



Environmental Trading Network

DRAFT
March 2004 Conference Call
(March 17, 2004)

Representatives from the following organizations participated in the conference call: Brown and Caldwell (John Ricketts); Domani, LLC (Susan O'Neal); Fox-Wolf Watershed Alliance (Linda Stoll); Jones Day (Brent Fewell); Kieser & Associates (Mark Kieser and Andrew Fang); Massachusetts Department of Environmental Protection (Claire Barker); National Institute for Chemical Studies (Mark Scott); Pennsylvania Department of Environmental Protection (Andy Zemba); Texas A&M University (Richard Woodward); US EPA-Office of Water (Lynda Hall); Virginia Colonial Soil and Water Conservation District (Brian Noyes); Washington Suburban Sanitary Commission (Cy Jones); Wildlands, Inc. (Craig Denisoff); consultants Jerry Talbert and Eric Vandeberg.

Mark Kieser chaired the call.

Update on State of West Virginia's Trading Workgroup

Mark Scott of National Institute for Chemical Studies gave an update on West Virginia's trading workgroup. Mark is the work group's facilitator. The work group has been together for one and a half years to study whether the state ought to have a state trading program. The work group is composed of representatives from business, public interest groups and other stakeholders.

The work group has taken the approach of asking each participating interest group about issues related to a trading program that concern them the most. Discussed issues ranged from program technical details (e.g., credit measurement) to institutional arrangement. Trading documents such as EPA's Water Quality Trading Policy and Michigan's Water Quality Trading Rule provided guidance for the work group's discussions.

The second to last meeting of the work group was held just several days prior to this conference call. Up to that meeting, the work group was still not able to reach a consensus on whether West Virginia needs a state-wide trading program. There are three major unsolved issues. First is the philosophical question that some group members have on whether trading can help the state comply with Clean Water Act requirements. Second, with EPA's national trading policy in place and the possibility of local trading initiatives, some group members are not sure if a formal state trading program is necessary. Third, because of the general shortage of state funds, some group members are concerned with the financial resources that would be available to develop an

effective trading program. For example, without adequate funding, chances of loopholes in program design become large.

Although a consensus on the main question of the work group's mission can not be reached, the work group has reached agreement on many key issues of trading, such as who are eligible to trade and what pollutants can be traded. Mark also pointed out that the discussions conducted in the work group have provided a great learning experience to him and other group members. The report of the work group is due in April, 2004. Mark will provide the network with the report when it becomes available. Ultimately, the state's Department of Environmental Protection will decide if a state-wide trading program is needed.

The following are questions, comments, and answers from the ensuing discussion on Mark's presentation. Except specified otherwise, questions and comments were raised by various conference call participants and the answers were all from Mark.

Q (by Lynda Hall): Were there particular interest groups in the work group that were in favor of or against a trading program?

A: According to Mark's personal observation, the majority of the business interest groups supported the development of such a program. The exception is the state's Manufacturers' Association. Public interest representatives were generally not in favor of the idea. This is also a matter of trust between different parties. For example, by supporting trading, business groups' intentions may have been questioned: do they really want to find a market-based solution to control pollution or they just want to find a way to avoid pollution control obligations?

Mark added that the hot spot issue was also a much discussed issue by the work group. Brent Fewell commented that the next trading conference should address these types of issues. Lynda concurred, indicating these key issues should be discussed with examples of programs that successfully addressed them.

Q (by Linda Stoll): In the absence of TMDLs, what can be the driver for trading in addressing local water quality issues?

A: The settlement as a result of lawsuits filed against the state for slow TMDL development in West Virginia threatens to have EPA develop TMDLs for the state. Trading as an alternative to TMDL mandates is the driver for the state. However beyond that, drivers for trading are lacking.

Linda commented that Wisconsin now has both nonpoint source and Phase II regulations. When the enforcement of these regulations strengthens, they might provide a driver for trading.

Update on Pennsylvania's Multi-credit Registry

Andy Zemba from the Pennsylvania Department of Environment Protection (PA DEP) gave an update on Pennsylvania's multi-credit registry project. Last October, PA DEP issued a Request for Information (RFI) regarding establishing a multi-credit registry by the state. This is a result of



the secretary's interest in using trading to achieve results for Pennsylvania's many environmental challenges. It is the first ever RFI issued by the DEP. The RFI drew 10 responses, ranging from messages praising the DEP for the multi-credit idea to suggestions on design details (e.g., not to double count). PA DEP is currently interested in developing a nutrient registry for the Chesapeake Bay basin. There is a 2004 Watershed Initiative proposal submitted to accomplish this. No matter if it's funded or not, the state will move forward with the registry by doing preliminary work such as collecting information on the components of a registry. The state wants to have a nutrient registry that can be expanded to include other credits such as greenhouse gases. In answering Linda's question about what was the driver for the state to develop such a registry, Andy indicated that the Chesapeake Bay Agreement, which obligates each Bay state to make nutrient reductions, and the pending TMDL in 2010 if certain nutrient reduction milestones can not be achieved by then, are the drivers. Andy will send Mark Kieser related electronic files to post on the ETN website.

ETN's Future Role in Facilitating Trading

Mark Kieser asked the call participants to give suggestions on the role that ETN can play in trading in the near future and in the long run. He summarized ETN's two primary objectives: 1) as a Clearinghouse for trading (the January 2004 call topic) and; 2) as an active facilitator and leader in new trading efforts. Near-term efforts may include:

- Trading conference(s)
- Support for other developing/new trading programs
- Research efforts with partners to integrate multiple environmental credit options
- Development of infrastructure and tools to facilitate trading

and longer-term efforts may include:

- Managing large-scale demonstration projects
- Investment and brokering of tradable credits

Mark referred the call participants to two summaries he prepared for the call: Drivers and Barriers to trading (www.envtn.org/calls/Drivers-Barriers.pdf) and ETN Partnership Development Efforts (www.envtn.org/calls/Partner_efforts.pdf). He briefly went through the summaries and asked the participants to suggest items that the ETN can do to contribute to trading.

Lynda Hall commented on EPA's Targeted Watershed Grant program within the President's FY2005 budget request, indicating that \$4 M out of the total \$25 M program budget is devoted to trading projects. Although there are several months before the budget is approved by the Congress, Lynda encouraged call participants to formulate ideas and proposals early to take advantage of the opportunity in the event that the budget request comes through.

Claire Barker commented that cross-cut analysis on how those pilot trading projects got started and where they drew support to first start developing the projects would be valuable. ETN should pursue and post this information. Mark Scott concurred.

Brian Noyes suggested that ETN should disseminate information on the progress of agricultural practices that are environmentally friendly. This would draw attention of potential credit buyers to support the implementation of these practices and generate credits. One example he gave was the development of soil carbon as a performance unit. Related studies are currently under way in Virginia.

Craig Denisoff indicated that his company (Wildlands Inc.) and the Mitigation Banking Association would be interested in partnering with ETN in a not-for-profit form to promote trading.

Next Call

The next call is scheduled for 11:00 am EST, Wednesday, April 21, 2004.

Preliminary agenda:

1. Continue on today's discussion on ETN's future in trading.
2. Discuss ETN (GLTN)'s Great Lake Protection Fund's project on multiple markets and next steps.