill 365 duplicates the Senate Finance Committee Substitute for Senate Bill 8 and also amends Section 71-9-3, NMSA 1978. However, HB365 adds the same definition of “geothermal resources development project” under a different letter.

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