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

SPONSOR: Marquardt DATE TYPED: 02/27/03 HB 967

SHORT TITLE: Natural Gas Pipeline Feasibility Study SB

ANALYST: Valenzuela

APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY03	**FY04**	**FY03**	**FY04**		
	See Narrative				

(Parenthesis ( ) Indicate Expenditure Decreases)

SOURCES OF INFORMATION

Public Regulation Commission (PRC)
Energy, Minerals and Natural Resources Department (EMNRD)
Economic Development Department (EDD)

No response was received from the State Highway and Transportation Department (SHTD)

SUMMARY

Synopsis of Bill

House Bill 967 proposes three state agencies (SHTD, EMNRD and EDD) be tasked with updating a 1997 study that evaluated the feasibility of an additional natural gas pipeline constructed to carry New Mexico produced natural gas to other markets. The provisions of the bill, by section, are discussed in detail below.

Section 1. Details the importance of natural gas to the New Mexico economy and acknowledges a 1996 study funded by the Legislature showed an additional pipeline was not feasible at the time. States that a similar study should be completed on a regular basis and reported to the Legislature.

Section 2a. Outlines the criteria of such a study to be completed. These agencies shall jointly study the feasibility and necessity of, and alternatives to, a proposed new pipeline, including environmental and economic impacts.

Section 2b. Requires EMNRD, if the study concludes a pipeline is feasible, to notify persons or entities with an interest in the pipeline. Requires the three agencies to report to the Legislature on whether to define the proposed pipeline a “transportation system” if within six months the private sector does not act on developing the proposed pipeline.

Section 2c. If defined a transportation system, requires SHTD and state highway commission to acquire property and financing for EMNRD to design, construct and operate the pipeline. Requires net income from the operation to be pledged to repay transportation bonds.

Section 2d. Requires the three agencies to report annually to the Legislature on all provisions of this bill.

<u>Significant Issues</u>

The Oil Conservation Division provides a good discussion about the disparity in natural gas pricing from San Juan Basin gas versus other major market hubs.

> The need for additional pipeline capacity from New Mexico to additional markets, particularly from the San Juan Basin, has been debated since at least the mid-1990s. Prices paid for natural gas from the San Juan Basin have often been less than that paid for gas elsewhere, including the nearby Permian Basin within New Mexico. The prevailing thought is that prices have been lower in the San Juan Basin because pipeline capacity between the Basin and California (the major market) is tight, and buyers discount San Juan Basin gas because of the risk of not being able to deliver the gas to market when promised. Recently, pressure has been exerted on the pipelines to California by gas transported South from the Rockies into the San Juan Basin for transportation to California. Pipeline capacity between the Rockies and California is severely constrained, and gas from the Rockies has sold at a significant discount to New Mexico gas as a result. Wyoming is debating this issue, similar to the discussions that took place in New Mexico almost a decade ago. However, major expansions of the pipelines from the Rockies to California have been announced and if only a fraction is actually constructed, pressure on pipelines serving the San Juan Basin may be relaxed.
>
> As the bill notes, of several proposed pipelines to additional markets studied in 1997, only a small project to upgrade the Havasu crossover was ultimately constructed. This was the only project the 1997 study found feasible. Since then, Questar converted an existing 30-inch crude oil pipeline to carry natural gas from the San Juan Basin to the California border (the pipeline was ultimately to carry natural gas to Long Beach California, but that part of the plan has been apparently cancelled due to regulatory issues). In addition, El Paso Natural Gas constructed its Line 2000 project in Arizona, which increased its interstate capacity on its mainlines. The utilities in California are also increasing take-away capacity from the California border, another point of constraint.

FISCAL IMPLICATIONS

House Bill 967 does not contain an appropriation. The Governor’s Budget in Brief provides for a $100.0 appropriation from the general fund to update the 1996 study. If the funding for the study is included in the General Appropriations Act of 2003, the fiscal impact on these agencies could be absorbed.

MFV/sb