

There is an opportunity to pursue a \$2MM, 3-year Conservation Innovation Grant with Oregon DEQ as the Lead Applicant and WA DOE, ID DEQ, EPA Region 10, TFT and Willamette Partnership as partners. TFT can provide the needed \$2MM match for a \$2MM request. The outcome would be to properly align the mechanics of water quality trading in the Pacific Northwest with the regulators in a way that makes the pre-TMDL and TMDL-based trading environmentally sound, scientifically robust and financially efficient. This is on a quick timeline—due March 2, 2012. Given our recent experience and success with this type of proposal and agency and knowledge of NRCS priorities around environmental markets, it makes sense that we take the lead on drafting. The needed scope of work is outlined below for your review.

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A key first step to all this would be securing MOAs with the respective agencies to actively participate in very short order.

2012 Conservation Innovations Grant - Environmental Markets

Outcome: Joint Regional Agreement on standards, procedures and accounting infrastructure for credits that are used in “pre-TMDL” actions (i.e., compliance with permit limits issued prior to a TMDL or any voluntary action that is environmentally beneficial to the watershed prior to a TMDL being issued) and TMDL-based water quality trading for nutrients (nitrogen and phosphorus) and temperature in Oregon, Washington, and Idaho.

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Summary:

- Current and pending TMDLs that focus on nitrogen, phosphorus, and temperature will require state agencies to evaluate proposed pre-TMDL offsets (credits) and TMDL-based water quality credit trading programs as new load limits are implemented in NPDES permits throughout Oregon, Washington, and Idaho. (In this proposal, these will be referred to as pre-TMDL and TMDL-based water quality trading programs.)

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- The vast majority of loading for these watershed based constituents comes from non-point sources (agricultural and forestry inputs and urban run-off). Pre-TMDL and TMDL-based water quality trading programs are one way state water quality regulators can ensure that money spent by utilities to address these new parameters are applied to realize more environmental benefits to the watershed, than would typically be possible on site at a treatment or manufacturing plant, and for the same or less cost.

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- Regulators need to provide clear guidance and a consistent, well organized approach to encourage environmentally beneficial pre-TMDL and TMDL-based water quality trading programs in suitable watersheds.

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- Regulated entities need confidence that pre-TMDL and TMDL-based water quality trading programs are viewed by regulators as legally valid compliance alternatives to only doing on-site treatment.

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Desired Outcomes:

- Joint Regional Agreement on credit calculation metrics, implementation procedures, transaction protocols and the use of common credit registry and tracking infrastructure.
- Joint Regional Agreement on the offset calculation and permit procedures for implementing pre-TMDL water quality trading that incentivizes early action in areas where TMDLs and NPDES permits are delayed or not scheduled to be issued soon.

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Activities:

Restoration Action Protocols: Establish joint regional agreement on an initial set of allowable restoration actions (e.g., riparian revegetation, fencing, fertilizer reductions) and define objective quality standards for each action (e.g., stems per

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acres, species mix, etc).

Metrics: Establish joint regional agreement on the credit calculation methods and models for nutrients, sediments, and temperature – Including clear guidance on calculating watershed wide and site specific baselines.

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Transaction Protocols and Infrastructure: Establish joint regional agreement on eligibility criteria for facilities to be able to use credits to offset their NPDES permit limits and the types of non-point sources that can make improvements that will be used to create credits, and credit verification procedures, and credit custody and performance tracking.

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TMDL Guidance: Create regional guidance to address how to establish baselines for credits for nutrients, sediments, and temperature that will clarify how pre-TMDL credits can be established that are consistent with the water quality goals of the TMDLs that later will be issued in the watershed.

Comment [CS1]: I wasn't sure what was met by "eligibility criteria for facilities and non-point source improvements" so I added words to make it sound like what I thought it was intended to mean. Improvements at the permitted facility do not need to go through a credit creation process.

Comment [CS2]: This is the first time sediment is mentioned – is that one of the pollutants to be considered for trading under this project?

Pre-TMDL Guidance: Create regional guidance that provides certainty for regulated entities that if they pay for non-point source pollution reduction actions prior to a TMDL being issued in the same watershed, they will be able to use some portion of the approved verified and registered credits generated from those actions at a later date to meet their TMDL-based load allocation and subsequent NPDES limit.

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Staffing:

- Lead Applicant - Oregon DEQ with two dedicated Staff
 - Senior Policy Advisor to the Director 1.0 FTE
 - TMDL Analyst/Modeling Expertise (Michie) 1.0 FTE
- Co- Leads
 - Idaho DEQ .5 FTE
 - Washington Ecology .5 FTE (potential)
- Cooperators

- Region 10 EPA - Technical and Policy Support
- Willamette Partnership - Metric and Protocol Development
- The Freshwater Trust – Policy and Implementation Support