

Frequently Asked Questions
New Mexico Environment Department
Proposed Greenhouse Gas Cap-and-Trade Rule
Updated June 8, 2010

1. Why reduce Greenhouse Gas emissions?

New Mexico is particularly vulnerable to climate change impacts, such as hotter temperatures, reduced snowpack, increased forest fires and more extreme weather events such as floods and long term droughts. The State has a responsibility to provide leadership, plan, and prepare for climate change.

2. Why reduce greenhouse gas emissions using a cap-and-trade program?

Cap-and-trade has been an effective means of reducing regional air pollution and is considered the most cost-efficient means of reducing greenhouse gas emissions. A cap-and-trade program reduces greenhouse gas emissions by setting a mandatory cap on greenhouse gas emissions and providing economic incentives for achieving emissions reductions. Under a cap-and-trade program, a regulatory authority distributes greenhouse gas emission allowances equal to the number of tons under the cap for each year.

Greenhouse gas emission allowances can be bought and sold on a transparent, open and regulated market. Cap-and-trade programs have a lower overall cost to the economy than traditional regulatory programs, because sources have flexibility in how to comply. A cap-and-trade program also creates incentives to develop New Mexico's green economy.

3. Will the New Mexico Environment Department propose implementing a New Mexico-only cap-and-trade program?

No. New Mexico will not implement a cap-and-trade program unless there are sufficient greenhouse gas emissions allowances within the Western Climate Initiative to make the program the trading program efficient and cost-effective. The Western Climate Initiative is a collaboration of Western states and Canadian provinces working together to identify, evaluate, and implement policies to tackle climate change at a regional level. Through a combination of a regional cap-and-trade program and complementary policies, the jurisdictions in the Western Climate Initiative have committed to reducing the pollution that causes global warming to 15 percent below 2005 levels by 2020. The Western Climate Initiative states include California, Washington, Oregon, Utah, Montana, Arizona and New Mexico. The Canadian provinces include British Columbia, Manitoba, Ontario and Quebec. The Environment Department proposes that the regional trading program must contain at least 100 million metric tons of greenhouse gases before the state will enter the program.

There will also be opportunities to link and trade with other programs. The Western Climate Initiative is one of several greenhouse gas initiatives in North America. Others include the Regional Greenhouse Gas Initiative in the Northeastern and Mid-Atlantic states and the Midwestern Greenhouse Gas Reduction Accord in the Mid-Western states.

4. How can New Mexico benefit from implementing a cap-and-trade program?

Establishing a price on greenhouse gas pollution through a cap-and-trade program can stimulate innovation and promote economic opportunities in clean energy technologies.

Expanding and strengthening existing state energy efficiency and renewable energy programs will support the transition to a clean energy economy and green jobs. In addition, New Mexico will benefit as the region looks to cleaner burning fuels such as New Mexico natural gas.

5. Who will be subject to the cap-and-trade program?

The cap-and-trade program applies only to sources that emit at or above 25,000 metric tons of carbon dioxide per year. The Environment Department anticipates that large facilities that generate electricity using coal or natural gas will be part of the program, as well as other large combustion sources at oil and gas facilities. Based upon greenhouse gas emissions inventory data, the Environment Department expects that approximately 63 sources will be under the cap. (See Table 1).

6. How much will affected sources be required to reduce their greenhouse gas emissions?

The proposed cap-and-trade rule does not directly require facilities to reduce emissions. Instead, the number of allowances to emit greenhouse gas that are allocated to each facility will reduce by 2% per year. Facilities that do not reduce their emissions will need to purchase allowances in the cap-and-trade market. Additionally, over time the number of pollution allowances available on the market will diminish.

7. Does the cap limit a facility's production?

No. Production is not limited by the cap. Alternately, there are provisions that encourage production in state as long as it is in compliance with the program's standards.

8. How much will affected sources have to pay for greenhouse gas allowances?

New Mexico proposes to distribute allowances free of charge. A source that emits more greenhouse gases than the number of allowances it owns will need to purchase additional allowances through the trading part of the program. A source that emits fewer greenhouse gases than the number of allowances it owns may be able to either bank or sell the excess allowances. New Mexico will not initiate cap-and-trade provisions unless the market is of sufficient size to be efficient and cost-effective.

9. Will affected sources be able to meet their emission reduction requirements through the use of offsets?

Offsets are emission reductions from sources outside the capped sectors, such as forestry and agriculture. The Environment Department proposes to allow the use of offsets to meet compliance obligations, so long as the offsets meet certain requirements and comprise less than 4% of their compliance obligations.

10. How does the Environment Department propose to distribute allowances?

The Environment Department proposes to issue greenhouse gas emission allowances to existing sources based on historical emissions, with adjustments for variations in production rates. The proposed regulation would allow allocations of allowances to new emission sources and new emissions at existing sources coming into the program after 2012. New emissions allocations

will not expand the cap. A provision has been added to address indirect emissions resulting from increases in imported electricity.

11. What is 20.2.300 NMAC, which is referenced in the proposed regulation?

20.2.300 NMAC is a companion regulation to proposed 20.2.350 NMAC. In setting out reporting requirements for greenhouse gases, 20.2.300 NMAC will replace the current regulation 20.2.87 NMAC. It will apply to a) most emissions which are required to be reported by emission facilities under the current Federal greenhouse gas reporting rule 40 CFR 98, and b) carbon dioxide removed from natural gas and emitted by natural gas treatment plants. The Environment Department will release the draft 20.2.300 NMAC within the next few weeks.

12. What happens if the federal government passes a national cap-and-trade program?

The Environment Department supports a strong national greenhouse gas reduction program and intends to participate in a national program when it becomes effective. The proposed rule includes language that “sunsets” the state regulation if the federal government implements an equally effective national cap-and-trade program.

13. When will the proposed cap-and-trade program start?

Assuming sufficient market size as discussed in Question 8, the program is scheduled to start in 2012. Affected sources in New Mexico will not be required to surrender allowances until mid-2015, after the end of the first compliance period.

14. Will businesses leave the state to avoid the regulatory burden of this rule?

The Environment Department believes that the rules will encourage economic development rather than drive businesses from the state. The rules contain several provisions that address any regulatory burden. For example, the rules call for the free distribution of emission allocations, and postpone the compliance obligation until 2015, allowing sources several years to plan their emission reduction strategy. Lastly, the program is structured not to reward reduced production. Allowances are lost if the facility reduces production.

15. What are the economic impacts of a cap-and-trade program?

The Environment Department proposes to implement a cap-and-trade program because it is the least costly option for reducing greenhouse gas emissions. In addition, this cap-and-trade program design includes a number of cost containment features such as broad coverage, the banking of allowances, use of offsets, and free distribution of allowances. A regional economic analysis, including New Mexico, demonstrates that this program design will result in regional emission reductions with a net savings to the economy in 2020. Additionally, the Environment Department is conducting a state only economic analysis.

Ultimately, the goal of a cap-and-trade program is to avoid economic disruption resulting from the potential impacts of climate change, such as exacerbated droughts, increased temperatures, and more frequent extreme weather events. A recent study by the Climate Leadership Initiative showed that if greenhouse gases are not controlled, the cost of climate change to New Mexico citizens of higher temperatures, reduced snow pack, forest fires, droughts, energy costs and health care costs could reach \$3,430 annually per family by 2020 if greenhouse gases.

16. Are there lawsuits that might prevent the Environment Department from proceeding with this program?

No. Earlier this year, a state district court enjoined the Environmental Improvement Board from conducting further proceedings on a petition filed by New Energy Economy that would establish a greenhouse gas cap program until the Environmental Improvement Board adopted an ambient air quality standard for carbon dioxide. The Environmental Improvement Board asked the state Supreme Court to overturn that decision, and on June 7, the Supreme Court reversed the district court.

17. When will the Environment Department petition the Environmental Improvement Board to adopt 20.2.350 NMAC – *Greenhouse Gas Cap and Trade Provisions*?

The Environment Department petitioned the Environmental Improvement Board on June 4 to schedule a hearing to adopt this regulation. On June 21, the Environment Department will ask the Environmental Improvement Board to schedule a hearing on the petition.

18. Why is the Environment Department submitting the request to schedule a hearing with the Environmental Improvement Board now?

The Environment Department is submitting this request now in order to meet the Environmental Improvement Board's deadline for securing a place on the agenda for their meeting later this month.

19. Is it too late to comment on the proposed regulation?

No, it is not too late to submit comments on the proposed regulation. The Environment Department will take comments on the proposed regulation at any time. Additionally, if the Environmental Improvement Board schedules a hearing on the proposed regulation, there will be another 60-day public comment period before the hearing, and any person may present comments in writing or at the hearing itself

Table 1. Year 2008 carbon dioxide emissions reported to the New Mexico Air Quality Bureau as required by regulations 20.2.73 NMAC and 20.2.87 NMAC. This table includes only sources that reported emissions of 25,000 metric tons or more. Smaller sources that are not included here accounted for less than 4% of reported emissions.

Although currently not subject to NMED greenhouse gas reporting, we believe there are a small number of sources that may emit 25,000 metric tons or more and would be included in the cap.

Owner/Operator and Facility	CO₂ Emissions* (thousand metric tons)	Percent of Total
<i>Electricity Generation</i>		
Public Service Co of NM		51.53%
San Juan Generating Station	10,797.5	
Luna Energy Facility	905.8	
Afton Generating Station	329.2	
Lordsburg Generating Station	29.9	
Tri -State Generating		7.50%
Prewitt Escalante Generating Station	1,755.1	
Xcel Energy		5.09%
Cunningham Station	881.4	
Maddox Station	310.0	
El Paso Electric		1.97%
Rio Grande Generating Station	461.7	
City of Farmington		0.85%
Bluffview Power Plant	135.7	
Animas Plant	63.1	
<i>Oil and Gas</i>		
Williams Four Corners		9.20%
Milagro Cogeneration and Gas Plant	1,500.5	
Kutz Gas Plant	141.2	
El Cedro Gas Plant	100.5	
La Jara Compressor Station	82.2	
Lybrook Gas Plant	58.6	
Dogie Canyon Compressor Station	42.5	
32-8 No2 CDP Compressor Station	40.9	
32-7 CDP Compressor Station	40.3	
Trunk L Compressor Station	37.2	
Laguna Seca Compressor Station	29.8	
Chaco Compressor Station	26.3	
Cedar Hill Compressor Station	25.7	
Middle Mesa CDP Compressor Station	27.8	

Owner/Operator and Facility	CO₂ Emissions* (thousand metric tons)	Percent of Total
TEPPCO NGL Pipeline LLC Val Verde Treater Pump Canyon Compressor Station Frances Mesa Compressor Station Gobernador/Manzanares Compressor Station	1,340.2 41.7 30.5 44.9	6.23%
Enterprise Field Services LLC Chaco Gas Plant Blanco Compressor C and D Station Rattlesnake Canyon Compressor Station South Carlsbad Compressor Station	395.3 263.5 47.0 32.9	3.16%
Navajo Refining Navajo Refining - Artesia Refinery Lovington Refinery	624.2 93.8	3.07%
Versado Gas Processors, LLC Targa - Eunice Gas Plant Monument Gas Plant Saunders Gas Plant North Eunice Compressor Station	187.8 96.4 67.0 42.5	1.68%
DCP Midstream Artesia Gas Plant Eunice Gas Plant Linam Ranch Gas Plant	66.1 146.1 164.2	1.61%
Western Refining Ciniza Refinery Bloomfield Refinery	264.5 103.5	1.57%
Conoco Phillips San Juan Gas Plant East Vacuum Liquid Recovery Wingate Fractionation Plant	244.1 65.4 36.8	1.48%
El Paso Natural Gas Lordsburg Compressor Station Florida Compressor Station Eunice A Compressor Station Monument Compressor Station Afton Compressor Station Pecos River Compressor Station	61.3 45.8 41.5 38.6 35.0 81.1	1.30%

Owner/Operator and Facility	CO₂ Emissions* (thousand metric tons)	Percent of Total
Southern Union Gas Limited Jal No3 Gas Plant	226.8	0.97%
OXY USA WTP Limited Partnership Indian Basin Gas Plant	111.3	0.48%
Intrepid Potash New Mexico LLC East KCI Compaction	106.6	0.46%
Freeport-McMoRan Chino Mines Co Chino Mine - Hurley Facility	87.8	0.38%
Davis Gas Processing Denton Gas Plant	64.3	0.27%
Western Gas Resources San Juan River Gas Plant	62.1	0.27%
Mosaic Potash Carlsbad Inc Mosaic Potash Carlsbad Inc	43.6	0.19%
Frontier Field Services LLC Empire Abo Gas Plant	40.6	0.17%
Other		
DairiConcepts LLC Portales	50.7	0.22%
American Gypsum Bernalillo (Wallboard) Plant	32.1	0.14%
US DOE Los Alamos National Laboratory	31.2	0.13%
State of New Mexico New Mexico State University Campus	26.8	0.11%
Total from sources ≥ 25K metric tons	23,408.9	100.00%

*Methane emissions were not required to be reported for the 2008 emissions year. Vented CO₂ emissions from some gas treatment and processing plants may be underestimated. The above list may not be inclusive of all sources potentially subject to the cap. It's also possible that reporting or data transfer errors may result in a source listed above not being included in the cap.