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FISCAL IMPACT REPORT

ORIGINAL DATE 2-26-07
 SPONSOR HAFC LAST UPDATED 2-28-07 HB 431/HAFC
 SHORT TITLE Greenhouse Gas Emissions Reporting Fee SB _____
 ANALYST Aubel

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY07	FY08	FY09		
	\$200.0	\$200.0	Recurring	OSF/Air Quality Permit Fund

(Parenthesis () Indicate Revenue Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY07	FY08	FY09	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
		\$100.0	\$100.0	\$200.0	Recurring	Air Quality Permit Fund

(Parenthesis () Indicate Expenditure Decreases)

Relates to HB 386, HB 889

SOURCES OF INFORMATION

LFC Files
<http://www.nmclimatechange.us>

No Responses Received From

New Mexico Environment Department (NMED) (Pending)
 Department of Finance Administration (DFA) Local Government Division
 General Services Department (GSD) Building Services Division
 New Mexico Municipal league (NMML)
 Energy, Minerals, Natural Resources Department (EMNRD)

SUMMARY

Synopsis of Bill

The House Appropriations and Finance Committee Substitute for House Bill 431 amends the Air Quality Control Act by adding a new section to provide for collecting fees to support the reasonable costs of implementing a state greenhouse gas reporting and state greenhouse gas

registry, two of the three enabling policy recommendations made by the New Mexico Climate Change Advisory Group in its December 2006 report.

The bill authorizes the Environmental Improvement Board or local board to develop a schedule of fees sufficient to cover the reasonable costs of:

1. Preparing and maintaining a greenhouse gas emissions inventory; and
2. Developing and maintaining a greenhouse reporting and registry program.

The schedule of fees will be calculated according to standardized quantification protocols and procedures as described in 40 Code of Federal Regulations Part 75. The bill limits the fees collected annually to \$200.0 thousand each to a local agency and NMED.

The fees will apply to industrial, nonagricultural sources that emit more than 1,000 tones per year of carbon dioxide or carbon dioxide equivalent, defined as the amount of carbon dioxide by weight that would produce the same global warming impact as a given weight of another greenhouse gas.

FISCAL IMPLICATIONS

Fees collected pursuant to HB 431/HAFCS by NMED will be deposited into the state air quality permit fees fund. Those fees will be used to pay the cost of developing, preparing and maintaining the greenhouse gas emission inventory and registry programs. The amount of funds generated will depend upon rulemaking determinations of fee schedule, applicability of mandatory reporting and the extent of participation in the voluntary registry. Until these fees are determined, the amount of new revenue to the fund is unknown. However, it is limited to \$200 thousand annually.

NMED estimated a recurring operating budgetary impact of \$100.0 thousand to fund two clerk positions with benefits and a modest allowance for travel, supplies, and equipment. The fees collected for the program will support the program.

SIGNIFICANT ISSUES

The Air Quality Control Act gives the EIB and the local board authority to adopt rules requiring any person emitting any air contaminant to submit reports regarding the nature and amount of emissions (NMSA 1978, Section 74-2-5). The bill establishes a threshold for sources that will pay fees and defines how other greenhouse gas emissions will be converted to carbon dioxide equivalents.

The Climate Change Advisory Group (CCAG), composed of 37 stakeholders representing a broad range of interests and expertise, developed a list of 69 policy recommendations in their final report. HB 431 supports two of the three of the enabling policies, upon which the others rest, and provides a means of funding these reporting and registry functions for greenhouse gas (GHG) emissions. The consensus of the group was that these functions should be funded by the participants in the programs.

According to the report, a rigorous GHG emissions reporting program is vital for several reasons:

- to map current GHG emissions;

- to identify where the best opportunities for emission reduction;
- help quantify the cost/benefit analysis of remediation;
- provide a baseline for measuring future progress in reduction;
- help construct a state GHG inventory;
- provide a precursor for sources to participate in voluntary reduction programs;
- reduce risks associated with possible future GHG mandates, and
- track accomplishments in GHG emission reduction.

New Mexico has a unique GHG emission footprint, which includes emissions from both production and consumption sources. According to the CCAG report, GHG reporting reflects the standardized measurement and reporting of GHG emissions at a statewide, sector, or sub-sector level to support tracking and management of emissions.

The underlying consensus is that New Mexico's economy, water supply, and quality of life could be harmed if climate change caused by greenhouse gases continues unchecked. This bill does not reduce greenhouse gas emissions directly but is expected to assist in meeting this goal by encouraging management, and ultimately reduction, of GHG emissions.

PERFORMANCE IMPLICATIONS

NMED's Air Quality Bureau has a legislative performance measure to reduce annual statewide noxious emissions to a target level. Similarly, the Governor's Accountability and Performance contract contains goals for reduction of greenhouse gas emissions. Finally, the Governor's Executive Order on Climate Change also contains goals for reduction of greenhouse gas emissions. To the extent that the HAFCS Committee Substitute for HB 431 promotes emission reduction will improve these performance measures.

ADMINISTRATIVE IMPLICATIONS

The EIB or local air quality board (Albuquerque-Bernalillo County Air Quality Control Board) will be charged with setting and collecting an appropriate fee to fund the system. Both boards have the demonstrated expertise and ability to perform this function.

NMED noted that administrative and staff requirements to implement GHG reporting and registry programs would depend on the scope of the programs as determined by any rulemaking. NMED estimates that for comprehensive programs with accurate, standardized protocols, 2 FTEs to be funded by the fees authorized in HB 431/HAFCS could be required; fewer full time employees (FTEs) would be required for limited programs.

RELATIONSHIP

Relates to House Bill 386, which addresses oil-and-gas-industry-related emissions.

Relates to HB 889, which proposes a Chicago-Climate-Exchange-type credit system for New Mexico.

TECHNICAL ISSUES

NMML pointed out that the word “may” (page 1, line 22) gives EIB or local board the option of not adopting fee schedule for GHG emission reporting and inventorying.

OTHER SUBSTANTIVE ISSUES

The HB 431 HAFCS Committee Substitute includes the six traditional GHG emissions; the CCAG also includes black carbon to the extent possible. NMED noted that many sources in New Mexico already report criteria pollutant emissions for compliance with various federal and state regulatory programs. EMNRD maintained that adding GHGs in those cases would be a natural extension.

Quantifying some GHG emissions from some sources remains uncertain but standards quantifying protocols are rapidly being developed and accepted widely. Uncertainty also remains regarding possible future federal requirements for GHG emissions and how they would dovetail with those developed under this bill.

NMED stated that many businesses perceive benefits in reporting their greenhouse gas emissions through participation in a government-approved registry, such as understanding the company’s greenhouse gas “footprint”, public and shareholder disclosure of greenhouse gas emissions and potential liability, establishing a pre-regulatory emissions baseline, obtaining credit for early reductions in greenhouse gas emissions and preparing for emissions trading. Many companies have also realized gains in profitability as they identify and implement measures to increase energy and fuel use efficiency. Both EMNRD and NMED noted that a government oversight of the greenhouse gas registry ensures that all participants adhere to sound methods of measuring and accounting so that reported emissions are credible and verified.

ALTERNATIVES

NMED suggested that the greenhouse gas emissions reporting and registry programs could be funded by means other than greenhouse gas fees. However, NMED also pointed out that for a voluntary registry, the disadvantage of this approach is that funding would not automatically adjust to meet varying needs as the number of participating businesses increased.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

The HAFCS Substitute for HB 431 codifies the intent of New Mexico to track and inventory GHG emissions. Without this intent highlighted, baseline data for GHG emissions may not be generated, which would make determining the state’s progress in reducing GHG emissions difficult. The capability for NMED and the local agency to support such a program through a schedule of fees would not be provided.

MA/nt