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

SPONSOR Martinez, R. C. **ORIGINAL DATE** 02/26/09 **LAST UPDATED** 03/16/09 **HB**

SHORT TITLE Interim Greenhouse Gas Emissions Study **SM** 40/aSRC

ANALYST Aubel

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY09	FY10	FY11	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
Total		$80.0	$0.1	$80.0	Nonrecurring	General Fund*

(Parenthesis ( ) Indicate Expenditure Decreases)

*While the Environmental Protection Bureau has additional funding sources, including permit fees and federal funds, additional expenses would threaten solvency of the Title V permit fee fund and the federal funding currently cannot be used for greenhouse gas initiatives.

Relates to HB 98 and HB 653
Duplicates HM 52/aHENRC

SOURCES OF INFORMATION
LFC Files

Responses Received From (Original Bill)
New Mexico Environment Department (NMED)
Energy, Minerals and Natural Resources Department (EMNRD)

No Response From
Public Regulatory Commission (PRC)

SUMMARY

Synopsis of SRC Amendment

The Senate Rules Committee Amendment directs the study to be given to the New Mexico Legislative Council to direct to the appropriate interim committee. This amendment anticipates a possible name change for the Radioactive and Hazardous Materials Committee to the "Energy and Environment Committee" if HB 107 is enacted.

Synopsis of Original Bill

Senate Memorial 40 proposes that a study be conducted on the impact of the Western Climate Initiative (WCI) on the citizens, businesses, and environment of New Mexico. SM 40 would direct the interim legislative Radioactive and Hazardous Materials Committee (RHMC) to study and to evaluate the WCI's final design recommendations and any federal proposals that may be introduced relating to programs to reduce greenhouse gas (GHG) emissions.

The RHMC would study, evaluate, and issue recommendations for legislation, policies, programs, and regulatory approaches, including the authority of the state to regulate interstate power sales and GHG emissions from non-WCI entities and from tribal lands for approaches proposed by the WCI. The RHMC would consider and address the environmental and fiscal impacts to New Mexico citizens, consumers, and industry resulting from the adoption and implementation of a GHG reduction program, including the impacts to gross state product, state income, employment, taxation and revenues, and price impacts on electricity, natural gas, and petroleum products.

The committee would report its findings and recommendations to the New Mexico Legislature by December 2010.

FISCAL IMPLICATIONS

NMED indicates that the fiscal impact to department's operating budget will depend on the depth of evaluation conducted by the RHMC. For example, a macro economic analysis to better understand the impacts of the WCI program would require an estimated $80 thousand for contractual services. To date, a carbon-cost analysis has not been performed. The department also suggests that an additional FTE would be needed to work with the interim committee to evaluate the WCI and federal proposals, which would cost approximately $55 thousand (average state salary of $42.1 thousand plus benefits). However, it would seem that current staffing would suffice. The Memorial also implies additional Legislative Council Services staff time to implement the directives.

SIGNIFICANT ISSUES

NMED provides the following background information:

> In February 2007, the Governors of Arizona, California, New Mexico, Oregon and Washington signed a memorandum of understanding committing the states to developing a regional approach to reducing GHG emissions, including the development of market-based mechanisms. Since that time, the governors of Montana and Utah and the premiers of British Columbia, Manitoba, Ontario and Quebec joined in the effort. Those states and provinces worked with stakeholders over an 18 month period to develop the September 2008 "Design Recommendations for the WCI Cap-and-Trade Program." The WCI design uses a phased in cap-and-trade program to reduce GHG emissions by 15 percent below 2005 levels by 2020, which is essentially equivalent to the goal outlined in HB 653 of 10 percent below 2000 levels by 2020.
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> A cap-and-trade system is a market mechanism in which GHG emission are limited or capped at a specific level, and those participating in the system can trade allowances. One allowance is created for each ton of GHG emissions allowed under the declining cap. Participants are required to turn in allowances equal to the GHGs they emit. Participants that have lower compliance costs can over comply and sell their additional reductions to participants for whom compliance costs are higher. In this way, overall costs of compliance are lower than they would other wise be under a standard, or command-and-control, regulatory scheme.

The WCI cap-and-trade program covers about 90 percent of our economy-wide GHG emissions in the WCI region. It is the most comprehensive program developed to date anywhere. Several notable aspects of the program design include:

- The largest stationary emissions sources of GHG, such as power plants, refineries, and factories, are covered directly by the program beginning in 2012.
- Emissions from smaller, diffuse sources of GHG, such as homes and cars, are included where the fuels enter into commerce beginning in 2015.
- High-quality, verifiable GHG emission offset credits are included to help further reduce compliance costs while maintaining the environmental integrity of the program. To ensure progress toward a low-carbon economy, the majority of the emission reductions must come from emissions sources covered by the cap-and-trade program.

No professional macro-economic analysis has been completed to date on the impact to New Mexico's economy by implementing GHG reduction programs, including those mentioned above and the California Clean Car initiative. Many remain concerned that such programs will put industry at a disadvantage in the state and slow the economic recovery, particularly if the surrounding states do not adopt similar measures. A cap and trade program, while theoretically reducing the overall cost of GHG reduction, will still be very expensive for industry. NMED's analysis for House Bill 653 indicated that the cost to implement a cap and trade program in New Mexico, including a 10 percent auction of credits, will range from $7 million to $50 million. A more thorough analysis would help narrow the potential cost. It would also take into consideration any federal proposals on this matter, which would apply nationally.

PERFORMANCE IMPLICATIONS

Except for legislation relating to energy production, so far the GHG programs have been implemented through executive order and rulemaking, with little or no legislative input. HM 52 would serve to provide the analysis that so far has been lacking as well as provide another venue for stakeholders to discuss and conceive policy regarding GHG emission reduction in New Mexico.

DUPLICATION, RELATIONSHIP

SM 40/aSRC duplicates HM 52/aHENRC.

SM 40 relates to HB 98, which would implement a greenhouse gas registry program and fees.

SM 40 relates to HB 653, which would provide authority to the Environmental Improvement Board to implement WCI. This would appear to conflict with SM 40 but it is not listed as a conflict in the session publication.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

A thorough analysis, including legislative input regarding implementing GHG reduction policy in New Mexico, will not be conducted.

MA/svb:mt