Water Quality Trading Listening Session

October 21, 2019
What is Water Quality Trading?

- **Water quality trading** is a voluntary exchange of *water quality credits* generated through pollutant reductions.

- Pollutant reductions can be made **more cost efficient** by sources with higher costs purchasing credits from sources with lower costs.

- This flexibility means that innovations in **nonpoint source controls** and other types of pollutant reductions can be monetized through trading, giving greater **incentive** for individuals and corporations **to innovate** in these sectors.
Water Quality Trading Baselines

• A **water quality credit** is a unit of pollutant reduction available for trading. It is usually measured in pounds equivalent.

• The **baseline** is the discharge level expected of the source. It applies to both buyers and sellers of credits.

• Previous policy expected credit sellers to **meet their baseline** on a site specific basis before they could **generate credits**.
Baseline

Baseline:
Expected Discharge Level

Buyers (PS)

Meet permit limit (can be through trading)

Sellers

Nonpoint Source

Point Source

Total Maximum Daily Load

Federal Register Notice

No Total Maximum Daily Load

State and local requirements and/or current practice

Permit Limit

State and local requirements and/or current practice
February 6, 2019 Memorandum


- Established Market-Based Principles.
  - Watershed-scale Implementation
  - Adaptive Management
  - Banking Credits
  - Flexibility in Baselines
  - Credit Stacking
  - Financing for Nonpoint Practices
Baselines Federal Register Notice (FRN)

- EPA’s first effort to implement the February 6 Memo principle on baselines.
- Asks for comment on the specific policy options.
- Asks for other areas where clarification is needed to reconcile 2003 Water Quality Trading Policy with the 2019 Memo.
Baselines Federal Register Notice

- A variety of options are addressed in the FRN.
- Some are policy changes, while others are intended to clarify existing policy.
- These options can be used individually or together in developing a program.
Redefining Baseline

- Includes Section A and B of the Federal Register Notice

  - “…the 2003 Policy …recommended that individual nonpoint sources were to make their portion of the … the “load allocation,” called the “baseline,” before [they] could generate credits or offsets.”

  - 2019 “…the EPA recommends that nonpoint sources be allowed to generate credits for any pollutant reductions … that are not included in the assumptions that support the TMDL load allocation…any such pollutant reductions would be immediately available for use by point sources as credits.”
Incremental Baselines

• “An incremental baseline approach divides nonpoint source reductions into (1) immediately available tradeable credits, and (2) reductions assigned towards meeting the load allocation. The state, territory, or tribe would identify the appropriate ratio between the two types of reductions.”
Compliance Schedules

• “Under this policy option, a permitting authority might consider including a compliance schedule in the permit to account for the time it would take for a nonpoint source partner to generate sufficient pollutant reduction credits or offsets to achieve compliance with the NPDES permit WQBEL.”
Variances

• “States and tribes might consider whether in appropriate cases, a WQS variance might be used to support a market-based program, including water quality trading.”

• “A WQS variance might be appropriate in those circumstances where it is not clearly known how or if a point source can buy enough pollutant reduction credits from nonpoint sources to meet its WQBEL.”
Alternate Approaches to Disaggregation

• “Generally, TMDL load allocations [cover] entire sectors … The EPA recommends that states … consider whether it is appropriate to apply these broad load allocations uniformly across the watershed or, instead, apply it differentially to nonpoint sources on a geographic basis or some other basis within the watershed to maximize water quality improvements.”
In-Lieu Fee Program

• “An in-lieu fee program might allow NPDES permitted facilities to meet their WQBELs by paying into a state, territorial, or tribal fund specifically allocated for nonpoint source pollutant loading reductions.”
Additional Resources

- Water Quality Trading Web Site
  https://www.epa.gov/npdes/water-quality-trading

- Policy Proposal
  https://www.epa.gov/npdes/nonpoint-source-baselines-water-quality-trading
Request for Comments

EPA is requesting comments on:

• The proposed options, especially focusing on defensibility, efficiency, and effectiveness.

• Other areas where additional changes or clarifications to the 2003 Policy may be needed to align with the 2019 Memo.
How to Comment

• Comment period is open through November 18.
• Only written comments will be accepted into the docket.
• Comments can be submitted at:

Docket ID No. EPA-HQ-OW-2019-0415
https://www.regulations.gov