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FISCAL IMPACT REPORT

SPONSOR Romero, A. LAST UPDATED _____
ORIGINAL DATE 2/17/2025
BILL _____
SHORT TITLE EMNRD Conversion of Certain Wells NUMBER House Bill 361
ANALYST Davidson

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT* (dollars in thousands)

Agency/Program	FY25	FY26	FY27	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
EMNRD		\$369.0 to \$615.0	\$369.0 to \$615.0	\$738.0 to \$1,230.0	Recurring	General Fund

Parentheses () indicate expenditure decreases.

*Amounts reflect most recent analysis of this legislation.

Sources of Information

LFC Files

Agency Analysis Received From

Energy, Minerals and Natural Resources Department (EMNRD)

New Mexico Department of Justice (NMDOJ)

New Mexico Institute of Mining and Technology (NMIMT)

Agency Analysis was Solicited but Not Received From

Tax and Revenue Department (TRD)

SUMMARY

Synopsis of House Bill 316

House Bill 361 (HB316) proposes to enable the Energy, Minerals and Natural Resources Department (EMNRD) to authorize the repurposing of depleted oil and gas wells to be utilized for energy storage or geothermal energy development. The bill provides for the well to be plugged if these uses are no longer viable.

The effective date of this bill is July 1st, 2025.

FISCAL IMPLICATIONS

The New Mexico Institute of Mining and Technology (NMIMT) notes, due to ambiguities within the bill, an accurate fiscal estimate from the university is not possible without clarity regarding the bill's language.

Analysis from EMNRD notes the bill could possibly have positive fiscal impacts on the agency's operations, specifically noting the bill seemingly aims to bolster the state's clean energy transition and grid modernization efforts. However, due to the technology still emerging, the agency did not provide an estimate.

If House Bill 316 is implemented, the new energy storage or sources it could create could require EMNRD to increase its regulatory scope. There are currently around 1,700 orphaned and abandoned wells in the state, varying in degrees of depth, use, and age. If 10 percent of these wells were utilized for either energy storage or geothermal energy development, it could require the Energy Conservation Management Division (ECMD) and the Oil Conservation Division (OCD) to collaborate on regulation of the new entities or to vest with the regulation of 170 new energy sources or storage centers. Due to this, the bill likely would require ECMD to need an additional three to five personnel. The fiscal impact tables uses ECMD's average personnel cost.

SIGNIFICANT ISSUES

The areas with the most geothermal potential in the state are in the Rio Grande Rift, a rift which runs from the north to the south through the center of the state and into a portion of the state's southwest. NMIMT notes this region of high geothermal potential does not mirror the state's oil and gas producing regions. Analysis from NMIMT further notes, due to the low average temperatures from the oil and gas basins, typically less than 150 F, the bill may not have limited utility.

NMIMT recommends the most likely path for conversion to a productive geothermal well would be to deepen the well, which could give cost savings over drilling a new well.

The university notes conversion of oil wells for other purposes is common, with oil wells being converted to disposal wells, though issues can arise due to mineral holders and mineral leases. NMIMT notes, once a well is no longer producing, it is abandoned, and HB361 should provide for the operator of the well to be absolved of future liability, which will be borne by the new geothermal or energy storage operator.

NMIMT notes the bill does not have specific language regarding the treatment of produced geothermal water. Produced geothermal water, similar to produced water made from oil extraction processes, can have varying levels of radioactive chemicals and heavy salts. Due to the state's current statutes not having specific language regarding produced geothermal water, which would be a bioproduct of the bill's implementation, NMIMT recommends the bill be amended to address this gap.

NMIMT further notes the bill does not specify the source of water needed to run the energy storage system the bill points to. The university recommends sections of state statute discussing impairment of water rights should be included in the bill to accommodate this issue.

EMNRD notes the agency would need to enter rule-making process regarding ECMD and OCD to ensure its defined how the transition of regulatory authority of oil wells to their new purpose. EMNRD analysis notes rule making would most likely regard logistical concerns, and it's likely both entities would regulate aspects of the updated wells.

EMNRD analysis notes the bill could possibly address oil and gas industry issues in the Permian Basin with grid infrastructure:

The oil and gas industry in the Permian presents a potentially enormous consumer of electricity. Utilizing inactive (or soon to be inactive wells) for energy storage thus solves two problems at once by presenting a storage solution that is co-located with demand.

The New Mexico Attorney General (NMAG) notes the bill alludes to EMNRD having jurisdiction over oil and gas wells in the state. NMAG analysis notes OCD and the Oil Conservation Commission are the two entities who have exclusive jurisdiction, and the bill does not contemplate the interplay between EMNRD, OCD, and OCC.

AD/hj/hg