

Missouri Water Quality Trading

**Nonpoint Source
Workgroup**

**Baselines and
Eligibility of Practices**



Baselines and Eligibility of Practices

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Potential NPS source areas/participants

- Agricultural lands -
- Recreational lands/facilities – golf courses, city parks, zoos
- Urban/residential areas - runoff from streets, backyards, green spaces and on-site sewer systems.
- Rural non-ag producing areas –eroding streambanks, river management activities.
- Conservation lands – MDC lands, wildlife reserves, wildlife habitat areas/projects, state parks, public forest lands

NPS Group Recommendation:

Program will focus initial efforts on production agriculture lands.

NPS Baseline

NPS Baseline Defined (my terms):

the minimum "baseline" condition, activity or practice set by the trading program that must be met first on a field, farm or landscape area in order for subsequent reductions/credits to be eligible for trading in a nutrient trading program.

Possible purpose of a NPS baseline:

1. Helps level the playing field, provides equity among ag producers wishing to sell credits.
2. Helps ensures that projects provide water quality benefits beyond any relevant or expected requirements stemming from minimum standards or regulation in place at the time of implementation.

NPS Group Discussion:

No min standards or regulation exist for NPS sources, so #2 doesn't really apply.

Baseline Considerations:

- NPS baseline will affect the viability of NPS trading.
- If baseline is set too high - no one will participate, credit costs will be high, results in low/no supply of credits.
- If baseline levels are too low, may penalize farmers that implement BMPs more aggressively, early, and more often.

Ways to express baseline, 5 possible options:

1. Current conditions – baseline is equal to the current condition on the farm. All credit reductions generated after the start date are eligible for trading.
2. Practice based - A minimum set of BMPs that must be in place before credits can be generated.
3. Numeric or percent based – obtain a certain specific pollutant reduction first expressed in lbs/day or % reduction before generating
4. Performance based - A level of environmental performance that must be achieved before a landowner is eligible to trade.
5. Standard contribution – A standard water quality “contribution” (or mandatory donation sort of speak) that automatically retires a certain percentage of all NPS credits to account for meeting water quality goals.

NPS Group Discussion:

Start program with ease of NPS entry as objective.

Use current conditions.

Consider a Conservation Plan.

Baseline - but on what scale?

The scale is the area by which a trading NPS baseline is applied.

1. Baseline is met only on individual fields - a field-by-field basis.
2. Baseline is met on the entire farm
3. Entire watershed meets baseline

NPS Group Discussion:

If using current conditions, scale not very relevant.

NPS trading contact/agreement could address backsliding.

Setting Baseline for a MO Program:

Group Discussion:

- General consensus was around setting baseline at “Current Conditions”. Not requiring a NPS baseline.
- However, consideration would be given to using a performance-based condition, specifically conditioning NPS eligibility around requiring landowners to develop a farm “conservation plan” that would highlight and/or layout areas on the farm to focus future improvement on.
- This kind of condition is common in existing cost-share programs.

Project timing considerations:

- Most trading programs allow landowners to meet baseline and generate credits simultaneously.
- For example, if a landowner must develop a Conservation Plan first to be eligible for the trading program, they may develop that plan in the same year they install a credit-generating practice.

NPS Group Discussion:

Agreement with the above.

Eligibility of Practices

Types of practices

Factors to consider in order to generate credits:

1. Does the practice reduce the pollutant parameter of concern (i.e., generate a water quality benefit);
2. Can you adequately document the reduction generated from it;
3. Will the reduction take place in the right timeframe as it relates to the buyers obligation.

Practices could include:

- a land use change (rowcrop to CRP or grassland)
- an animal or crop husbandry practice (nutrient management)
- a land management practice (tillage)
- a structural practice (terrace, grass waterway etc)

Selection/Designing Practices:

- *BMPs must be operated and maintained in a way that reflects the assumptions and information used to calculate the credits.*
- *Therefore, the selection and design of BMPs must follow guidelines that set it's general design, installation, maintenance, and performance.*

Two options for practices selection/design:

1. Choose an NRCS/SWCP practice and use their existing pre-approved guideline.
2. Develop a site specific practice and guideline by a qualified professional. This could also include modifications to pre-approved BMP standards to better fit site specific conditions.

Calculating the credit value of practices:

Must be able to quantify (using some method) the water quality benefits of a practice. There are essentially 3 ways to quantify or “value” the water quality benefits of a practice.

1. Modeling - uses simulation procedures applied to each farm/field to calculate credits, for example the Nutrient Trading Tool (NTT).
2. Pre-determined rates – use standard “book” values from available science-based literature for reduction effectiveness.
3. Direct monitoring - measure water quality benefits (or some surrogate) to directly measure or inform changes in pollutant load.

NPS Group Discussion:

- *NTT is obvious choice to use first, certain practices already included.*
- *Other practices eligible, however more work to quantify.*

Establishing base year for project/credit eligibility:

When must a project be installed to be eligible to generate a credit, and/or how long will generated credits be valid for sale or use?

1. Establish a base or benchmark year in the past. Any project implemented after this benchmark date is potentially eligible to generate credits in the program.
2. Use the current year. Only practices/credits implemented in current year are eligible. Current year option might encourage farmers to discontinue existing BMPs so that they could resume them at a later date and get credit.
3. Use an eligibility window - Create a “look-back period” from current year. For example, allow practices/credits within the past three years to be eligible to generate/use credits.

Establishing base year for project/credit eligibility:

NPS Group Discussion:

DNR proposed using a 3 year window of opportunity for credits generated by practices to be valid.

Working with/around state and fed Cost-Share:

USDA policy states that it assumes no ownership of any credits generated from practices paid for by farm bill programs. Therefore, credits/benefits associated with these practices could be offered as credits for sale by farmers.

Using state/federal cost-share funded practices as part of the credit supply will:

- increase the demand for trading,
- Increase the supply of NPS credits,
- decrease the price of credits for point sources,
- Increase the viability of a program.
- *All good things*

Working with/around state and fed Cost-Share:

Five options to consider:

1. Disqualify practices that include public cost-share. This option will reduce participation by landowners, who may need the multiple payments to incentivize participation.
2. Disqualify practices until after contract period end. While the BMP is under contract no credits, but when off contract BMPs can be certified and used to generate credits.
3. Disqualify only the portion of the practiced shared by public funds. Credits are based on the proportion of private funds relative to the full cost of the BMP. After contract period is over, full amount of credits become available.
4. No restrictions – All practices, regardless of public fund use, are available for the landowner to generate credits.

Working with/around state and fed Cost-Share:

DNR's proposal:

DNR/SWCP retain ownership of all credits generated by state cost-share practices. DNR to use proceeds of credit sales to cover admin/operational costs of clearinghouse, and perhaps credit money back to cost-share bank.

Other Legal Considerations:

Farmer information privacy – who maintains farmer’s personal data and how is confidentiality of that information maintained?

Federal law provides farmers non-disclosure protection when participating in certain USDA “voluntary” conservation programs. Law prohibits NRCS from disclosing/releasing farm data/personal information.

Others?