

JOINT REGIONAL AGREEMENT ON WATER QUALITY TRADING

Discussion Guide, March 13, 2013

1. Eligibility for water quality trading:

Trading is not appropriate in every watershed, or in every situation. The sections below describe some of the eligibility criteria that may be applied to point sources seeking to engage in trading and projects seeking to generate credits. This includes:

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1.1. Eligible regulatory trading environments

There are multiple regulatory environments in which trading has been considered or applied. This section lays out those scenarios in which the Joint Regional Agreement may wish to make a statement on whether and how trading is appropriate. This section also seeks to define some criteria in which trades may or may not work in any given regulatory environment. Most of USEPA’s guidance on trading has focused on trading within a TMDL regulatory environment. Trades or other forms of offsets have occurred nationally under the following regulatory environments:

- a) NPDES permits under a TMDL (e.g. Rogue River, Willamette River, and many other programs)
- b) NPDES permits outside of a TMDL (e.g. Great Miami River in anticipation of a TMDL, Ohio River Basin in anticipation of nutrient criteria, Twin Falls as an offset for TSS, etc.)
- c) NPDES permits under a variance from water quality standards (e.g. Oregon’s water quality standard variance rule, Montana’s new trading policy is designed to allow for a 20-year variance from nutrient criteria if a point source uses trading)
- d) Section 401 certifications (e.g. PacifiCorp under their Clackamas River relicensing and the Klamath Hydropower Settlement Agreement)
- e) Stormwater--MS4 permits or state orders (e.g. North Carolina’s no net discharge requirements for Falls Lake, Washington DC, Lake Tahoe Clarity Trading)

We have not conducted extensive research on how other programs have handled many of these regulatory scenarios and do not have a clear set of options and recommendations. Instead, we offer some questions and criteria to consider. We might also decide that some of these regulatory environments are too much to include in this first version of the Joint Regional Agreement.

I. Options and examples

a. NPDES permits underneath a TMDL

Water quality trading can occur where a TMDL involving an eligible pollutant has been adopted by the state and approved by EPA for the appropriate geographic area, and the regulatory agency is issuing NPDES permits to point sources based on the TMDL's waste load allocations

Questions to consider:

- What other criteria should be applied to determine whether trading is appropriate under a TMDL environment (e.g. waste load and load allocations given to all sources; at least one point source in the watershed with an interest in trading, clear articulation of reasonable assurances for nonpoint sources; etc.)?
- What other basic conditions need to be met for trading to occur in a TMDL environment (e.g. documentation in permit evaluation report, language authorizing trading is included in the TMDL and the permit)?
- Status and timing of a proposed TMDL (e.g., how soon the draft TMDL will be completed and submitted to EPA for approval)?

Potential state differences: It is not clear whether there are major state differences for trading under a TMDL.

b. NPDES permits without a TMDL

Trading without a TMDL can be more challenging. A number of states and NPDES permittees are interested in these kinds of trades. The pace of issuing new TMDLs is slowing. There will be growing demand for these kinds of trades, but there is less policy and guidance on how to incorporate these trades into NPDES permits.

Questions to consider: Questions to consider:

- What information is needed to allow trades without a TMDL? (e.g. TMDL-like modeling to assign loads to all sources, data on proposed project or BMP effectiveness in reducing the pollutant)? Who is responsible for collecting and providing the information?
- What provisions are needed besides what goes in the permit (e.g. assurances to the point source that actions taken now will count later if a TMDL is approved, etc.)?
- What are valid reasons to consider a trade without a TMDL (e.g., new or revised limit in an NPDES permit, opportunity to achieve significant reductions in a more important segment than where the point source is located, achievement of a significant net environmental benefit while also providing cost savings to the point source)?

Potential state differences: We anticipate several differences across states in how trades occur outside of a TMDL context. Several states outside of Region 10 are considering statewide nutrient criteria which could drive trading.

c. NPDES permits under a variance from water quality standards.

Typically, if a regulated facility demonstrates that it is unable to comply with water quality standards through the implementation of the highest level of technological control required, the entity may seek a variance, which becomes the new applicable standard for the facility, with approval subject to

implementation of a plan to reduce the relevant pollutant within the watershed. OAR-340-41 provides rule on variances for Oregon. Montana's new state trading policy explicitly allows for a 20-year variance from water quality standards if a permittee uses trading to offset its loads under potential statewide nutrient criteria.

Questions to consider: Under which situations are variances not appropriate, and where might they be a useful tool?

Potential state differences: We anticipate several differences in applying variances across states. Oregon has language in rule dealing with variances (OAR-340-41), but we aren't aware of how other states approach this.

d. Section 401 Certifications.

Offsets have often been part of 401 certifications, particularly tied to hydropower relicensing. Water quality trading can occur in conjunction with state certification of federal permits and licenses, consistent with section 401 of the Clean Water Act, 33 U.S.C. § 1341.

Questions to consider: Under which situations is trading appropriate, and where is it not? What is different about 401 certifications that might make it difficult for standard water quality trading elements to apply?

Potential state differences: We don't know where the state differences on 401 certifications may lie.

e. Stormwater (MS4 and other orders)

North Carolina, Maryland, and Virginia are actively implementing stormwater offsets through statewide statutes, local rules, or as BMPs under MS4 permits. Traditional forms of trading are difficult under MS4 permits because of the Maximum Extent Practicable standard for technologies. No net increases in discharge are generally applied to new development. Also, EPA is now working with states to assign MS4 and general stormwater permittees Waste Load Allocations in TMDLs, including in Region 10.

Questions to consider: Under which situations is trading appropriate, and where is it not? What is different about stormwater that might make it difficult for standard water quality trading elements to apply? What would the MS4 permit need to say to accommodate trading? How will the pollutant being traded be quantified in a stormwater permit if flow is used as a surrogate measure?

Potential state differences: We don't know where the state differences on stormwater may lie.

II. Recommended default

Including trading into NPDES permits under a TMDL is supported by USEPA's 2003 trading policy. Trading under other regulatory environments may also be possible on a case by case basis given they meet some of the screening criteria defined by each state.

III. Reasons to deviate from the default

Where other eligibility conditions are met and the scenario is consistent with the guiding principles on water quality trading, trades may be considered. For example, when there is a new or revised limit in an NPDES permit with a known opportunity to achieve significant reductions in a more important segment than where the point source is located; achievement of a significant net environmental benefit while also providing substantial cost savings to the point source, or with valid information to substantiate these claims (and all this must be considered alongside the cost that will be borne by the state or EPA writing the permit).

1.2. Eligible credit buyers

Each permittee needs to meet certain conditions before they are eligible to purchase credits (e.g. meet technology-based effluent limit). There are three types of trades described in USEPA’s Trading Policy: point-point trades, point-nonpoint trades, and nonpoint-nonpoint trades. The focus of this agreement is on point-nonpoint trades. The following describes conditions that may be included in the Joint Regional Agreement as eligibility requirements for point sources seeking to engage in trading.

I. Options and examples

Option A1: Meeting TBELs
A point source can obtain credits generated from a nonpoint or point source that has already fulfilled its obligations imposed by other laws or regulations, after first complying with applicable technology-based effluent limits and permit conditions, to achieve water quality based effluent limits (WQBELs). Trading may be considered for those point sources subject to new or revised technology-based effluent guidelines or other regulations to achieve technology-based requirements where EPA explicitly authorizes it.
Option A2: Near-field impacts
A point source cannot create pollution hotspots. No wastes may be discharged or activities conducted that cause or contribute to a violation of water quality standards except as allowed in regulatory mixing zones. Acute criteria must be met after the zone of initial dilution, and chronic criteria must be met after the end of the larger regulatory mixing zone.
Option A3: Anti-degradation
Water quality trading programs must, at a minimum, maintain and protect existing uses in impaired waters. In high quality waters, states cannot further degrade water quality unless found necessary to accommodate important economic or social development in the area. In state-designated “outstanding natural resources waters,” water quality must be maintained and protected without exception. In the 2003 Trading Policy, EPA recommends states adopt a provision in their anti-degradation policies stating that trading in high quality waters can occur without anti-deg review. EPA asserts that WQT will not result in “lower water quality” for high quality waters.
Others?

II. Recommended default

A point source can obtain credits generated from a nonpoint or point source that is meeting or has already fulfilled its obligations imposed by other laws or regulations, and after first it complies with applicable technology-based effluent limits and permit conditions, to achieve water quality based effluent limits (WQBELs). All entities engaged in water quality trading must comply with applicable federal, state and local near-field regulations to ensure the integrity of state designated beneficial uses, and to ensure that no “hot spots” develop. Water quality trades and trading programs comply with anti-degradation laws.

III. Reasons to deviate from the default

Questions to consider: Are there any eligibility criteria for buyers beyond meeting their TBELs? For example, trading is not appropriate where there are near-field impacts (e.g. discharge creates a thermal barrier to migration), or where there are other reasons beyond the tradable pollutant to install technology (e.g. to remove arsenic), etc.

1.3. Trading area

Trading areas define the geographies in which buyers and sellers can conduct trades with each other. A pound of phosphorous removed in the Boise River Basin is not the same as a pound of phosphorous removed in the Yakima River. Economically, trading areas like to be big—increasing the number of potential buyers and sellers. Ecologically, nonpoint source reductions should be sited where they can best address the water quality issues.

I. Options and examples

<p>Option A <i>As a default, trades must occur upstream of the point of concern within the same watershed or area defined by any applicable TMDL or other water quality strategy.</i></p> <p>Who does it this way? The Medford NPDES permit requires that all trades for temperature be upstream of the point of most concern for temperature, in this case, the point of maximum impact (POMI), as defined in the Upper Rogue. This allows for trades in Bear Creek whose confluence with the Rogue River is downstream of Medford’s discharge and upstream of the POMI.</p> <p>In the Boise River program, trades needed to be upstream of Parma, the point of compliance.</p>	<p>Option B <i>As a default, trades must occur upstream of the point of discharge.</i></p> <p>Who does it this way? In the Great Miami program, all trades must be upstream of a discharge. There is no TMDL in the Great Miami River yet, so the upstream of discharge requirement helped simplify the program.</p>
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II. Recommended default

Option A seems to link trading areas most closely to TMDL and other water quality goals, allowing for water quality improvements in all the areas that contribute to the watershed’s impairment. It also allows some flexibility for point sources closer to headwater.

III. Reasons to deviate from the default

There may be instances where focused water quality improvements are needed within a smaller area than that upstream of the point of concern. In those instances, a trading area may be made smaller to address these localized impacts or to incentivize investment in high priority watershed improvements.

There may also be times where trading areas might be made larger than what are defined in a TMDL to incentivize investment in high priority areas. Any priority areas should be documented within a TMDL, developed in coordination with stakeholders, and made consistent with other water quality and conservation strategies as appropriate.

In trading without a TMDL, the trading area may be determined by an accepted analysis of the impacts of a specific proposed trade.

1.4. Eligible pollutants for trading

Not all pollutants can be traded. Most trading programs around the country focus on phosphorous and nutrients, and temperature trades have also occurred in the Northwest. The section below defines eligible pollutants, units of trade, and other considerations.

I. Options and examples

a. Nitrogen and Phosphorous:

Option A: TN,TP lbs/Year	Option B: TN,TP lbs/Season	Option C: Bioavailable P,N lbs
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b. Oxygen-demanding parameters

Option A: mg/L BOD	Option B:?
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c. Sediment and total suspended solids (TSS)

Option A: lbs/Year	Option B: lbs/Season	Option C: Turbidity?
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d. Thermal load

Option A: KCALs/day	Option B: BTU	Option C: degrees C
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e. Toxics

Option A: no trades	Option B: concentrations
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Questions to consider: Is setting default eligible pollutants, units, and seasonality useful? Most trading programs trade in total nutrients/year. Many of the nutrient trading discussions in the West are looking closely at seasonal challenges with nutrients as a proxy for dissolved oxygen problems? Do we want to consider other units of trade more closely tied to dissolved oxygen?

II. Recommended default

Eligible pollutants for trading include nutrients, oxygen-demanding parameters, sediment, and temperature. For each of these pollutants, default units and seasonality will be defined in a TMDL or other water quality strategy (and be units that are needed for NPDES reporting). In general, units are lbs of TN, TP, and sediment per year; and KCAL/day. Whether a unit is expressed as an annual

average or based on a critical time period, it needs to be based on the ecological conditions and needs expressed in the TMDL.

III. Reasons to deviate from the default

For nutrients, looking at TN and TP per year allows for more BMPs to match up with point source discharges. In many places, farm BMPs reduce nutrients during rainy times in the Spring and point source discharges create problems in the late summer or early fall. This seasonal mismatch can be overcome looking at annual averages. However, if problems in the water body are seasonal, springtime reductions may not help with a summertime problem. In addition, some point sources may favor seasonal limits, which might allow for higher discharges at times of higher flow.

1.5. Eligible credit-generating actions

Since not all BMPs can generate credits, it's important to develop a system that identifies and promotes those BMPs most effective in improving water quality in each watershed. Some BMPs only generate marginal water quality improvements, others might reduce pollution but impact other ecological processes of concern, and some BMPs do not have the science available to be confident in the quantity of pollutant they reduce. A process for identifying eligible BMPs, and incorporating new eligible BMPs or improvements to existing BMPs, is important. A list of eligible BMPs provides certainty about which activities are qualified and can be used to communicate criteria for effectiveness, design and maintenance standards, etc. (project implementation and quality standards are discussed the discussion guide for quality assurance).

How does a BMP become eligible to generate credits?

<p>Option A: <i>Credit-generating actions must be approved by a state agency or third party, be consistent with quality standards, have eligibility requirements, and have an approved quantification method. BMPs will be identified as suitable for specific types of watersheds or ecoregions.</i></p> <p>Who does it this way? Willamette Partnership incorporates BMPs for which there is state-approved quantification method and protocols for applying the quantification methods, quality standards, and a verification protocol are in place.</p>	<p>Option B: <i>More requirements? Fewer?</i></p>
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Which BMPs are eligible to trade?

The table below shows approved BMPs under programs in Oregon, Idaho, and Maryland.

Water Quality Attribute	BMP Type	BMPs	Program		
			Willamette Partnership	Oregon	Idaho
Temperature (kcal)	Structural	riparian forest restoration	X	X	--
		flow augmentation		X*	--
Nutrient	Structural	riparian forest buffer/restoration	X	X	

(Nitrogen, Phosphorus, Sediment)		livestock exclusion fencing	X	X	
		animal waste management system			
		sediment basins			X
		underground outlet			X
		sprinkler irrigation			X
		micro irrigation			X
		surge irrigation			X
		tailwater recovery			X
		wetland restoration			X
	Management or Practice-based	cover cropping	X	X	
		crop rotations	X	X	X
		conservation tillage	X	X	
		filter strips	X**		X
		straw in furrows			X
		nutrient management	X**		X
	polyacrylamide			X	
	riparian grass buffer/restoration	X**			

* Accepted on a case-by-case basis where sufficient information and/or modeling exists

** Methodologies and protocols are available, quantification method not yet approved by state agency

Questions to consider: Is setting a default list of approved BMPs useful? What are other ways to inform potential buyers and sellers about eligible practices, and to create incentives for the best practices to be identified and used for generating credits? What other practices and technologies do we want to consider or learn more about through this process?

II. Recommended default

Credit-generating actions must have eligibility requirements, quality standards for design and operations, and have a state-approved quantification method. Regular timelines and processes should be established for considering new eligible BMPs and improvements to existing BMP design, implementation, and maintenance standards.

III. Reasons to deviate from the default

Other BMPs or site-specific water quality improvement projects may be eligible to generate credits based on review by the state agency. State agencies will use a standard review process for a new BMP or project that includes review of available quantification methods, development of minimum design standards, and expert review. There may be a lot of effective practices, but missing science or high variability in the quality of a BMP might preclude their eligibility to generate credits. Ideally, as many of the high priority BMPs are included in the table of eligible actions.