EPA's Water Quality Trading Policy

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Contents of Presentation on EPA's Water Quality Trading Policy

- What is water quality trading
- Purpose of water quality trading policy
- Where might trading take place
- Why interest in trading
- Pollutants and parameters traded
- Baselines for trading

Contents of Presentation (con't)

- When trading may occur & what kind
- Alignment of trading w/Clean Water Act
- Elements of credible trading programs
- EPA role and oversight
- Next steps for WA exploring trading

What is Water Quality Trading?

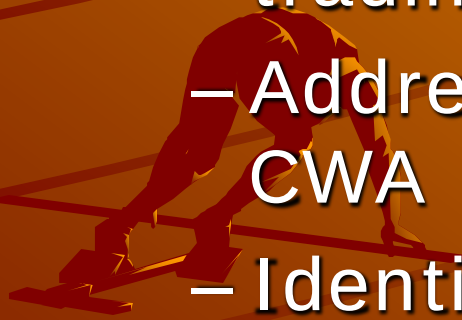
- Market-based approach that may offer a quicker or less costly route to reaching clean water goals.
  - Allows a source to meet its regulatory obligations by using pollutant reductions created by another source with lower pollution control costs

Purpose of EPA's Trading Policy

- Greater efficiency - achieve water quality goals at lower cost
  - e.g., NPS BMPs may cost less than plant upgrade or may provide City with time to obtain financing for upgrade
- Incentives for voluntary reductions from all sources especially NPS
- NPS trading actions can result in secondary environmental benefits such as:
  - Wetland restoration & habitat enhancements

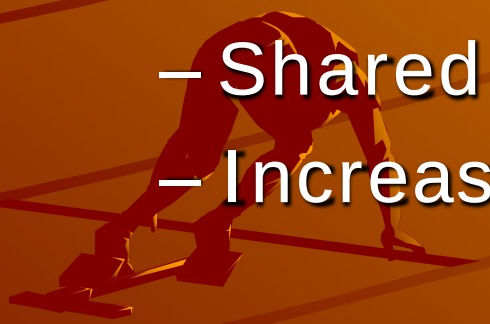
Purpose of EPA's Trading Policy cont'd

- Provides guidance to states, tribes and others that wish to develop trading programs
- Strengthens EPA's support for trading by:
  - Affirming Clean Water Act authority for trading
  - Addressing how to align trading with CWA
  - Identifying features of credible trading programs
- Highlights flexibility while emphasizing environmental safeguards



Where Might Trading Take Place?

- When a watershed is facing:
  - Fixed pollutant load limits
  - Need to reduce pollutant loadings to watersheds
  - Shared assimilative capacity, and
  - Increasing costs to meet load limits



Why Might Point Sources be Interested in Trading?

- Costs often incurred in large increments
- Need for reductions evolves in smaller increments
- Allows for delays in technology investments until “optimal” time
- Obtains reductions at lower cost
- Purchases the exact reduction needed
- Provides incentive to create additional pollutant reductions for sale

Why Might Nonpoint Sources be Interested in Trading?

- Trading can:
  - Bring cost effective reductions to market;
  - Potentially help meet estimated demand for pollution reductions; and,
  - Provide financial resources for NPS management practices.

What Pollutants May Be Traded – EPA Support Varies by Type of Pollutant

- Trading of nutrients and sediment loadings ***encouraged***
- Cross-pollutant trades ***supported*** for oxygen-related pollutants ***where data exist*** to determine and correlate impacts
- For other pollutants, EPA ***recognizes potential benefits*** but recommends ***more oversight*** for these trades
- For any pollutant: no trading can cause a toxic effect or cause/contribute to an impairment
- No out-of-kind trading

Trading May Occur

- To implement a TMDL
- To maintain water quality in unimpaired waters
- In impaired waters before a TMDL is developed ***if*** trading achieves progress towards water quality standards

What Kinds of Trading May Occur

- Intra-plant
- Pre-treatment
- Point-source to point-source
- Point-source to nonpoint-source
- Nonpoint to nonpoint

Baselines for Trading & Creating Pollution Reduction Credits

- Trading protects all uses of the water resource including drinking water supply
- No violation of water quality standards through trading
- No trading to meet technology-based requirements

Baselines for Trading & Creating Pollution Reduction Credits (con't)

- Only pollution reductions ***beyond*** those required create 'credits' that can be purchased by others
  - for point sources, reductions beyond water quality based effluent limits
  - for non-point sources, dependent on current BMP expectations
- Credits should be created before or during the time they're used to comply with a permit limit

Aligning Trading with the Clean Water Act

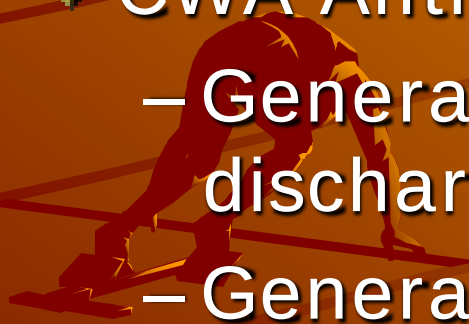
- Trading is generally reflected in NPDES permits
- Flexible permitting approaches encouraged
  - General conditions authorizing trading and applicable restrictions, conditions
  - Variable permit limits that adjust up or down depending on credits generated, used
  - Alternate permit limits that specify amount of discharge limit that may be met through trading
  - Watershed permits for groups of sources

Aligning Trading with the Clean Water Act

- NPDES permits and fact sheets should describe baselines, limitations on trading
- Permit modification not needed for each trade if trading provisions included in permit and public had opportunity to comment
- Methods referenced or included in NPDES permits continue to be used with trading

Aligning Trading with the Clean Water Act

- Protecting Designated Uses. EPA does not support trading that causes impairment of uses, adversely affects drinking water intake, or exceeds TMDL cap
- CWA Antibacksliding Provisions
  - Generally satisfied if an increased discharge is offset by purchased credits
  - Generally satisfied if point source generates credits then discontinues, if total pollutant load not increased (extra capacity)



Aligning Trading with the Clean Water Act

- Antidegradation
  - Trading should be consistent with water quality standards including antidegradation policies
- EPA recommends states clarify how trading can occur consistent with their policies (ie. new standards)

Nonpoint Source Issues: Uncertainty

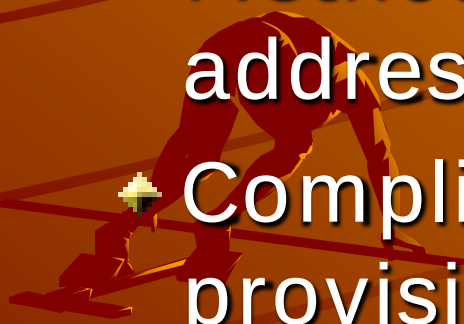
- Uncertainty is greater for NPS pollution loads and reductions
- Policy recommends adopting approaches to estimate, compensate for uncertainty
  - Greater than 1:1 trading ratios between NPS:PS
  - Demonstrated performance values for NPS management practices where available
  - Conservative performance estimates for NPS management practices
  - Retire a percentage of the credits created

Nonpoint Source Issues: Accountability

- Policy recommends states and tribes establish NPS accountability mechanisms
- Flexibility to choose from several mechanisms
  - Statutory or regulatory requirements, permits, private and third-party contracts

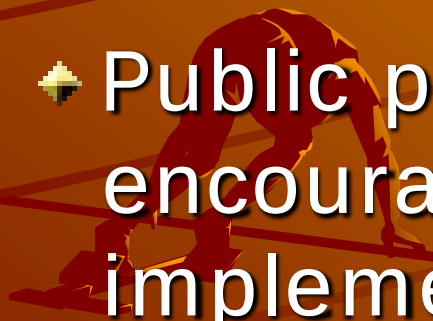
Elements of Credible Trading Programs

- Legal mechanisms to facilitate trading
- Clearly defined units of trade
- Methods to quantify credits and address uncertainty
- Compliance and enforcement provisions
  - Accountability for all trades
  - NPDES permittees always responsible for permit limits



Elements of Credible Trading Programs, cont'd

- Timely public access to information on trades
- Public participation strongly encouraged in program development, implementation
- Monitor progress, evaluate program, and revise as necessary



EPA Role and Oversight

- Early consultation with EPA encouraged
- EPA oversight of trading is through existing mechanisms, e.g., NPDES permit review, TMDL approval, review of revisions to water quality standards
- Trading doesn't necessarily warrant more EPA oversight

Trading – What's Next?

- Looking for local opportunities for trading pilot projects
- Learn from trading pilot to enable other projects around state
- Develop state-wide trading policy

Status of Trading in WA

- EPA paid to evaluate the liklihood of trading on the Spokane R
- Ecology paid for a prelim assessment of the potential to trade in Lake Whatcom (EPA grant)
- City of Centralia has explored trading of temperature in the Chehalis basin
- A couple of basins have explored trading on nutrients

For more information

- EPA sites:
  - www.epa.gov/owow/watershed/trading.htm
    - Water Quality Trading Policy ***Jan. 2003***
    - Water Quality Trading Assessment Handbook
    - Fact Sheet
    - Press Release
  - www.epa.gov/r10 earth/ -- look in Index
    - Links to state trading websites
- WA – water quality offsets rule - http://apps.leg.wa.gov/WAC/default.aspx?cite=173-201A-450