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Dear Ms. Bresler,

Thanks for the opportunity to comment on the Draft Washington Water Quality Trading/Offset Framework. I think it is a great start. I think there are a few tweaks that would significantly improve its effectiveness, but first I'd like to make a general plug for trading.

I believe that water quality trading may be the best solution to some of the most pressing water quality problems in Washington. A quick scan of the Department's 303(d) list data indicates that most watersheds in the state have issues with nutrient enrichment, low dissolved oxygen, or high temperature that are symptomatic of nonpoint source pollution. Most nonpoint pollution originates on farm fields, residential lots, and in road runoff, sources that are for the most part unregulated and, except in particularly egregious cases, unregulateable. Attempts to address these problems through landowner incentives and stormwater utility fees have been chronically under-funded. And so, over time, the list of nonpoint-impaired water bodies continues to grow.

At the same time, efforts to remedy nutrient and temperature pollution by ratcheting down on point-source polluters have led us down a path of far higher costs and diminishing incremental returns. Addressing nutrient, DO, and temperature problems exclusively through technological fixes seems to be leading us to some "no expense spared" solutions like widespread tertiary treatment for wastewater, which could double or triple wastewater costs.

Our studies of water quality trading programs elsewhere in the United States (performed on contract to USDA and the Washington State Conservation Commission) indicate that best management practices on farms and other rural and suburban property are a proven, dependable option for controlling nonpoint source pollution at its source. In addition, economic analyses indicate that costs for nonpoint source control of nutrients and temperature can be far lower than for equivalent control through point-source treatment options. This suggests that point/nonpoint trading has tremendous potential in the many areas of Washington State that suffer nutrient, dissolved oxygen, and temperature problems.

Given this promise, I'd like to see an open-door policy at the Department of Ecology for new proposals for water quality trading, including development of new regional

trading programs. I'd like to suggest a few modifications that would make the policy more welcoming.

First, I'd suggest a reconsideration of the requirement that nonpoint sources meet their entire load allocation before being eligible to trade. While I understand the logic of this position, it seems very unlikely that farmers and other rural and suburban landowners will initiate practices voluntarily and on their own dime that will get them up to the baseline simply because they will have access to market income above the line. If we really want to incentivize early progress on water quality improvements, we have to figure out a way to give underperforming players access to the market.

One option that may make sense is to provide public incentive money for work up to the baseline and access to market income above the baseline, but do so under a single contract with the credit producer. Another option is to deliberately set the initial baseline low to encourage immediate action, then ratchet it up over time to the load allocation or even higher. Existing trading markets operating with low baselines (notable the Greater Miami program) indicate that the Department has more latitude in setting baselines than may appear.

I'd also suggest that the Department remain more open to proposals regarding the types of trades that are eligible, the BMPs that are creditable, and the trading ratios required. While it is obvious that Departmental approval is necessary on these matters, having prospective trading program sponsors initiate the development of these requirements and standards would speed the execution of trading programs and encourage innovative approaches. I'd suggest that it may make sense for the Department to establish goals and call for proposals from prospective trading program sponsors for procedures to meet the goals. I don't feel that the difficult process for proposing alternative trades offers this opportunity.

Third, I'd recommend reconsidering the recommendation that the implementation of the credit or offset project would need to happen prior to the "proposed action", which I take to mean the use of the credit to meet NPDES permit requirements. Inasmuch as most point-source treatment options would be implemented following the negotiation of NPDES permit conditions (and probably couldn't be financed otherwise), it seems to make sense to allow implementation of the nonpoint credit production after the fact as well. This would remove a significant impediment to community-driven trading proposals.

Fourth, it may be a bit much to expect that permittees not only certify that offset activities are taking place and are maintained properly, but also demonstrate that pollution reductions are being achieved on a monthly schedule. This would presumably require a monitoring program that would add substantially to program costs. It is probably more practical to require data on pollution reductions on a less frequent interval.

The final suggestion I have is to change provisions regarding the expiration of credits if a higher standard or loan allocation is established in a subsequent permit. It seems desirable that contracts between permittees and nonpoint credit providers be for as long as possible to increase the certainty of water quality improvements, but it will be difficult to secure long-term agreements if they can be abrogated by adjustments in standards in later permits. I would suggest that long-term credit contracts be honored through their terms.

Thank you for the opportunity to comment on the draft framework. I am a firm believer in the potential of trading to address a large number of critical water quality problems of the state, and feel that your work is a significant advancement in reaching this potential. Please let me know if I can be of further help in fine-tuning your approach.

Dennis Canty, President
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