

Talking Points for Ben, ~15 minutes

Trading, Banking, Partnering

**2nd National Water Quality Trading Conference
Wednesday, May 24, 2006 (Day 2)**

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Good afternoon. Water is America's greatest liquid asset. I am very pleased to have with us so many of the leaders and prospective leaders at this 2nd National Water Quality Trading Conference. As many of you know our first conference was in Chicago in 2003, and today's attendance of roughly 300 people is a clear indication that both interest and experience are growing. Sometimes 80 percent of success is showing up, and indeed we have all shown up and are ready for success.

I want to be sure and thank our USDA friends, and also remind ourselves that all sectors of our economy have a positive role in protecting and preserving our nation's waters. Trading is an opportunity to achieve those goals at lower cost and with greater involvement from all sectors.

Sustainable Infrastructure

The 2003 Drinking Water Infrastructure Needs Survey estimates more than \$277 billion in capital investment is needed over the next twenty years.

These are staggering numbers that indeed can create sticker shock. They represent infrastructure gaps and are real numbers with real challenges. We also are moving forward with water quality standards and TMDLs that more and more will require action.

Because our society cannot isolate infrastructure needs from water protection, US EPA has set as its priority what we call **Sustainable Infrastructure**. **Sally Collins talked about green infrastructure; at EPA we often talk about Sustainable Infrastructure.**

Partly it includes Better Management, which seeks to improve performance, lower infrastructure costs, and reduce risks by institutionalizing sustainable management practices across the water and wastewater industries. Trading provide an additional management tool for plant managers.

Full-Cost Pricing encourages drinking water and wastewater utilities to recognize the full cost of providing their services over the long term. Full-Cost Pricing is of course a basic need for any working market. Full-Cost Pricing is made easier when we can limit such costs via trading.

Watersheds are another aspect of Sustainable Infrastructure we often talk about. TMDLs numbering 20-30 thousand or more in the future will result in additional assessment of our watersheds, as will wadeable stream assessments. We see trading as a way to address the entire needs of a watershed -- not just isolated point source discharges. As we assess more of our watersheds, we are also building the knowledge necessary to foresee how trading can help make improvement at a lower cost.

Water Quality Trading

A principal advantage of water quality trading is the potential for a broader spectrum of our economy and innovations to be involved in the protection of drinking water and the streams, rivers, lakes, and bays that we all enjoy. Local water quality trading programs, supported by states, provide the structure for environmental markets. The driver for developing these markets is the need to meet water quality standards. The motivation is economics.

Most of you know well the projected savings from Long Island Sound and New York's "bubble permit," two existing programs valued at \$200M and \$660M cost savings respectively. The States in the Chesapeake Bay Watershed estimate point-to-point source trading for POTWs in the watershed could help reduced costs by \$1B, a full 20 percent. Virginia has recently enacted legislation which will "cap and trade" nitrogen for POTWs within each river basin that drains into the Chesapeake, thus the ball is rolling. Of course we heard a strong endorsement of trading in Pennsylvania from Katie McGinty.

More numbers: There are currently 93 NPDES permits that allow for trading that cover 233 facilities, and 9 trading programs in 7 states with successfully completed trades. Our FY 2007 goal is to increase permits that allow trading to a total of 122, roughly a 33 percent increase.

Stakeholders in each market set the trading rules and the framework under which the market will operate. As you will hear throughout this conference, trading is never to be used where doing so compromises existing standards.

Meeting these goals and establishing the rules requires trust by forming new partnerships, establishing new alliances, and bringing an open mind to the table.

Trading can be as simple as offsetting discharges from a single facility, or trading can be as sophisticated as a market place where buyers and sellers dynamically establish the lowest cost of pollution reductions.

We should remind ourselves that this is just the beginning. The work and energy you have invested to date represents policy innovation, which we believe opens the door to fiscal and technical innovation. Innovation, while exciting, often feels uncomfortable, but being here today with a diversity of sectors from our economy indicates the level of comfort is growing.

Ultimately trading must fit each unique circumstance as state and local trading projects move forward. This is why you being here sharing experiences is so important.

The leadership of USDA and the agricultural community is clear in their co-sponsorship of this conference, and shows that the concept of flexibly meeting our shared water quality goals via trading can indeed continue to expand. I want to thank Bruce Knight, Ross Braun, Carl Lucero, Sally Collins, Dana York, and Merlyn Carlson. US EPA and USDA are also working on a Partnership Agreement to advance water quality trading jointly. We want to better identify barriers, implement solutions, and track progress. We are also going to develop an awards program, giving recognition for efforts that overcome these barriers.

EPA Resources

US EPA's role in trading is to provide flexibility through policy, tool development, training, and grants.

The **2003 Water Quality Trading Policy** set into place the encouragement of flexible policies that meet the same water quality goal, but with greater participation by economic sectors at lower cost.

In 2004, the **Water Quality Trading Assessment Handbook** outlined four elements to determine the feasibility of trading in watersheds. The elements include environmental, economic, and technical factors that will influence the ability to create and sustain a water quality trading market.

Forthcoming will be the **Water Quality Trading Toolkit for Permit Writers**. The Toolkit provides NPDES permitting authorities with the tools they need to facilitate trading and to authorize and incorporate trading in NPDES permits. Although the Toolkit primarily targets state and EPA NPDES permitting authorities, it may also be useful to other stakeholders interested in water quality trading and the NPDES permitting process. There is a flyer in your registration packet telling you when it will be available for public comment and how to access it on the EPA website.

Additionally, in July 2006 the Conservation Technology Information Center will release **Getting Paid for Stewardship: A Water Quality Trading Guide for the Agriculture Community**. This is a cooperative agreement

funded by EPA. There is another flyer in your registration packet that tells you where to find it.

Watershed-based permits are a key element that can help drive trading. US EPA is currently working on three guidance documents to support watershed-based permitting. Together these documents will provide a framework for applying the watershed based permitting approach, a guide for developing a watershed-based permit, and a series of case study examples.

In 2007, The President's Budget Request included \$3M set aside for trading under the **Targeted Watershed Grants**. To date, Targeted Watershed Grants have provided \$10 M to support development of trading programs. In September 2006, EPA will also host a webcast to instruct how to write a good proposal for Targeted Watershed Grants and will be asking participants for input on the best selection criteria.

Wetlands Role

Wetlands are where rivers are born. The President's goal is to restore 3 million acres of wetlands by 2009, and we have achieved 1.8 million so far. US EPA is also funding research into wetlands restoration, construction and enhancement as a way of generating nutrient credits in trading programs. Wetlands have a potential to provide multiple benefits that include water quality, carbon sequestration to help mitigate Greenhouse Gases, wildlife habitat, nursery habitat for juvenile stages of aquatic organisms, flood control, and could be a source of income as public viewing areas.

A primary focus for today's audience would be wetlands as they help filter nutrients and sediment, and when incorporated into local trading protocols then used to generate credits.

There are several research and demonstration projects in the works that are worthy of mention:

The **Wetlands Initiative** is in the midst of demonstration projects to collect data on the efficacy of wetlands to assimilate nutrients in the Chicago area.

In the **Lower Boise basin**, constructed wetlands are one of the pre-approved BMPs (trades have not yet occurred in this basin).

The **State of Iowa** is encouraging farmers to construct wetlands to reduce nutrient runoff. While many of Iowa's projects are currently being funded through USDA, I'm hopeful that some day the projects will be part of a sustainable trading program.

Projects funded by US EPA include evaluation of a variety of approaches to reduce nutrient impacts to the **Great Salt Lake**; one of the approaches involves wetlands restoration and trading.

In addition, EPA is developing a research strategy to better understand the technical and economic aspects of wetlands creation, restoration, and enhancement in water quality trading programs.

Closing Remarks

Clearly the potential is abundant, and the resulting water quality improvements are exciting. EPA is providing the flexibility, the tools, the training, and grants to support current and future projects. All of the projects that will be discussed at this conference share a common characteristic: trading requires local champions to make it happen.

I started out thinking of America as highways and state lines. As I got to know it better, I began to think of it as rivers. America is a great story and there is a river on every page of it.

Trading is not on every page. But trading is a major player in the new chapter of cooperative conservation and environmental stewardship, as is mitigation banking. They are here to stay. Political opportunities come and go but sound science and solid policy endure.

I look forward to the next trading conference. The numbers will hopefully double to 600. Success will be measured not by whether you show up, but by what you show and where you go. Trading will show results and get us closer to cleaner, safer, more secure water.