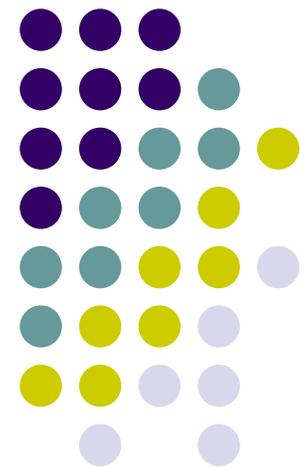


New Mexico Proposed Greenhouse Gas rules:

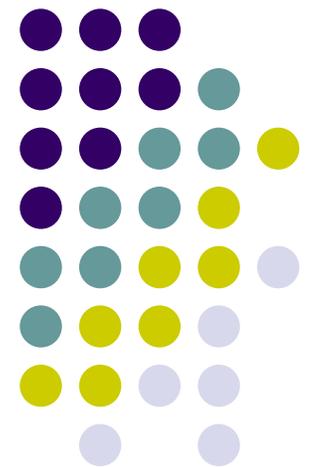
20.2.350 NMAC – Greenhouse Gas Cap-and-Trade Provisions

20.2.300 NMAC – Reporting of Greenhouse Gas Emissions

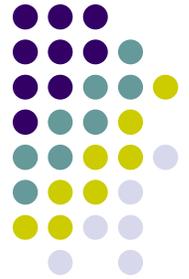
20.2.301 NMAC – Greenhouse Gas Reporting - Verification Requirements



20.2.350 NMAC – Greenhouse Gas Cap- and-Trade Provisions



NMED's Proposed Cap and Trade Program



- Program would start in 2012 provided sufficient market size (100 million metric tons GHGs)
- Bernalillo County and Tribal lands not covered (outside of State Board jurisdiction).
- Includes large industrial facilities
- Proposing an annual 2% reduction in GHG emissions
- Reductions are achieved at the facility, or at the facility from which allowances are purchased



Affected Facilities

Cap & Trade:

- Facilities that emit 25,000 metric tons GHG or greater/ year
 - Power plants
 - Refineries
 - Gas plants
 - Other large combustion
- 25,000 metric tons GHG = 4780 light passenger vehicles
- About 63 sources in program



Cap and Trade Rule Making Process



- NMED submitted proposed rule to independent regulatory board (Environmental Improvement Board) in June.
- Formal public comment period from July 15 to the end of the hearing.
- Comments may be submitted to the Board www.nmenv.state.nm.us/EIB.
- Environmental Improvement Board hearing is scheduled to start on September 20 in Santa Fe.

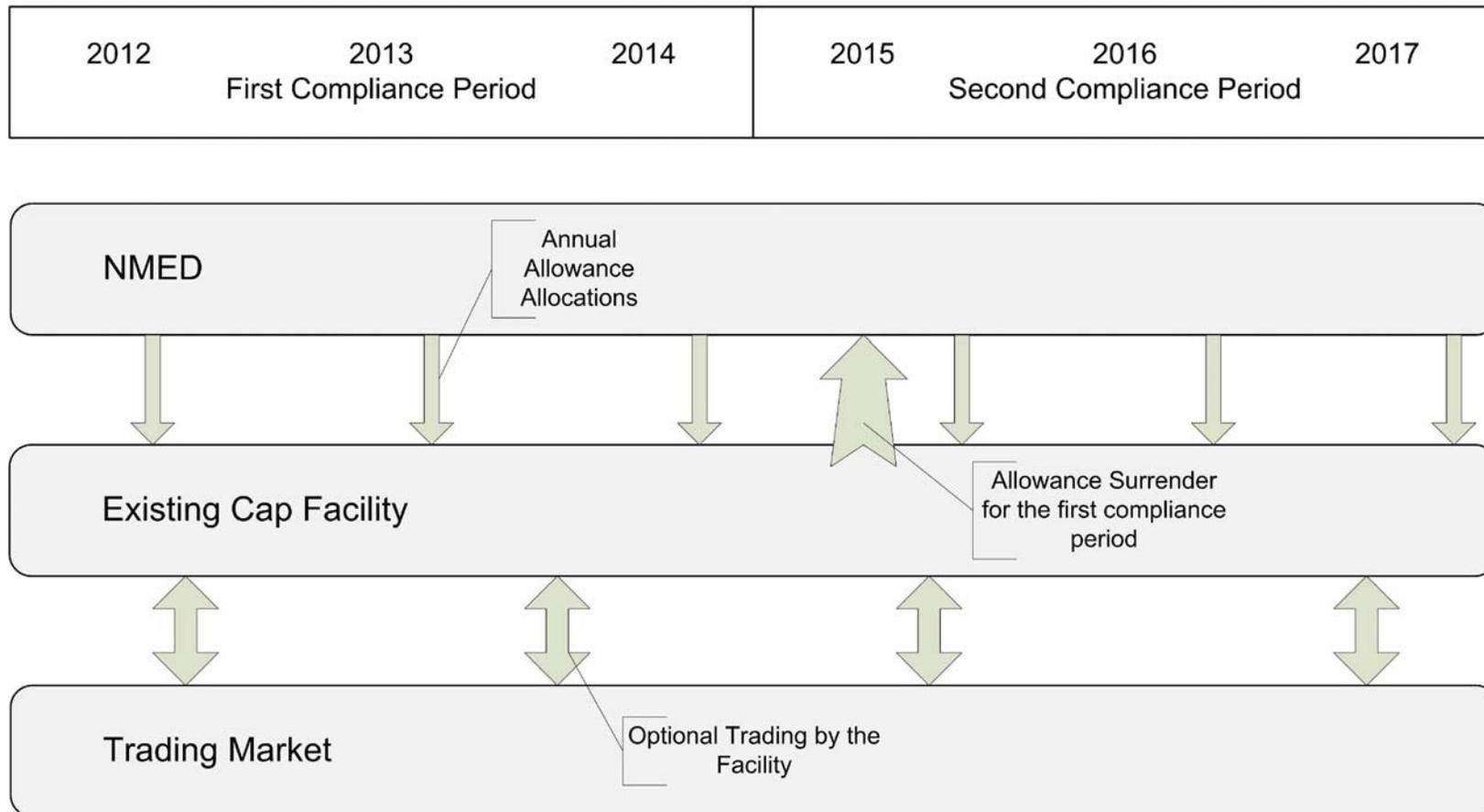


GHG Allowances

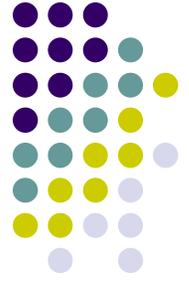
- Allowances = currency of C&T programs
- 1 allowance = authorization to emit 1 metric ton GHGs (in units of CO₂e)
- Person must have General Account or Compliance Account to own allowances
- Free distribution to “existing cap facilities” (in operation since January 1, 2011)
- No auctioning by NMED, although persons can trade on market
- Facility must surrender sufficient allowances after end of 3-year compliance period to cover emissions that occurred during period



Figure 5: Timeline For Compliance Instrument Allocation And Surrender



Factors in “Existing Cap Facility” Allocations

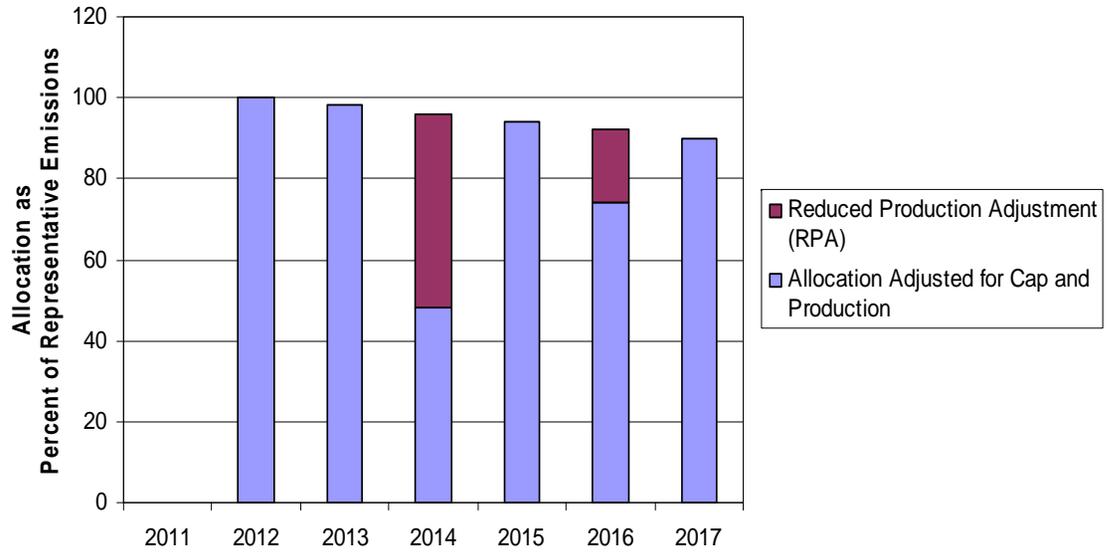
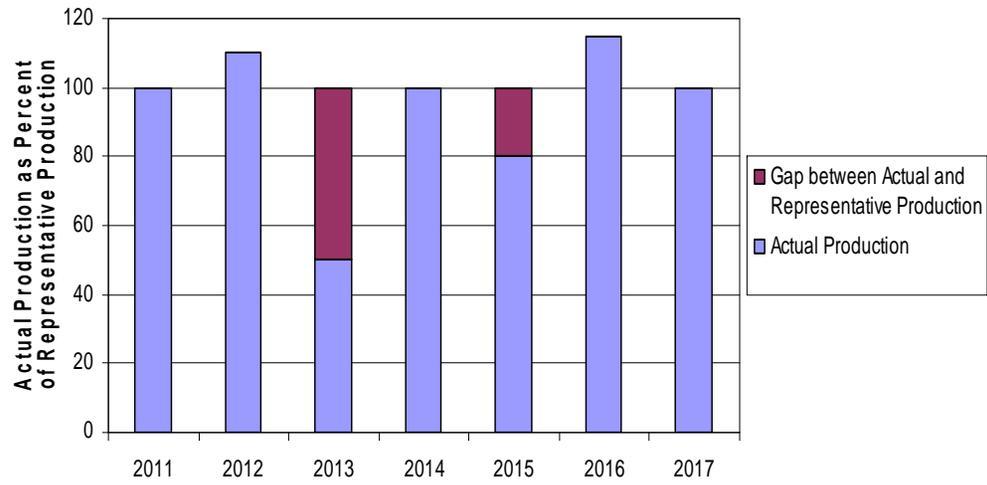


- “Representative” historical emissions
 - 2009, 2010, 2011
 - Will consider potential margin of error
- “Reduced Production Adjustment” (see below)
- 2% annual cap reduction
- 3% set-aside for new production (w/ flow-back if not distributed)

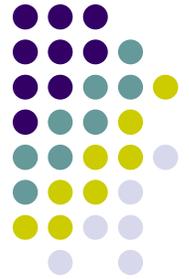
“Reduced Production Adjustment”



- Applied for only those years in which “allocation production” is lower than “representative” historical production
- One year lag time
- Withheld allowances redistributed from “New Production Reserve” account



Free Allocations for New Production



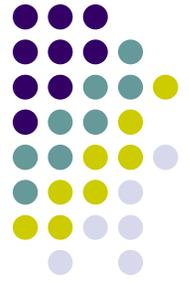
- Do not expand overall cap
- Allocated from:
 - New Production Reserve (RPAs)
 - 3% Set-Aside Account
- May apply to new production at existing or new facilities.
- Benchmarks used to establish maximum allocation for each new production project

Grouping facilities for purposes of existing cap facility allocations



- More than one cap facility can be “grouped” if:
 - Same owner(s) and authorized account representative
 - Same facility type (e.g. electricity generator, compressor station)
 - Same measure of production (e.g., MW-hr)
- “Allocation Production” is sum of grouped facilities

Example: Existing Coal-fired Electric Utility



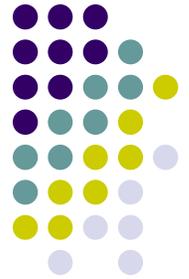
- Representative emissions and electricity production are established for existing coal-fired plant
- Owners purchase solar electric facility
- Solar facility is grouped with the coal-fired plant
- Coal-fired plant shuts down a unit, reducing emissions and production
- Sum of electricity production at 2 facilities is at least as much as originally at coal-fired plant
- Owners receive allocations based on original 'representative emissions' at coal plant, although emissions are much lower
- Excess allowances may be banked or traded



For More Information:

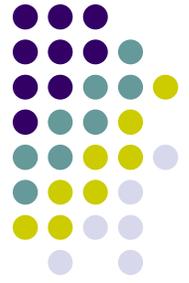
- <http://www.nmenv.state.nm.us/cc/CapandTradeRegulation.htm>
- Sandra Ely
 - 505-827-0351
 - Sandra.ely@state.nm.us
- Lany Weaver
 - 505-476-4322
 - Lany.weaver@state.nm.us

Proposed Reporting & Verification Rules



- Schedule:
 - Proposal submitted Jul. 30
 - Will request hearing Aug. 16
 - Earlier drafts and current proposals on NMED web
 - Anticipate hearing Nov. 1-4
 - Effective Jan.1, 2011 if adopted
- Purpose: Provide accurate, consistent emissions data

Proposed Part 300-Reporting rule



- Based on EPA GHG reporting rule
 - Harmonized so facilities can report through EPA
 - For EPA reporters, one report can satisfy meet both EPA and NM requirements
- Some modifications to improve accuracy as needed for cap and trade program
 - markup of EPA rule on NMED web
- Common measurement standards for regional trading program
 - Collaborative development with WCI jurisdictions
 - Other jurisdiction must have comparable reporting for their allowances to meet NM cap facility obligations



Affected Facilities

- Cap Facilities (verification required):
 - Emissions 25,000 metric tons GHGs or more per year (= EPA reporting threshold)
 - Estimate about 60-70 facilities
 - Mostly power plants, refineries, gas plants, large compressor stations
- Reporting only:
 - Emissions 10,000 to 25,000 metric tons GHGs per year
 - If only General Stationary Combustion:
 - abbreviated report
 - can use any Tier method



Affected Facilities

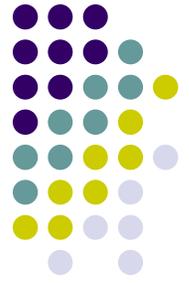
- Source categories (40 CFR 98 Subparts)
 - General Stationary Combustion (Subpart C)
 - Electricity Generation (Subpart D)
 - Hydrogen Production (Subpart P)
 - Petroleum Refineries (Subpart Y)
 - Acid Gas Removal Units (from proposed Subpart W)
 - Others not now in EIB jurisdiction: Cement, Lead, Lime, Nitric Acid, Petrochemical, Zinc
- Not included:
 - Accurate method not available (e.g., landfill methane)
 - Categories not yet or recently added to 40 CFR 98

Some Key Provisions Unchanged from EPA Rule



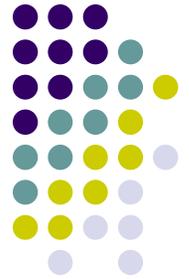
- Facility definition
 - Exemption for R&D activities
- Combustion Exemptions
 - Portable equipment
 - Emergency generators
 - Emergency equipment
 - Flares (unless specifically listed for a source category)
- No de minimus (but Pt. 300 allows use of any method allowed by EPA for <5% of total emissions)

Proposed Part 301-Verification rule



- Little change from last year's proposal
- Third-party verifiers
- Accreditation by ANSI
- NMED “recognizes” verifiers for NM reporters
- NMED reviews conflict-of-interest evaluations

Existing GHG Reporting Rules



- 20.2.87 NMAC (power plants, cement plants, refineries)
 - Are proposing repeal
 - Duplicative with EPA rule & proposed Pt. 300
- 20.2.73 NMAC (emission inventory)
 - No proposed changes in rule now
 - Will implement only to fill gaps in inventory



For More Information:

- <http://www.nmenv.state.nm.us/cc>
- Brad Musick
 - 505-476-4321
 - brad.musick@state.nm.us