1. Project background: Describe the history of, and need for, the proposed innovation. Provide evidence that the proposed innovation has been studied sufficiently to indicate a good probability for success of the project.

History. Since the first water quality trading discussions began in Wisconsin's Fox River in 1981, programs throughout the U.S. have struggled to deliver on their potential to improve water quality conditions. Since US EPA issued its 2003 guidance on trading, 72 programs have been initiated in the U.S. Of those only 14 have producers actively delivering credits that point sources can use for compliance (Branosky, 2012). The missing elements in many of these programs was active engagement from state water quality agencies – creating the regulatory guidance, common standards to ensure high quality projects, credible and transparent performance monitoring procedures, and specific steps required to create and sell or buy credits.

Despite the limited transaction record, interest in water quality trading among states, nonprofits, and federal agencies remains high because the ecological benefits and economic efficiencies have are so attractive. However, before trading can become a common compliance alternative in discharge permits, regulatory agencies, regulated permit holders, the public, and producers need confidence that the processes and procedures used to guide trading programs are credible, agreed upon, and secure.

Under this proposal, state agencies that regulate water quality regulatory agencies - Oregon Department of Environmental Quality, Idaho Department of Environmental Quality, Washington Departments of Ecology – and Region 10 U.S. Environmental Protection Agency will come together to create a common and secure set of procedures and guidelines that will ensure quality and transparency in trading programs and give buyers, sellers, and the public the confidence to participate.

Oregon, Idaho and Washington state water quality agencies have all established some form of regulatory guidance on trading related to water quality and all have varying levels of experience with program development and review. Oregon Department of Environmental Quality has nearly 10 years of experience with trading on "thermal load" that has resulted in more than 35 miles of streamside vegetation restored and with another 50 miles that will required in NPDES permits in the next two years. In addition to substantially better ecological results, trading in Oregon has driven nearly $20 million in new conservation funding to riparian revegetation actions and saved rate payers at just two facilities alone more than $70million dollars. Idaho has a nutrient trading program that was designed in 2000 and updated in 2009. Idaho has conducted trades on [XXX name the parameter and geography] resulting in XXX ecological benefit and XXX cost reduction]. Washington created a water quality trading/offset framework in 2010 and is being asked to evaluate a number of trading programs related to nutrients and temperature [add specifics here if appropriate]

Comment [c1]: Insert Weblinks in a footnote

Project Need. For water quality trading to become a trusted and scalable tool that achieves real water quality improvements, state water quality agencies need the time and staff resources to work cooperatively to develop the regulatory guidance and joint agreements that A) standardize procedures and infrastructure that ensures credibility, transparency and performance over time, and B) maintains state specific flexibility to address issues unique to each state.

Guidance needs to come in three forms: 1) **Regulatory Guidance -** Common authorities from the Clean Water Act that establish the legal grounding and guiding principles for trading; 2) **Standard Operating Procedures –** Standardized program operating procedures for generating and ensuring quality and

transparent tracking of credits, and 3) **State Specific Addenda -** State-specific addenda defining unique quality standards for credit generating activities, state specific crediting methodologies and agency and third party roles.

Funding from the NRCS Conservation Innovation Grant Program will be used to fund and support Oregon Department of Environmental Quality (ODEQ), Idaho Department of Environmental Quality (IDDEQ), Washington Department of Ecology (Ecology) USEPA, in the development of a "Joint Regional Water Quality Trading Agreement" (Joint Regional Agreement) to guide project quality standards, project verification, credit calculation and registration procedures, common accounting infrastructure, and to provide clear and consistent guidance on water quality trading in Oregon, Washington, and Idaho. The Joint Regional Agreement will be structured, both legally and substantively, in a way that will allow additional states to "sign on" to the agreement with limited need for adaptation. Basically, a seed for multi-state guidance that can grow from the states up to larger and larger scales-– substantially increasing the pace and ease of transfer to other areas of the country interested in ensuring project quality and transparency in water quality trading programs.

Comment [P2]: This is the crux for this funding source. We may need to tinker with this language a bit, but ultimately, the Pacific Northwest is well positioned to help influence the credibility and transparency of other programs developing around the country by showing how common standards can be used across states in a way that does not reduce or hinder individual state flexibility.

Clear regulatory guidance is an essential element of water quality trading programs, but only 8 states have any current guidance at all. The Clean Water Act wrestles with a fundamental tension between a desire for national standards and the reality that watersheds need to be managed locally. This project will provide common regulatory guidance, standard operating procedures, and framework to customize trading elements to each state. The deliverables from this project will enable other states to quickly "sign on" to shared trading program elements, enabling state water quality agencies and stakeholders to focus on the challenges unique to their locale and speeding the ability of producers to participate in trading programs.

State agencies in cooperation with Region 10 EPA staff will lead most of the components of this project with The Willamette Partnership working closely with agencies providing coordination and facilitation support document management support (see diagram on page xx need To Insert). The facilitation role was critical to successfully establishing a "General Crediting Protocol in Oregon that was signed by 25 state regulatory agencies and interest groups in 2009.

Dedicated Federal funding will enable state water quality agency staff to focus attention and coordinate effort to generate the regulatory structures needed to support credible and transparent trading at scale. Dedicated funding will also enable state agencies to participate in national discussions currently underway to standardize water quality trading elements. **US EPA Region 10 staff will also be actively engaged in this project, but no NRCS CIG funds will be used to support EPA staff involvement**.

Likelihood of Project Success. The Pacific Northwest is one of the best-positioned regions in the country to successfully develop the multi-state regulatory templates and agreements that other states can "sign on" to, reducing their start-up time and risk. All three state water quality agencies are co-applicants and have had experience working together on issues like INSERT EXAMPLES. Water quality staff involved in those projects will also be engaged in this project. The Willamette Partnership has a long history of working constructively in lock step with regulatory agencies and over the last five years has helped lay the foundation for Oregon's active water quality trading program by developing credible standards and protocols and building broad consensus and support from public and private partners. Partnership staff has a high level of expertise in developing multi-agency processes and agreements. With cooperation from all three state regulatory agencies assured, the likelihood of project success is very high and the timing is ideal. Each state is being asked to review and comment on a range of programs and activities

Comment [P3]: Agencies, please add examples as appropriate

with water quality trading at the core. The groundwork has been laid to build the Joint Regional Agreement, but multi-state coordination will take a substantial and sustained effort to be done in a way that creates operational standards for credibility and transparency, while maintaining local, state-specific control of trading programs.

2. Project objectives: Be specific using qualitative and quantitative measures, if possible, to describe the project's purpose and goals. Describe how the project is innovative.

The primary objective of this effort is to secure multi-state consensus and USEPA endorsement on regulatory guidance, general quality standards, credit tracking procedures and accounting infrastructure for credits that can be used in water quality trading for nutrients (nitrogen and phosphorus) and temperature in Oregon, Washington, and Idaho. All three of these states and USEPA have some form of guidance or framework in place to inform water quality trading. This project will help create needed alignment and consistency among trading programs while maintaining essential state flexibility to address unique circumstances. In addition to standardizing program elements in the three-state area, partners will coordinate with water quality trading programs currently under development in the Ohio River Valley, California, and Colorado in an effort to create consistent, multi-state program elements and cooperate toward shared infrastructure. Close multi-state coordination and use of common infrastructure will improve the likelihood that standard program elements will work across regions throughout the U.S. – increasing transparency and credibility of programs and minimizing start up and transaction costs over time. A model for multi-state coordination will be needed in coming years as agencies seek to address water quality issues at whole basin scales such as the Mississippi, Columbia, Colorado.

The Joint Regional Agreement will include a three-tiered structure that establishes consistent regulatory authorities and processes in Tiers I and II, but allows individual state flexibility for the specific mechanics of trading in Tier III:

- **Tier I Regulatory Guidance**: Legal authorities, guiding principles, and appropriateness of trades based on EPA's 2003 guidance, but updated based on lesson learned and new information from current trading activity.
- **Tier II Standard Operating Procedures**: Common processes and mechanics shared across trading programs (e.g. considerations for baseline and other eligibility requirements, project quality guidelines, credit verification, monitoring and registration/reporting).
- **Tier III State Specific Addenda**: State-specific appendices that include unique baseline procedures, credit calculation methodologies, discounting and ratio factors, minimum quality standards for allowable conservation practices, etc.

Experience in the Chesapeake Bay and with the Climate Registry for carbon reinforces the need for regulatory processes that are state-centric, but coordinated. Done correctly, a Joint Regional Agreement between the three states could quickly spur additional participation from neighboring regions and states, which is one if the intentions of this project.

<u>TIER ONE - Regional Guidance and Regulatory Authorities</u>

- **Legal basis and guiding principles for trading.** EPA's 2003 guidance was completed before many of the active point-nonpoint sources trading programs were created. Additionally, Pacific Northwest guidance needs updating based on recent permits and trading activity. The Regional Guidance should be the same across all states.

- **Frame conditions and general considerations to encourage water quality improvements in "pre-TMDL" areas.** Most of the 14 trading programs in place now are based on compliance with TMDL allocations. As states set nutrient criteria or cut back new TMDLs because of budget cuts, concentration-based limits and other activities outside of TMDLs need more regulatory guidance than exists in current EPA and state trading policies. The project partners will establish considerations for a process defining baseline conditions and providing certainty to permittees (credit purchasers) and producers (credit sellers) that credits will be acknowledged when TMDLs or other regulatory documents are developed.
    - *Partners to this grant application understand that "pre-TMDL' programs carry significant challenges and the ability for state or federal water quality regulators to create certainty for producers or early adopters will be difficult.*
    - *The purpose of this section of work is to evaluate the policy tools available to regulatory agencies that can incentivize actions that improve water quality conditions in the absence of TMDLs or other strong regulatory drivers.*
    - *A minimum delivery from this work element is a robust discussion of factors that need to be addressed when considering pre-TMDL trades.*

- **Outline minimum requirements for a water quality trading program.** A minimum set of conditions must be met in order for states to implement successful water quality trading programs. Under this proposal, partners will work toward developing a common set of basic requirements and a checklist to help guide state agencies in the review of trading programs. This element of the guidance will help ensure programs are consistent with federal laws, are transparent and credible, and will generate the promised water quality improvements.

TIER TWO – Standard Operating Procedures for Trading

- **Develop standard crediting procedures and common infrastructure.** Many of the efficiencies and acceleration provided by Regional Guidance will stem from the certainty and ease-of-use inherent in a standardized set of agreed-upon procedures and common definitions for water quality trading. Templates for many of these procedures that have been developed and applied in watersheds across the Northwest. Standardization will help make agency evaluation and oversight of trading programs more predictable, making it easier for trading program developers to provide the information agencies will need to make decisions about project viability.
- **Create standard language, process steps, and considerations to be included in TMDLs and NPDES permits to support trading.** Experience in the Pacific Northwest has shown that clear authorization for trading in TMDL documents and standard NPDES permit language creates a stronger legal footing for trading and easier regulatory implementation. Standard Operating Procedures will provide standard language and steps for TMDL developers and permit writers to consider trading early and throughout the regulatory process. Current EPA guidance for permit writers does not get to the level of specificity needed for clear, consistent regulatory agency operations throughout the region. The Standard Operating Procedure will apply region-wide (Idaho, Oregon and Washington) with acceptance and formal agreement by these three states and USEPA.

TIER THREE – State-Specific Addenda

Water quality trading programs are shaped by the ecological, economic, and socio-political needs of their given state or watershed, which makes complete standardization difficult. Each state will need to

define some elements of trading that are unique. The Joint Regional Agreement will provide for State-Specific Addenda to accommodate these changes, but will also make it easier for additional states to "sign on" to the Agreement.

- **Define modifications to the Standard Operating Procedure needed for each state.** Idaho, Oregon and Washington will analyze their individual programs and statutory requirements and define protocols that will address the specifics of water quality trading for each state.

- **Define credit calculation methodologies and minimum quality standards for conservation practices.** Quantifying water quality improvements is trending toward increased standardization, but individual states may need to determine their own crediting procedures.

Discussion of Innovation. State agencies and Region 10 EPA are facing requests from multiple interested parties and permittees looking for guidance and options to conduct trading. Similar requests are occurring in western EPA Regions 8 and 9. Without clear and consistent guidance, programs will operate in isolation with different rules and with reduced overall transparency, increasing risk and uncertainty for regulators and permittees, and minimizing opportunities to implement programs at a meaningful watershed scale.

Clear regulatory guidance is an essential element of water quality trading programs, but only 8 states have any current guidance at all. The Clean Water Act also wrestles with a fundamental tension between a desire for national standards and the reality that watersheds need to be managed locally. This project provides the common regulatory guidance, standard operating procedures, and framework to customize trading elements to each state. The deliverables from this project will enable states to quickly "sign on" to shared trading program elements, enabling state water quality agencies and stakeholders to focus on the challenges unique to their locale and speeding the ability of producers to participate in trading programs.

3. Project methods: Describe clearly the methodology of the project and the tools or processes that will be used to implement the project.

The Willamette Partnership will build from its 2008 Counting on the Environment process to convene Region 10 EPA, the three state water quality agencies. That process has been proven and was used to successfully achieve multi-stakeholder agreements across water and biodiversity markets on science, policy, and processes. The Partnership will work with the agencies to conduct other needed stakeholder processes with producers, utilities, environmental groups, and others to complete guidance. Throughout the project, project partners will actively participate in national conversations on the regulatory guidance and common tools needed to support water quality trading. The methodology for each element of the project is described below:

<u>Task 1. Review existing 8 state water quality trading policies and convene partners</u>

The Willamette Partnership will review the existing 8 state trading policies (ID,WA,OR, WI, CO, MI, OH, MN) to identify common elements, inconsistencies, and gaps. That review will form the basis of a two-day kick-off workshop with EPA Region 10 and the three state agencies to begin sorting trading program elements into Tier I Regulatory Guidance, Tier II Standard Operating Procedure, and Tier III State-Specific Addenda.

The workshop will include presentations from each of the agencies on their current regulatory authorities and operating procedures and gaps in existing tools. The agencies will form subgroups focusing on topics needing further development such as credit quantification, baselines, and developing legal authorities.

Task 2. Draft Tier I Regulatory Guidance

Based on the action items from the kick-off workshop, each state agency will develop a list of additional regulatory guidance and authorities needed to support trading and a set of comments on each state's existing guidance. The list and comments will be used to create an outline of the Tier I Regulatory Guidance with a series of options for standardizing that guidance.

The Willamette Partnership will convene staff leads from each agency through a series of work sessions to develop a complete draft of the Regulatory Guidance.

The Regulatory Guidance will include minimum requirements for a trading program such as compliance with anti-degradation and anti-backsliding provisions and general programmatic elements that every trading program will need to address (i.e. service areas, baselines, trading ratios, assurances, verification, monitoring, credit registration, credit custody tracking, remediation strategies etc).

Task 3. Draft Tier II Standard Operating Procedures

Each state agency will assign a staff lead that will be responsible for coordinating participation from their agency in one of three subgroups needed to develop Standard Operating Procedures for shared policies, technical/modeling, and permitting processes. Those subgroups will complete the following subtasks. Project partners shall discuss recommended operating procedures as a group.

Policy

- Generate a complete list of **acceptable trading scenarios** (for example, intraplant trading, intramunicipal trading, single buyer, multi-party closed market, etc.) based on pollutant(s) to be traded, size and hydrodynamics of the trading service area, number and type of sources involved, pre-existing regulatory framework, stakeholder preferences, etc.
- Review federal and state guidance documents and available case law to create a basic **checklist of minimum requirements** for consideration.
- Determine **priority conservation practices** that give certainty of "high-quality" and effective restoration for use in compliance-grade offset credits.
- Develop **trading ratios** compensate for the amount of time necessary for the beneficial impact of a trade to take effect, compensate for the distance between the generation of a credit and the point of maximum impact as defined in a TMDL, or to account for variables that could influence the effectiveness of a particular action that are outside of the control of an individual landowner or credit producer.

Technical/Modeling

- Determine how to establish nonpoint source "**baselines**" that define the quantity of a pollutant or credit that NPDES permittees or nonpoint sources may buy or sell, including specific guidance in areas that do not yet have established TMDLs.

- Define the **unit of trade**, or "credit," that represents the amount of pollutant reduced over a specified **time period** by a particular action and establish how these credits can be generated and used.
- Agree to **credit calculation** tools and metrics, including adaptation and calibration of tools across the states (e.g. rolling out Nutrient Tracking Tool from Oregon to Washington and Idaho or use of shade-a-lator component of HeatSource 8). If states wish to use specific quantification tools, those will be included in the State-Specific Addenda.

Permitting Processes

- Develop a detailed list of parameters necessary for viable trading proposals, including designated trading partners, a description of how proposed trades can be quantified for both point and non-point sources, if applicable, and mechanisms/protocols for establishing reasonable assurances that proposed actions identified in the trading will be implemented.
- Analyze and compile essential, **well-defined permit conditions**, including acceptable trades, minimum requirements for trading agreements, recordkeeping, monitoring, third party verification, serialized registration, and reporting requirements.
- Review current methods and develop new methods and procedures if needed that ensure compliance with NPDES permit requirements, including **sampling/testing protocols and monitoring**. Determine if additional methods or procedures should be developed specific to trading compliance.
- Identify and develop information or guidance for the **required elements of permit evaluation** reports.
- Review and develop a standard method for assessing compliance with and **enforcement of trading proposals** in permits. Review Idaho, Oregon and Washington's existing enforcement regulations to determine if additional compliance and enforcement tools need to be developed to specifically address trading.

Task 4. Draft Tier III State-Specific Addenda

As agency staff and stakeholders identify issues specific to each state, those will need to be incorporated into State-Specific Addenda. These Addenda will be designed in a way that is easy to maintain consistency with standard operating procedures but will maximize state flexibility to manage and control their respective programs. The bulk of the state-specific addenda are likely to include discussion of:

- The minimum design criteria for installing high quality conservation practices. These criteria will vary depending on actions, but will contain the specific project detail and standards needed to use those practices to generate credits.;
- Identify criteria for "service areas" within each state and develop rules regarding priorities within these areas.
- Identify third party entities in each state with expertise in credit verification. Third party verification of credits is critical to ensure that offsets used in compliance-based trading meet the highest ecological and regulatory standards.
- Review and select a legitimate credit registry to easily record and track trades in each state.
- Clearly define state policies on total project loss, remediation and Force Majeure

Task 5. Maintain communication with other regions and national-level discussions

The intent of the Joint Regional Agreement is to act as a starting point, making it easier for other states to "sign on" to a common set of Regulatory Guidance, Standard Operating Procedures, and State-Specific Addenda. Project partners will work with neighboring EPA regions and states (e.g. Colorado and California) that have already expressed interest in basing their trading programs on tools developed in the Northwest. Project partners are already working with the California's North Coast Regional Water Quality Control Board to support water quality trading in the Klamath River Basin. In addition to neighboring states and regions, project partners are already coordinating with trading programs being developed in the Ohio River Valley to maximize consistency and the use of common infrastructure where possible.

Project partners strongly encourage and will actively participate in a Water Quality Market Network" established by USDA with other CIG grantees, state agencies, and EPA convened as a venue to share experience, coordinate program development, evaluate program components and results, and establish consistent tracking, reporting and verification parameters. Project partners will encourage the use of elements of the Joint Regional Agreement in other states and where practical will use the Water Quality Market Network to help shape the Northwest work based on national needs for consistency.

Task 6. Finalize Joint Regional Agreement and Reporting to NRCS

As a complete draft of the Joint Regional Agreement comes together, state water quality agencies with support from EPA Region 10 will make decisions together about the public processes needed to formalize agreement as regulatory guidance. This process may include one to two rounds of public comment and reacting to comments. It may include outreach to stakeholders like wastewater utilities, environmental groups, producer groups, and tribes.

The Willamette Partnership will use its Counting on the Environment process design to facilitate toward an agreement. That process includes in-depth convening to ensure the right individuals and organizations have a voice in the Joint Regional Agreement, structured communication throughout so that nothing in the Agreement is a surprise, and structuring of an agreement document that provides both flexibility and consistency for all parties. The Joint Regional Agreement may take on several forms (e.g. formal agency guidance, a Memorandum of Agreement between agencies, or other form). The final form will be determined by state agency leads and Region 10 EPA.

The inter-agency working group will recommend a final package of Tier I regulatory guidance, Tier II standard operating procedures, and Tier III state-specific addenda to agency management for final signatory approval.

Project partners will also complete a final report to NRCS summarizing work completed, outcomes achieved, and strategies for immediate transfer of the Agreement and associated tools to other states.

4. Location and size of project or project area: Describe the location of the project and the relative size and scope (e.g., acres, farm types and demographics, etc.) of the project area. Provide a map, if possible

This project will span Oregon, Washington and Idaho. The market procedures developed through this project will provide a blueprint for other states seeking to standardize regional market activity. [INSERT MAP HERE]

5. Producer participation: Estimate the number of producers involved in the project, and describe the extent of their involvement (all producers involved in the project must be eligible for EQIP).

TFT TO COMPLETE THIS SECTION

6. Project action plan and timeline: Provide a table listing project actions, timeframes, and associated milestones through project completion. Anticipated project start date of September 1, 2012.

DESCRIPTION	Start	End	MILESTONES
Task 1. Review 8 trading policies & Convene Stakeholders	**9/1/2012**	**3/30/2013**	**Convening Report**
- Review of 8 state trading policies			
- Final process design and agendas			
Task 2. Draft Tier I Regulatory Guidance	**4/1/2013**	**11/30/2013**	**Draft Guidance Document**
Develop review criteria for trading proposals			
Establish sharing authorities and objectives			
Define general trading provisions			
Task 3. Draft Tier II Standard Operating Procedure	**6/1/2013**	**6/30/2014**	**Draft Standard Operating Procedures**
Create shared policies (e.g. on trading ratios)			**Protocol documents**
Where agreed upon -update and validate nutrient and shade calculators for regional use			**Nutrient and shade calculators for OR, WA, ID**
Build permitting templates			**Standard permit language**
Define roles and governance			**Draft roles and responsibilities**
Task 4. Draft Tier III State-specific Addenda	**12/1/2013**	**12/30/2014**	**3 Draft Addenda for OR, WA, ID**
Draft addenda for each state			
Task 5. National Coordination	**9/1/2012**	**9/30/2014**	**Participation in national calls, comments incorporated from other states**
Coordinate with other CIG grantees, USDA, EPA, and cooperating states			

Task 6. Finalize Joint Regional Agreement & Report to NRCS			**Joint Regional Agreement endorsed by WA, OR, and ID state agencies**
Secure final Joint Regional Agreement	**12/1/2014**	**9/30/2015**	
Develop companion document so other states can "sign on" to the Agreement			**Handbook for other states on steps needed to join the Agreement**
Complete Final Report to NRCS			**Final Report to NRCS**

7. Project management: Give a detailed description of how the project will be organized and managed. Include a list of key project personnel, their relevant education or experience, and their anticipated contributions to the project. Explain the level of participation required in the project by government and non-government entities. Identify who will participate in monitoring and evaluating the project, including their institutional affiliations and qualifications for conducting project monitoring and evaluation.

The project overall will use the Counting on the Environment process to coordinate science and policy work across state lines and stakeholder interests. A working group of state water quality agency leads, Region 10 EPA, and The Freshwater Trust will review and discuss the recommendations made from technical groups focusing on the science and measurement of water quality improvements and the policy and protocol issues needed to support trading. The Willamette Partnership will actively facilitate these groups through a series of in-person and telephone meetings over the course of the project period.

State water quality agency, EPA Region 10, and The Freshwater Trust staff will play central roles in delivering this project. Key personnel include:

Bobby Cochran, Executive Director of the Willamette Partnership, will be responsible for the overall project and lead facilitator for the project. Bobby has led complex inter-agency processes around water quality trading and other environmental markets since 2007. Those processes have led to agency rule changes, shifts in standard operating procedures, and other forms of coordinated action. Bobby has nearly 10 years of experience negotiating collaborative policy at the intersection of science, policy, and economics. He has a PhD from Portland State specializing in public policy and negotiation, and an MA in Conflict Resolution.

Ranei Nomura, Water Quality Trading Project Manager – Oregon DEQ
Barry Burnell [identify the right person here], Water Quality Division Administrator – Idaho DEQ
Helen Bresler, Water Quality Program – WA DOE
Claire Schary, Water Quality Trading Coordinator – EPA Region 10
David Primozich, Ecosystem Services Director – The Freshwater Trust

8. Project deliverables/products: Provide a list of specific deliverables and products that will allow NRCS to monitor project progress and payment. The proposal shall include a set of technical deliverables designed to evaluate the performance and broader applicability of the water quality trading system being proposed for implementation.

The Willamette Partnership and project partners will supply the required documents outlined in the RFP (e.g. semi-annual reports, justification of payment, etc.) and will participate in at least one NRCS sponsored event during the grant period. In addition to the required deliverables outlined in the RFP, the project will provide the following deliverables/products:

Deliverables	
Task 1. Review 8 trading policies & Convene Stakeholders	
1	Summary report of gaps in existing 8 state trading policies and EPA guidance
2	Convening report with process design, group membership, and process issues
Task 2. Draft Tier I Regulatory Guidance	
1	Kick-off workshop agenda and action items
2	Working group agendas and action items
3	Draft Guidance Document
Task 3. Draft Tier II Standard Operating Procedure	
1	Shade calculator updated and validated for OR, WA, ID
2	Nutrient Tracking Tool updated and validated for OR, WA, ID
3	Draft Standard Operating Procedure document with protocols, permit language, and roles and responsibilities
Task 4. Draft Tier III State-specific Addenda	
1	OR Draft Addenda
2	ID Draft Addenda
3	WA Draft Addenda
Task 5. National Coordination	
1	Comments received from USDA, USEPA, and other states via national calls
2	Versions of Tier I and Tier II documents that are applicable to other states
Task 6. Finalize Joint Regional Agreement & Report to NRCS	
1	Final versions of Regulatory Guidance, Standard Operating Procedures, and State-specific addenda
2	Joint Regional Agreement endorsed by USEPA and state water quality agencies
3	Handbook for other states on steps needed to join the Agreement
4	Final Report to NRCS

9. Benefits or results expected and transferability: Identify the results and benefits to be derived from the proposed project activities, and explain how the results will be measured. Identify project beneficiaries, i.e., agricultural producers by type, region, or sector; rural communities; and municipalities. Explain how these entities will benefit. In addition, describe how results will be communicated to others via outreach activities.

In general project partners are interested in a single outcome from this work - more effective ways to maximize total pollution reduction/water quality improvements achieved from dollars spent. The work completed under this proposal will set the stage to accelerate non-point restoration activities far beyond what would be possible otherwise.

This project centers on the Pacific Northwest, but it builds the capacity to speed transfer nationally. Within the project, partners will participate with other CIG grantees to ensure the Joint Regional Agreement can be "signed on" to by other state water quality agencies. Particular focus will be placed on reaching out to other westerns states in EPA Regions 9,8, and 6. Already, work is beginning with California's North Coast Regional Water Quality Control Board in the Klamath River Basin. Under The Freshwater Trust's current CIG, there are funds to convene a national network of regional market developers. Project partners will use that network to transfer the results of this grant and receive the innovations of other CIG grants. In turn, that network offers NRCS and others the capacity to more easily transfer market innovations to watersheds and communities.

The benefits of credible and transparent trading programs in general are clear for four stakeholders categories as well: 1) regulators gain new tools to incentivize restoration actions that improve water quality and a way to quantify and verify outcomes from dollars spent and actions taken; 2) farmers, foresters, and ranchers with degraded riparian land gain access to new funding sources that enable them to take action more quickly and with higher quality standards; 3) regulated point sources, get access to a compliance solution that is generally (often substantially) less expensive than technological solutions, and offers numerous secondary benefits (miles of stream banks restored and business for local contractors and suppliers); 4) the public is assured that steps are being taken to improve water quality conditions and that actions taken to offset ongoing impact are real, verified, tracked, and performing to a high quality standard over time.

[This section needs more work]

10. Project evaluation: Describe the methodology or procedures to be followed to evaluate the project, determine technical feasibility, and quantify the results of the project for the final report. Grant recipients will be required to provide a semi-annual progress report, quarterly financial reports, and a final project report to NRCS. Instructions for submitting quarterly reports will be detailed in the grant agreement.

e. **Assessment of Environmental and Social Impacts: Describe and assess the anticipated environmental effects of the proposed project. The description of the potential environmental and social impacts must address all potential beneficial and adverse impacts of the proposed action. A full description and assessment of the potential impacts to all environmental resources must be disclosed. One line or short descriptions of environmental impacts are not acceptable. The length of the analysis should be commensurate with the complexity of the project proposed and the environmental resources impacted either directly, indirectly (later in time), or cumulatively. Where possible, information on environmental impacts should be quantified, such as number of acres of wetlands impacted, amount of carbon sequestration estimated, etc. Environmental resources include soil, water, air, plants, and animals, as well as other specific resources protected by law, Executive Order, and agency policy. These resources are outlined in the NRCS Environmental Evaluation Worksheet, form NRCS-CPA-52, which is available at: NRCS-CPA-52. The NRCS-CPA-52 form can be used as a guide for the scope of environmental information that should be prepared for this section of the application. In addition to describing impacts, applicants are required to assess the significance or degree of potential environmental impact of the proposed project on environmental resources. Applicants may consult with the NRCS Environmental Liaison concerning the scope addition to the information above, the subcontractors and consultants must also submit a statement of work. The budget narrative should support the federal funds requested and the cost share.**

There will be no direct adverse impacts from this project.

Impacts include:
Cultural resources: By unlocking revenue for producers to engage in conservation on their working lands, this project helps maintain the working lands that support rural communities across the Northwest while balancing environmental needs.
Wild and Scenic River: Over half of the nation's Wild and Scenic rivers flow through the Northwest. Oregon has 47designated wild and scenic rivers including the Sprague, Sycan, and Klamath River where the Willamette Partnership is already advising the Klamath Tracking and Accounting Program on market design. The Snake River in Idaho and Klickitat River in Washington are other Wild and Scenic rivers where the Willamette Partnership and TFT have already actively engaged in market feasibility analysis.
Public health and human environment: This initiative targets water quality restoration that will benefit drinking water, flood protection, safer fishing, and recreation—all key to the Northwest quality of life and tourism economy.
Retention of sustainably managed working lands: Maintaining working lands by providing market-based incentives for ecosystem services means these lands will continue to provide the positive impacts referenced in this section into the future. Riparian buffers often affect marginal farmland and contracted annual payments with producers will diversify farm income.
Environmental justice: There will be no direct adverse impacts, but many positive direct and indirect impacts for low-income land owners and rate-payers from better conservation investment. Direct impacts will include payments to land owners, reduced utility rate increases, and employment through living-wage restoration jobs when municipal funds for achieving water quality standards are invested in locally built natural infrastructure rather than imported technology.
Atmosphere: Riparian forests reduce nitrogen dioxide formation and sequester carbon.
Soils: Riparian planting ensures that existing farming operations have minimal impact on soil erosion and do not compromise the stability of river banks and stream-beds.
Water: This initiative will enable new strategies and funds to address non-point source temperature and nutrient water quality impairments identified in TMDLs throughout the Northwest.
Wildlife Habitat/Endangered and Threatened Species: Incentives for restoration of riparian areas and other habitats created by this initiative will improve habitat conditions for a full suite of fish and migratory birds. Essential Fish Habitat for endangered Coho and Chinook salmon includes all streams, lakes, ponds, wetlands, and other water bodies currently or historically accessible to salmon in Washington, Oregon and Idaho. The actions taken under this proposal will have positive benefits for the habitat these species depend on. A majority of on-the ground restoration projects undertaken as part of this proposal will occur on lands adjacent to these waters.
Invasive Species: Riparian planting resulting from trading programs will use only native plants, locally sourced where possible, and projects will be required to be rigorously monitored and maintained to control invasive until native vegetation is established. No adverse invasive specifies effects are expected.

h. **Matching:** Applications must include written verification of commitments of matching support (including both cash and in-kind contributions) from non-federal third parties.

The Freshwater Trust will provide Matching funds for this grant.

Note: Successful applicants would be required to participate in a "Water Quality Market Network" established by USDA. A portion of grant funds would be allocated for participation in the network for the duration of the grants. The network would provide a venue to share experience, coordinate program

development, evaluate program components and results, develop and provide outreach and establish consistent tracking, reporting and verification parameters.

i. **Declaration of Previous CIG Projects Involvement: Identify any previously awarded CIG projects involvement related to this proposal and any of its principal investigators. Detail the purpose, outcomes to date, and how this new proposal relates to the previous award.**

The Freshwater Trust: TFT was awarded funding from the 2011 national Conservation Innovation Grants program to complete the framework for water quality trades in Oregon and apply the framework on-the-ground in 2-3 Oregon watersheds. As of this writing, TFT has secured agreements with two regulated entities in Oregon (City of Medford and Metropolitan Wastewater Management Commission – Eugene/Springfield) to transact the first temperature credits in 2012. In addition, the U.S. Forest Service has committed to purchasing verified outcomes from projects implemented to the same rigorous quality standards as compliance grade credits. Project purchased by the U.S.Forest Service will be tracked and monitored for conservation purposes (just like a credit) – setting an intriguing precedent for traditional conservation funders to become "conservation buyers". TFT expects to have commitments from two additional public entities (City of Ashland and Port of St. Helens) and a second conservation buyer (Oregon Watershed Enhancement Board) secured by mid 2012. These six agreements represent more than $13,000,000 in credit transactions and will result in more than 60 miles of streams restored. This work has laid the foundation for the regional agreement described in this proposal, and will help to inform the process.

Willamette Partnership: The Willamette Partnership's Counting on the Environment process was funded in part through a grant from the national CIG program. The project created the infrastructure and regulatory agreements necessary to support markets for multiple ecosystem services in the Willamette River basin. It was built in a way that with minor adaptations could be adapted to new geographies and new credit types. This project will integrate the Counting on the Environment outcomes with other ecosystem market tools, and packaged them in a way that speeds transfers to other geographies. Willamette Partnership also received support from the Oregon state CIG program in 2009 for the development of a nutrient trading tool and to fund the verification of pilot projects implemented using the protocols.