

Water Quality Trading 11/20/15

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Today's Proposed Agenda

1. Introductions
2. Ground Rules
3. Group Goal Statement
4. Changes to notes from last 2 meetings?
5. Trading Program examples – PA and NC
6. Point Source Report
7. Non-Point Source report

Today's Proposed Agenda - Part 2

8. Decisions on Missouri Water Quality Trading Program (so far)
9. Summary of today's meeting
10. Future meetings
11. Closing

Ground Rules

1. Informed Consent
2. Agreement before recommendation
3. Lack of agreement = opinions shared with CWC
4. Civil and constructive
5. Use expertise and opinions
6. Best information informs decisions
7. Transparency

Ground Rules (cont.)

8. Orderly process, then revisit
9. Facilitator's responsibilities

Edits?

Additions?

Ready to move on?

Group Strategic Goal

The department and those stakeholders participating in this work group **support** the establishment of voluntary water quality trading programs in Missouri as one of the tools to help meet **local** and state-wide water quality goals. For water quality trading to occur, we need a framework that supports trading programs that are effective, efficient, and equitable for all those who wish to form a program or to buy or sell credits within a program.

Group Strategic Goal - Part 2

A trading program will function best when adapted to and driven by **local** water quality conditions and specific water quality goals. Integrating water quality trading into watershed-based management provides a straightforward way to ensure water quality trading **provides applicants the opportunity to meet water quality requirements in an economic way**. The state should seek to form a common infrastructure to support trading programs in order to keep costs of establishing and operating water quality trading programs to a minimum.

Group Strategic Goal – Part 3

The goal of this group is to provide a framework for water quality trading programs in Missouri **that will serve as the policy statement on WQ trading by the Clean Water Commission and department, once finalized.** This will take the form of a document that will explain to any organization that seeks to establish a trading program the key elements expected to be included in its proposal to the Clean Water Commission.

Any edits to September's notes?

Any edits to last month's notes?

Existing Trading Programs

John Madras

- Susquehanna
- Neuse



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Point Source Group



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Non-Point Source Group

Decisions – Introductory (tacit)

The group decided that any water quality trading framework must meet the following criteria to be effective. It must:

- be both practical and protective of water quality.
- create a clear financial benefit for trading as part of an overall water quality plan that outweighs the risks of trading.
- balance risks to those buying and selling credits as well as risks to water quality.

Decisions – Introductory (tacit)

- be based on the best science available and be built to adjust to advances in understanding of practices, water quality impacts of actions and existing water quality in Missouri's lakes and streams.
- assure accountability and monitoring to provide the necessary transparency to build confidence in water quality trading.

Decisions – Introductory (tacit)

- Water quality trading is voluntary
- Applicant must propose a trading program to the CWC for approval
- Trading must be incorporated into permits
- Department has oversight of WQT, but has no role in setting credit prices, etc. (market-based)
- (We generally assume that a permitted facility will be operating each program)

Decisions – Trading Areas

- Area left to proposer to decide (in proposal)
- May be restricted by a WQ concern
- Interstate trading acceptable; reciprocity, bi-lateral agreement, no bias
- PS to PS and PS to NPS areas may differ
- Can not trade in some areas because of discharge bans

Decisions –Types of Trades

- Both Point Source to Point Source and Point Source to Non-Point Source trading allowed
- A trading program can choose to limit itself
- Urban NPS not ruled out, but will need to be clearly defined

Decisions – Time Terms of Trades

- Term of trade should correspond to the term of the practice
- A program can have a portfolio of different trade terms (this is encouraged for PS to NPS)
- Portfolio must always have enough credits
- For longer term projects, match to permit cycle
- Renewals of credits should be made easy, if practice is being maintained

Decisions – Species Traded

- Allow trading of all allowed pollutants/species
- Generally use loadings, but concentrations possible only if justified and consistent with CWA
- Use annual loading as averaging time
- No cross pollutant trading for now

Decisions – Trading Margin

- The top of the trading margin will not be restricted, unless this does not support the water quality goal(s) of the program
- The bottom will be defined based on the workgroups' results (and permit requirements)
- EPA guidance (pp 55 and 56 of Willamette Group report) provides a good basis for these
- **Trading margin does not depend on species(?)**

Decisions - Liability

- Each program can establish its own financial/contractual instruments for trades
- The risk of a failed trade or practice is borne by the permitted entity and should be incorporated into its planning
- Insurance or reserve credits was supported as a way to mitigate risk

Decisions – Extreme Events***

- Many extreme events are defined in either permit or, for agriculture, by federal declaration
- Rainfall events generally defined, others not well defined
- Temporal component exists and may vary by practice
- Recovery time needs to be addressed
- Systems for reporting and accounting for these events needed

Decisions - Monitoring

- Program must define a monitoring strategy in its proposal
- Permitted entity bears responsibility for monitoring with DNR oversight
- Model validated agricultural NPS practices through NTT. New practices may require monitoring to establish the value of the practice
- Role of third parties left to the discretion of each trading program

Decisions – Tracking/Enforcement

- WQT Program – Failed practices/trades; extreme events; credits, including reserve credits; recovery from events
- WPP – Oversight of WQT programs; credit accounting, point source activity, permit conditions
- SWCP/NRCS – Maintain NTT (or equivalent); practice lists, possible NPS activity geography

Decisions – Regulatory Instruments

- Privacy for individual agricultural projects
- Enable Department to act (role dependent)
- Resources and funding (role dependent)
- Overall program (Market and transaction structure)

Progress today

Recap decisions

Review process

Rate of progress

Level of understanding

Comfort with achieving our goal

Factors for Future Consideration

- Market structures and transaction mechanisms *
- Role and responsibilities *
- Incentive approach (Rewarding early implementation) *

Send me thoughts on January topics!

- Trading Ratios **
- Role of Ecosystem Services in crediting **
- Adaptive Management **

* = January 22

** = February (Date TBD)

Schedule

- January 22 – Meet, discuss selected topics
- February ?? – Meet, complete major topics
- March 25?– Meet, review decisions, revisit
Comment on first parts of draft
- April 29? – Discuss Draft
- June - Draft out for public comment
- July – Public hearing at the Clean Water Commission
- October – Anticipated approval of framework by the Clean Water Commission

Comments, Questions, Suggestions

What is going right?

What is your biggest concern?

What else should we be doing?