



Great Lakes Trading Network

developing and implementing market-based strategies for healthy, sustainable ecosystems

May 29, 2002 Conference Call

Representatives from the following organizations participated in the conference call: U.S. EPA's Office of Water (Mahesh Podar, Lynda Wynn Hall), Region 10 (Claire Schary), and National Risk Management Research Laboratory (Beth Lemberg, Hale Thurston); Ohio EPA (Gail Hess), Resource Strategies, Inc. (Joe Kramer); the World Resources Institute (Patricia Zurita); Kieser & Associates (K&A)(Mark Kieser, Mike Tenenbaum, Nicole Ott); Abts Associates (Mark Landry); West Virginia Department of Environmental Protection (Jerry Gray); CH2M Hill (Dennis O'Grady as consultant for South Nation Conservation Authority, Ontario); Baker Law (Rhonda Sandquist); and Kerr, Greiner, Anderson and April, Inc. (Bob Kerr). Mark Kieser of K&A chaired the call.

U.S. EPA's Draft Trading Policy

The call began with a discussion of the U.S. EPA draft trading policy recently released for a 45 day public comment period, that began on May 15, 2002. As of the call, feedback has been limited. The policy is supported by AMSA, the Farm Bureau and the states. Concerns have been expressed by the environmental community in a letter that was sent to the U.S. EPA prior to the draft being released. The letter was signed by the Clean Water Network and included the Natural Resource Defense Council, the National Wildlife Foundation, the Sierra Club, the Chesapeake Bay Foundation, the Coast Alliance, the Ocean Conservancy and 20-25 local organizations. In the letter, these groups asked the U.S. EPA to not release the trading policy due to a number of concerns, including the belief that the concept is experimental and unproven. A copy of the letter will be posted on the GLTN website.

Mahesh Podar and Lynda Wynn Hall urged members of the Network to submit written comments regarding any thoughts they have on the policy, both concerns and support; for example, what is useful about the policy and which issues should be addressed. Support for the policy will need to be officially recorded, as it is expected that there will be pressure to change the policy. Some items expected to be debated include: trading of toxics, flexible permitting mechanisms, pre-TMDL trading and cross-pollutant trading. Members who support these issues should submit comments by the end of June expressing their reasons why, so that a balanced public record is created. Mahesh also requested comments suggesting methods for dealing with accountability, which was an issue raised by the environmental groups. The content of the trading policy has not changed substantially from what was posted on the GLTN website previously. The review by the U.S. Office of Management and Budget prompted some changes in the language of the policy. The fate of the policy following the public comment period is difficult to determine at this point. It will depend largely on the public record from

the comment period. Decisions regarding the debated topics will most likely be made by the Administrator. Internal coordination with the USDA, Department of Interior and the Department of Energy may aid the development of the official policy.

It is likely that finalization of the official trading policy may be coordinated with the TMDL rules, according to Mahesh. The forthcoming U.S. EPA “Watershed Initiative” may also be tied into the policy. The criteria for projects chosen under the Initiative include the use of innovative approaches, which could include trading.

Lynda noted that on June 13, the House Committee on Transportation and Infrastructure will hold a hearing of its Water Resources Sub-committee. Ben Grumble, Deputy Assistant Administrator for the Office of Water, will testify on trading at this hearing. Lynda will forward the email announcing the hearing, and it will be posted to the Network.

GLTN Responses to Draft Trading Policy

The question was raised whether it would be more beneficial for individual responses or for one Network response to the policy to be submitted for public comment. Mahesh indicated that individual responses will be important in building support for the policy and in expressing individual needs and concerns relating to local projects. Members can submit comments directly to the U.S. EPA and also send copies to the Network. A synopsis of the key points will be drafted and posted on the website for members to review. (Please submit comments to K&A by June 17. The summary will be posted on the website by June 21, so that it can be reviewed and submitted to the U.S. EPA by July 1, the closing date of the public comment period.) Due to the role of the Network as an ad hoc organization, it cannot be used to lobby for particular policies. Therefore, only a summary of members’ comments will be submitted, not an official position on the trading policy.

The Farm Bill

Patricia Zurita of the World Resources Institute (WRI) provided a brief summary of the recent reauthorization of the Farm Bill. The Conservation and Innovation Grant Program, which is included under Title II, was not assigned a spending level in the bill. WRI is speculating that the reasons may be that there was not a desire to place a cap on the spending for these grants and that the USDA may allocate additional monies. Grants will be awarded on a competitive basis to both governmental and non-governmental organizations. The bill covers all of the topics that WRI had hoped would be included, such as BMPs, markets and carbon sequestration.

Patricia will attempt to find summary text of the Conservation and Innovation Grant or will extract the text from the full Farm Bill so that it can be posted on the GLTN website. She will also find names and contact information for regional USDA staff who may serve as good contacts for trading programs, grant proposals and/or attendance at a trading workshop or conference.

The funding distribution decision may be internalized. The GLTN and its members could play a

role by applying for grants. The USDA will soon begin drafting regulations for the Farm Bill. It is not known when the Conservation and Innovation Grant elements will be drafted. Patricia will try to determine the expected timeline and forward that information to the Network.

EPA Funded Trading Projects

The U.S. EPA is close to selecting the trading projects it will fund. Initial decisions have been made, but they are not yet finalized. The formal grant applications are being developed. When the EPA officially announces the awards, summary information will be posted on the GLTN website.

GLTN Member Trading Projects

The opportunity to discuss trading projects was the next topic of the call. Dennis O'Grady (CH2M Hill) provided a summary of the phosphorus trading project in the South Nation River Watershed, Ontario, Canada. CH2M Hill has a contract with the Provincial Ministry of the Environment to act as a broker for phosphorus trading. Canada has a carbon trading program in place, but nothing formalized for water quality trading programs. The South Nation River Watershed, a 1,500-square mile rural watershed southeast of Ottawa, is serving as the locale for this phosphorus trading pilot project. Wastewater treatment plants pay a fee for each kilogram of phosphorus discharged. These funds go to nonpoint sources to reduce phosphorus in the over-enriched waters. Trading occurs at a 4:1 NPS/PS ratio. A kilogram of non-point source phosphorus costs \$300 to remove. Therefore, \$1,200/kg is provided to the agricultural community for BMP implementation. A kilogram of point source phosphorus costs \$2,000, by contrast.

Dennis is preparing a draft report which is scheduled to be delivered to the Province by October of this year. He has prepared a five page summary abstract that will be provided to the Network. The U.S. experience with environmental groups' reactions to trading has alerted him to the fact that they need to make contacts with Canada's environmental groups, who are expected to voice similar concerns regarding water quality trading.

Dennis is looking for new or updated formulas to quantify phosphorus reductions from various dairy operation practices. The available estimation approaches are several years old. Therefore, they have contracted the University of Ottawa to aid in quantification. He is looking for primary research dealing with phosphorus load reduction quantification. Over \$1 million in point source fees between municipalities and the Province have been generated over the 2 years of the trading program. These and other grants have been awarded to farmers in this watershed over the past 10 years. Over one hundred point source projects associated with trading have been initiated in the watershed. Farmers actually conduct field visits and provide project recommendations. The credibility of the program is high due to the peer review involved and the trust amongst farmers. Administrative costs are therefore saved on reduced agency involvement.

Monitoring and accounting of phosphorus reductions are covered by the \$300 paid per kilogram. As watershed monitoring is too complex to demonstrate water quality improvements via

phosphorus reductions in a short period of time after an improvement is made, biological indicators and BMP formulas are used. A “Clean Water Committee”, a 17-person organization largely comprised of current and retired farmers, oversees the program and chooses farmers to conduct field visits at BMP sites. Those chosen have earned various certifications and are respected in the agricultural community. The program trades are not made in reference to a maximum watershed load (equivalent to TMDL approaches in the U.S.), but on a discharge concentration basis.

Rhonda Sandquist next provided a summary on two multiple markets trading projects in Colorado. The first is with the City of Grand Junction. The Lower Colorado River is impaired by high selenium levels. There is no trading framework in the watershed, but they have applied for a U.S. EPA grant to initiate such a project. It is expected that selenium reductions made via point and non-point sources will aid endangered fish in the river.

The second project is in the Chatfield Basin, where there is no remaining allocation for phosphorus discharges. A landowner/developer in the watershed is building a wastewater treatment plant, which will discharge phosphorus. Point source-to-point source trades are used to offset the new wastewater discharge. Future non-point source reductions/credits are being sought through wetlands creation. The wetlands may also be used for mitigation purposes and are expected to provide habitat for an endangered mouse species. The mouse requires riparian habitat and is known to exist in downstream areas of the proposed wetlands.

There was some discussion on the utility of the Endangered Species Act as a driver for trading. In its literal sense, the Act does not provide for trading. However, the U.S. Fish and Wildlife Service has been flexible with alternative strategies to achieve the goals of the Act. Regulators are interested in market incentives for protecting species and habitat. These lines of thought are in their early stages. Claire Schary of EPA’s Region 10 is particularly interested in the stormwater trading paper published by the Risk Management Lab in Cincinnati. Stormwater trading could have the added benefit of aiding salmon in the Pacific Northwest. Multiple species are on the endangered species list and are in need of market incentives to elicit environmental improvements. Improvements can satisfy other regulatory requirements and, in turn, aid endangered species.

In Colorado, dam and reservoir maintenance projects are needed, but may impact endangered species. Habitat mitigation can be performed to offset those impacts. The Safe Harbor Act can be used as an incentive to create habitat, particularly wetlands.

GLTN Incorporation

The draft Articles of Incorporation have been edited, and a new paragraph on the purpose of the Network has been drafted. The new language is necessary in order for the Network to achieve its tax-exempt non-profit status. These sections of revised text have been emailed to Network members. New language is highlighted in yellow. Participants have been asked to email any feedback to K&A, so that the language can be finalized. The GLTN was initiated with funding from the Great Lakes Protection Fund. Therefore, the initial focus, and hence the name, was associated with the Great

Lakes. The Network has grown to encompass an international scale. A name more reflective of the Network's scope is needed. The "National Trading Network" has been initially suggested.

Second National Trading Conference

There was some discussion about the feasibility of holding another national trading conference in 2002. Minimally, five to six months would be needed to plan the conference. It should include field trips to trading demonstration project sites. The conference could be held in Colorado or Idaho. However, the weather may not be suitable after October for field visits. Discussions suggested that the earliest a national conference could conceivably be organized would be the spring of 2003. Grant funds from the Farm Bill and funding from U.S. EPA could potentially be used for the conference. A technical workshop for traders and appropriate USDA-NRCS staff could be held in the Fall of 2002 focusing on credit quantification issues.

Other comments before the conclusion of the call noted that the L.A. Times is preparing a feature article on trading. The author will be visiting demonstration sites in Colorado and meeting with Rhonda.

The next conference call is scheduled for Wednesday, June 19 from 10:30 to noon, EST.