

**Nutrient Trading Program Notes**  
**February 26, 2016 Meeting**  
**10:00 AM – 12:35 PM**

**Agenda**

1. Introductions
2. Review of Notes from January 22, 2016 Meeting
3. Decisions on some elements
  - a. Watershed approach
  - b. Credit lifetime
  - c. Attenuation options
  - d. Eligible chemical species for trading
4. Extreme Events
5. Market structures and transaction mechanisms
6. Trading Ratios
7. Adaptive management
8. Ecological Services
9. Program structure (13 elements)
10. Framework Structure
11. Future steps

1. Each member of the group introduced him or herself.
2. No comments were offered on the notes from the January meeting.
3. The group reviewed proposed element descriptions from last month.

3a. The watershed approach was agreed upon as discussed last month to provide a clear guide for those considering trading while preserving flexibility.

3b. Some asked for a longer period for multi-year practices. Joe will present findings next month. As of now, for practices with a one-year effective period, the credits earned as a result of that practice would be eligible for sale in the year that the practice was in place and one additional year before retirement. Practices that produce water quality benefits for multiple years would have credits earned in each year available for sale in the year of implementation and two subsequent years before retirement. (Thus for a practice with a 10-year contract in the SWCP, the first year's water quality benefit would be eligible for trading in years 1, 2 and 3. The last year's benefit would be available in years 10, 11, and 12.)

The group very briefly discussed some practices that might not warrant full credit immediately and the more general phase out of practices but made no decisions.

3c. Attenuation will have two components to be considered within a trading proposal. First, a value or set of values will need to be selected, such as the USGS values used in SPARROW. The second

choice would be to set a value for attenuation within the trading ratio for each trading program, based on the characteristics of the trading area selected, or to use the attenuation ratios based on the relative positions of the buyer and seller within the watershed for each project. These will require the development of (or possible borrowing of) a GIS-based system using stream network and known attenuation values from other sources, such as the USGS.

3d. After discussion, the list of chemical species eligible for trading was expanded back to all those eligible under the Clean Water Act. There are challenges for those without accepted attenuation ratios.

4. While some extreme events are well-defined, others are more problematic in terms of definition. Point source to point source trades can deal with this using normal wet weather conditions in the permits. If a point source to non-point source trade uses the clearinghouse, this would be accommodated through the part of the trading ratio that covers practice failures. Those proposing point to non-point source trades outside the clearinghouse would need to define and address this in their proposals. Joe welcomed other ideas for consideration next month.

5. Funding the clearinghouse and common infrastructure – Joe invited proposals for discussion next month.

6. The department suggested a trading ratio made up of a set of components. The first would be a delivery ratio that would depend on local factors such as trading area, stream structure within that area and attenuation factors that were appropriate for the area. The second factor would address practice failure and extreme events. (While this factor will be small, it is an important element in that it shows that Missouri has carefully considered this risk.) The final factor is an “uncertainty” risk that reflects the lack of perfect knowledge of practice effectiveness, attenuation, extreme weather impacts, etc. An equivalency ratio would have to be added if multiple forms of a species were involved.

7. The department again noted that it wished to have some pilot trading programs established to help develop best practices for implementing trading. The department suggested that the framework be revisited roughly two years after implementation to make necessary changes. Each trading program would be expected to provide an annual summary of how its program was working to help inform this discussion.

8. Those trading for water quality reasons would be able to claim other credits (such as carbon credits) with the exception that no double dipping would be allowed for other water quality programs. For example, a mitigation bank could claim the water quality benefits of a project under a trading program or under section 404 of the Clean Water Act, but not both.

9. The outline of the framework was not discussed in detail, but participants were asked to be prepared to make decisions on it in April.

1. Goals and Use of this Framework
2. Definitions
3. Common Infrastructure available

- a. Missouri Soil and Water Information System (MoSWIMS)
- b. Nutrient Tracking Tool (NTT)
- c. Clearinghouse
- d. Attenuation Modeling and Consultation
- 4. Elective Elements of a Trading Proposal (including those that could be carried out through the clearinghouse)
  - a. Trading Goals (Water Quality Goal) – Element #1
  - b. Trading Area – Element #2
  - c. Trading Type – Element #3
  - d. Species to be Traded – Element #4
  - e. Monitoring – Element #5
  - f. Baseline Performance - Element #6
  - g. Liability - Element #10 \*\*\*
  - h. Tracking of Credits - Element #11 \*\*\*
  - i. Enforcement of Conditions of Individual Trades - Element #12 \*\*\*
  - j. Trading Ratios – Element #13 \*\*\*\*

\*\*\* - could be addressed through the use of the clearinghouse
- 5. Uniform (statewide) Elements of a Trading Proposal
  - a. Time Terms of Trades – Element #7
  - b. Trading Margin – Element #8
  - c. Extreme Events - Element #9
- 6. References

10. Draft of the agenda for the next meeting and schedule of future meeting

**1. Agenda for March meeting**

- 1. Introductions
- 2. Notes from February 26, 2016 Meeting
- 3. Presentation on Southern Minnesota Sugar Beet Cooperative
- 4. Trading elements (Discussions of/decisions on January topics)
  - a. Extreme events
  - b. Funding the Clearinghouse and common infrastructure
  - c. Trading ratio
  - d. Adaptive management
  - e. Ecosystem services
- 5. Overall Structure of the Program
  - a. 13 elements
  - b. Common infrastructure
  - c. Clearinghouse
  - d. Opting in
- 6. Creating a test case
  - a. Choose a community
  - b. Look at credits available in the watershed using only SWCP practices
  - c. Check for prices
  - d. Very rough, order of magnitude calculation
- 7. Discussion of the proposed structure of the document
- 8. Draft document – Overall impressions

## 9. Working forward

### a. Proposed Schedule

April 15 – Draft of text out

April 29 – Meeting to discuss draft

May 13 – Comments due

May 27 – Second Draft out

June 6 – Last pre-public comments due

June 20 – Draft out to public

July 13 – Clean Water Commission meeting – public hearing

August 20 – public comments due

October 5 – CWC votes on proposed policy

### b. Tasks and assignments

i. Dedicated editor (single or a few topics)

ii. Overall editor – consistency, grammar, etc.

iii. Sounding board

iv. Sign up in back

## **Special added feature! Ladies and Gentlemen, we present... A View Of The Clearinghouse.**

### **How this is proposed to work, if a clearinghouse is developed.**

1. A simple explanation of water quality trading will be supplied to those who sign up for cost share. Farmers/producers who get cost-share funds will be asked to sign up to allow their practices to be used for trading. (The department favors using an opt-out approach that allows a farmer to choose not to participate going forward. We want to discuss this with the group on April 11. We do understand that we'll have to touch base with past implementers to affirm that they would allow their credits to be used should a community want to use those credits.) This is all the farmer has to do to participate. There is no financial commitment or liability for the farmer that is different from signing up for cost share funding now. The only difference is that the farmer could help a local community meet its water quality obligations/goals.
2. A banking proposal or prospectus is developed by the point source with collaboration from WPP on factors such as attenuation, anti-degradation and any hot spots risks within the proposed trading area.
3. Trading proposal/prospectus approved.
4. The clearinghouse collects information on practices within the trading area and determines whether sufficient credits are available and the cost of the required credits once the trading ratio has been applied. (Interactive with steps 2 and 3.)
5. The cost of the credits is sent to the buyer who then decides whether to buy credits or to implement whatever project is required to meet regulatory water quality requirements. The credits available reflect the  $\frac{3}{4}$  of the practice cost that comes from the Soil, Water and Parks Tax. The  $\frac{1}{4}$  paid by the farmer is left untouched to help assure water quality gains in the watershed and to avoid some much more complex questions about funding, etc. This allows Missouri to accept lower credit ratios than would otherwise be possible.
6. Buyer pays money into a fund to be managed for this purpose. These funds and the resulting practices will be tracked by establishing a separate account within MoSWIMS.

7. When credits are purchased, the funds go into a designated account and the districts are informed that additional funding is available through trading.
8. Districts can then sign up additional farmers or add practices on farms within the trading area that are already in the cost share program. As these practices are implemented on farms, the same rules apply as in normal cost share, except the practice maximum on individual farmers may not apply. (This last item is a topic for discussion April 11.)

### **Elements of a Clearinghouse**

**MoSWIMS** – Tracks practices, costs of practices implemented. Responsible: SWCP

**NTT** – Determines credits earned by each practice or set of practices based on conditions such as soil and slope. This will now be done in the districts with auditing and validation done by program. Responsible: SWCP

**Attenuation Factors** – Determine the attenuation for a watershed based on conditions, stream structure, etc. Responsible: WPP

**Other Clearinghouse Functions** – Track credits available within a watershed, do the financial tracking from the buyers' side and work with SWCP to ensure that money for credits gets spent in the right watershed/trading area. Responsible: EIARA, SWCP or WPP new staff

### **Clearinghouse Services/Benefits**

#### **Point Sources**

1. Certainty – Point source buys the credit and that credit is known to be good, regardless of circumstance. In essence, the clearinghouse assumes the risk in a manner similar to a mitigation bank. Once payment is paid to the clearinghouse, the purchaser has fulfilled its responsibilities.
2. Market stability – Credits being created annually through SWCP.
3. Marketing/staffing savings – The point source needs to do no recruitment, contracting, etc. with farmers.
4. Easier bookkeeping as clearinghouse does this function.
5. No need to make decisions on which farmers/producers to engage (no local politics to cause consternation).
6. Credit tracking – Done in the clearinghouse
7. Credit mix - Determining the right mix of credits annually and tracking vs. failure rates is done within the clearinghouse and is stable.
8. Low trading ratio – Attenuation ratio is the only large number (and only in some circumstances) that contributes to the trading ratio. This is because a water quality benefit = to the value of 1/3 of that traded is realized in the farmers' contributions and because failure rates of our agricultural practices are low.

#### **Producers**

9. Producer predictability and ease of sign-up – The producer has no additional requirements to participate, but simply checks a box on his/her SWCP contract.
10. Producer risk – Producer takes on no additional liability
11. Producer can participate outside of the SWCP (but this circumstance will require someone to pay for services provided within the clearinghouse [e.g. NTT analysis] depending on funding source agreed to for the clearinghouse). Most likely, this request will come from the point source that wants to buy credits from the farmer.