F I S C A L I M P A C T R E P O R T

SPONSOR: Leavell DATE TYPED: 1/31/02 HB

SHORT TITLE: Additional Natural Gas Pipeline Systems Study SB 369

ANALYST: Trujillo

APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY02	FY03	FY02	FY03		
75.0				Non-Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

Relates to Appropriation in The General Appropriation Act

SOURCES OF INFORMATION

LFC Files

Responses Received From:
Energy, Minerals and Natural Resources Department (EMNRD)
Commissioner of Public Lands (CPL)

SUMMARY

Synopsis of Bill

Senate Bill 369 appropriates $75.0 from the general fund to the legislative council service for the purpose of providing for a legislative study of the economic feasibility of additional natural gas pipeline systems.

According to CPL, the study would update a 1996 pipeline study the funded by the NM legislature for a cost of $250,000. The appropriation was given to the NM Economic Development Dept (EDD). The report submitted on Jan. 15 1997 to EDD was in reaction to depressed natural gas prices, frequent pipeline capacity constraints, and competition in the CA markets. The 1996 study was designed to study the possibility of adding a new pipeline to transport gas to the markets in the east. A person, selected pursuant to the Procurement Code, would carry out the proposed study in this bill. The new study would include the economic feasibility, costs and benefits of financing, construction and operating a natural gas pipeline to transport NM natural gas to additional markets

The results of the report and the recommendations and comments of the committee are required to be forwarded to the governor and the legislature by Dec. 15, 2002. The new report is required to include projections on gas production, NM gas prices, CA & western US future gas demand and an analysis of existing pipelines to meet future demand, feasibility of new pipelines, potential incentives for pipelines, environmental & social costs of a new pipeline and any other issues from the committee.

Significant Issues

EMNRD reports at times in the past two years large differences have existed between the price at which natural gas is sold in New Mexico, particularly in the northwest part of the state, and the price at which the very same gas is sold at the California border. The difference has exceeded the cost to transport the gas from New Mexico to the border. During the collapse of the energy markets in California during the winter of 2000-2001, the differentials were quite large. The reasons for this phenomenon have been hotly debated; some blame the differentials on unscrupulous trading practices, others on the unrestrained market, and others on pipeline capacity constraints.

The 1996 study referred to in the bill was conducted by Benjamin Schlesinger & Associates, who studied modest improvements in the intrastate pipeline infrastructure to remedy the basis blowouts that occurred in 1995-96. The study found these basis blowouts had been caused by the lack of physical capacity to move gas east. EMNRD commissioned a study in 1999 by Lippman Consulting Inc. that suggested that pipeline capacity was adequate in the long term because expected production declines would free up additional pipeline capacity. Since 1996, when the earlier report was prepared and even since 1999 when Mr. Lippman's study was delivered, the western energy markets have changed dramatically and some of the assumptions about demand in California (a major market for New Mexico gas) may no longer be accurate. Further, expected production declines detailed in the report have not materialized as rapidly as forecast by Mr. Lippman, and Texas and Mexico have emerged to compete with California for New Mexico's gas. The effect of other factors, such as the pipeline from the major Canadian production to Chicago on competition within California for New Mexico gas, and new pipeline projects under construction (described in "other substantive issues"), have not been studied. Updating the previous study might be very timely.

CPL indicates the Public Regulation Commission, CPL, EMNRD, EDD and every other state agency and political subdivision of the state shall, upon request, furnish and make available to the committee documents, materials or information requested by members or staff of the committee. The 1996 study cost $250.0 and required three outside firms. The state agencies may not have the type of resources necessary to respond effectively to the committee’s requests under this new study.

FISCAL IMPLICATIONS

The appropriation of $75.0 contained in this bill is a non-recurring expense to the general fund. Any unexpended or unencumbered balance remaining at the end of fiscal year 2003 shall revert to the general fund.

OTHER SUBSTANTIVE ISSUES

Numerous projects to increase the capacity of interstate pipelines into California are under construction, permitted or planned. Questar's Southern Trails Pipeline has been approved by Federal Energy Regulatory Commission (FERC). It is a conversion of an existing crude oil pipeline from San Juan

County, New Mexico to Long Beach; it will serve multiple receipt points in the San Juan Basin and multiple delivery points in California, and will have a capacity of 120 mcf/d (million cubic feet per day). El Paso Natural Gas' "Line 2000" has also been approved by FERC. It also involves conversion of an existing crude oil pipeline known as Plains All-American Pipeline, and will increase the capacity of the El Paso system by 230 mcf/d. FERC approved the project on May 8, 2001 and El Paso is currently working through regulatory difficulties in Arizona. Williams Field Services has received approval of FERC to almost double the capacity of its Kern River transmission line, which delivers natural gas from the Rocky Mountains to Wheeler Ridge, at the California border. The $1 billion expansion is slated for completion in spring of 2003. Williams is also considering a direct interconnection to Southern California Gas, downstream of Wheeler Ridge.

Not presently before FERC, but announced and planned, are two additional pipelines: Colorado Interstate Gas Company is planning to construct its Ruby Pipeline between the Rockies (Wyoming) and Northern California through a delivery point near Reno. The 30-inch and 36-inch pipeline is planned to have a capacity of 750 mcf/d and begin service in 2003. Kinder Morgan Energy Partners have announced plans to construct a new pipeline, called the Sonoran Pipeline, from the interconnection of Colorado Interstate Gas and Transwestern to the Blanco Hub (in New Mexico) and then on to the California/Arizona border. Later, the pipeline is expected to expand into California, apparently terminating near San Francisco. The initial capacity is claimed to be 750,000 dth/d (decatherms per day) with capability to increase to 1 million dth/d should the need arise. This pipeline is expected to begin service in 2003.

These projects, if completed, should be considered during the study to assess their impact on New Mexico's interests.

LAT/njw