



# Will New Mexico Disadvantage Itself?

## Key Issues Regarding New Mexico's Proposed Cap-and-Trade System

The New Mexico Environment Department (NMED) has asked the state Environmental Improvement Board (EIB) to adopt a cap-and-trade system for New Mexico. The proposal is on a fast track: The EIB could approve the proposal as soon as this fall.

Here are key issues regarding the proposal:

According to NMED, its proposal would:

- Establish a cap of greenhouse gas (GHG) emissions by certain sources within New Mexico. It would require a reduction of least 2 percent per year below existing levels through 2020. This would be achieved by requiring existing sources to reduce emissions by 2 to 5 percent or more per year.
- Require sources to either make these reductions or purchase credits for similar reductions achieved by other emitters at a lower cost. Sources that achieve a higher-than-required reduction could sell the value of these excess emissions reductions on the open market.
- Commence in 2012 and apply to sources that emit 25,000 tons or more of GHGs per year.

**NMED is asking appointed officials to do what state legislators would not do.** NMED twice failed to persuade the state legislature specifically to grant EIB the authority to regulate greenhouse gas emissions. NMED's proposal needs just four appointed EIB members to approve it to be enacted.

**While other states reconsider climate regulations, New Mexico is charging ahead.** Just this year, several states have slowed or completely abandoned plans for state-level carbon regulation. These states include Arizona, Montana, Oregon, Utah and Washington. An initiative on the ballot this November in California would "delay implementing (that state's carbon law) until California's unemployment drops to 5.5% for four consecutive quarters .... The state's current unemployment rate is 12.4%." (Los Angeles Times, 1/25/10).

**We don't yet know the full, potential impact on the state's economy.** NMED has said its proposal is economically feasible. NMED released an economic impact analysis of its proposal on July 16, leaving very little time before the hearing on September 20 to evaluate and understand the

study. A state legislative study of how a state cap might affect New Mexico's economy is due by December, but EIB could approve NMED's proposal before that analysis is complete.

**One impact we do know is that New Mexico energy costs will increase.** Under the proposal, the state's electric utilities would be forced to reduce production from existing fossil fuel-fired power plants or pay a price for reductions achieved by other sources of greenhouse gases. Either way, the price of electricity would rise by an unknown amount. The state's oil and gas production industry – a leading employer and major source of funding for state government -- would face a similar choice and similarly unknown costs.

"Climate change is global in scope. It is an overreaching attempt at social engineering to address it by implementing greenhouse gas limits at the state level. The net result would be to make New Mexico a pariah to industry and an unpleasant place for people who like having jobs, driving cars and heating their homes."

– *Albuquerque Journal editorial, Feb. 20, 2010*

**These added costs would be unique to New Mexico, creating an economic disadvantage for job growth.** The proposal would create costs for New Mexico-based industries that will not exist in neighboring states, providing a powerful incentive for existing businesses to limit growth or leave the state, and for new businesses to locate elsewhere. New Mexico's ability to compete economically would be affected.

**The proposal's environmental benefit to New Mexico is questionable.** Greenhouse gas emissions do not stop at state borders. Testimony by NMED on its own proposal even acknowledges this. "Adopting this program alone is not likely to reverse the impacts of climate change in New Mexico," NMED concedes.