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FISCAL IMPACT REPORT

ORIGINAL DATE 02/05/13

SPONSOR Sapient LAST UPDATED _____ HB _____

SHORT TITLE Study Exporting Coal SJM 26

ANALYST Pahl

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY13	FY14	FY15	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total	\$0.0	\$67.0	\$0.0			

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Economic Development Department (EDD)

Energy, Minerals, and Natural Resources Department (EMNRD)

Indian Affairs Department (IAD)

SUMMARY

Synopsis of Bill

Senate Joint Memorial 26 (SJM 26) directs EMNRD to conduct a study to evaluate exporting options for New Mexico coal to Asia, particularly coal mined in the Four Corners part of the State. The study includes analyzing the feasibility of transporting coal by rail through ports in Texas, Mexico and the Pacific Coast of the United States. The study also includes the development of infrastructure investment estimates and an assessment of private and public requirements and support capabilities. The SJM 26 study is proposed in response to an uncertain future for Four Corners coal mining demand, the phasing out of coal production units, the value of coal to the regional economy, and a desire to avert stranded coal, and unemployment among citizens of the Navajo Nation and New Mexico.

FISCAL IMPLICATIONS

EMNRD predicts staff time committed to the study will cost an estimated \$67,000. The Department acknowledges that precise costs are unknown, but predict a large part of the cost lies in collecting data and information produced by other agencies such as the Department of Transportation and EDD and the Navajo Nation. EMNRD estimates a minimum of two FTEs

fully engaged in preparation of the study for a minimum of six months, and at least two additional FTEs fully engaged in reviewing the work for a minimum of two weeks is needed to complete the project.

These fiscal implications assume the EMNRD will not contract with an outside firm to perform the study.

SIGNIFICANT ISSUES

There is a threat of a reduced demand for coal in the four corners region. The Arizona Public Service Company (APS) proposed last year to close the three oldest units at the Four Corners Power Plant, which would reduce capacity from 2,100 to 1,540 megawatts of production. The plan may be on hold while APS negotiates its coal supply contract, which comes from the nearby Navajo Mine operated by BHP Billiton. The San Juan Generating Station has no plans to close any of its units but some have proposed to convert two of its units from coal to natural gas. There is also a reduction in demand for coal-fired electricity, particularly in California.

Requirements to improve the emissions of coal-fired generating stations have also decreased demand for coal. According to a New York Times article entitled “Navajos Hope to Shift From Coal to Wind and Sun”, two coal mines on the reservation have recently shut down. One of them ceased operations because the owners of the power plant chose to close the plant in 2005 rather than spend the \$1.2 billion on retrofitting it to meet pollution controls required by the U.S. Environmental Protection Agency (EPA). Also, the EPA signaled that it would require an Arizona utility to install \$717 million in emission controls at the Four Corners Power Plant in New Mexico, describing it as the highest emitter of nitrous oxide of any power plant in the nation.

Tribal leaders say the Navajo Nation’s income from coal has dwindled 15 percent to 20 percent in recent years as federal and state pollution regulations have imposed costly restrictions and lessened the demand for mining. In a presentation before the Health and Human Services Committee on June 25, 2012, Navajo Nation Vice President Rex Lee Jim noted that the unemployment on the reservation is over 50 percent. The Navajo Mine employs more than 400 people, and coal-fired power plants on the reservation and on lands shared with the Hopi provide about 1,500 jobs and more than a third of the Navajo Nation’s annual operating budget.

Because the plant and mine are located on the Navajo Nation, the State has little or no role in regulating these facilities.

ADMINISTRATIVE IMPLICATIONS

Expertise from EDD and the Department of Transportation as well as cooperation from the Navajo Nation may be needed to conduct the study. EMNRD has expertise in mining issues, but market analysis, estimating the cost and return of infrastructure investments, and assessing the private and public requirements and support capabilities may best be performed by EDD and the Department of Transportation.

The Four Corners plant and the Navajo Mine are both located within the Navajo Nation. Any rail line from the Mine to the main east/west railroad corridor near Gallup would cover a considerable distance within the Navajo Nation. Therefore, it would be important to involve the

Navajo Nation in any study.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

The proposed study relates to, and may in part duplicate, the State Rail Plan, which has been under development by the Department of Transportation (DOT) since 2010. The State Rail Plan is designed to plan for future railroad development within the State, including potential rail service to Farmington, and the opening of rail traffic through Santa Teresa, into and from Mexico. These issues may be important to the specific exporting options referred to in Senate Joint Memorial 26.

ALTERNATIVES

Ensuring that the Department of Transportation's State Rail Plan, a study already funded and well underway, incorporates and addresses the issues expressed in SJM 26 for the economy and people of the Four Corners region would be a cost-effective approach to address the question of railroad access into the Farmington/Shiprock area. The State Rail Plan is required by, and will ultimately be approved by, the Federal Railroad Administration.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

The Department of Transportation State Rail Plan will address many of the railroad infrastructure issues raised by SJM 26. However, much of the coal-specific analysis on the economic possibilities of exporting coal would not be completed.

MMP/bm