

Water Quality Trading Listening Session

October 21, 2019



What is Water Quality Trading?

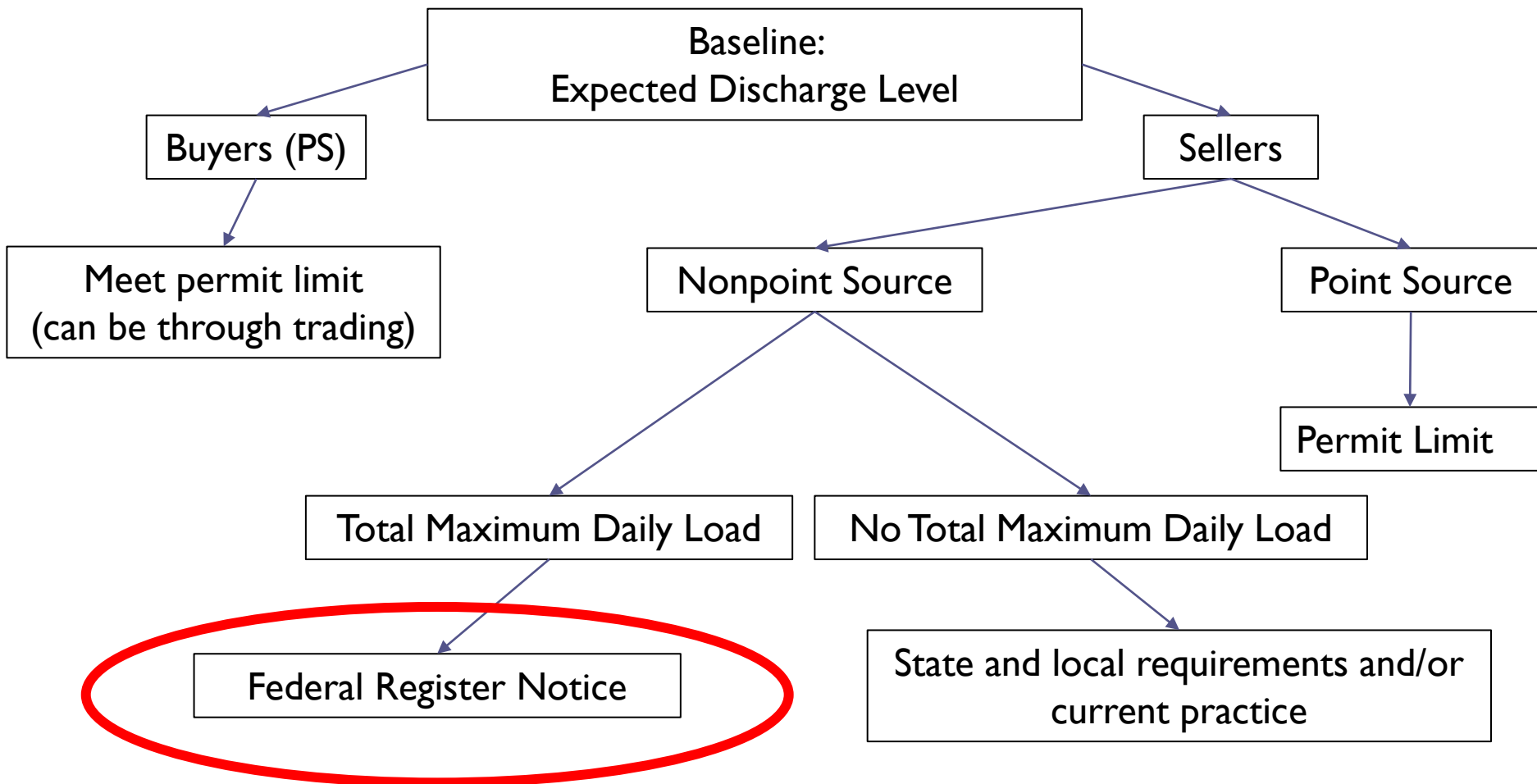


- **Water quality trading** is a voluntary exchange of **water quality credits** generated through pollutant reductions.
- Pollutant reductions can be made **more cost efficient** by sources with higher costs purchasing credits from sources with lower costs.
- This flexibility means that innovations 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



February 6, 2019 Memorandum

- Established a new vision for market-based approaches for making water quality improvements. Takes precedence over existing policy (EPA's 2003 Water Quality Trading Policy and EPA's 2009 Water Quality Trading Toolkit for Permit Writers).
- 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.”

Variations

- “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>