



Great Lakes Trading Network

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

July 24, 2001 Conference Call

Representatives from the South Nation Conservation Authority, Environmental Financial Products, Ltd., Kieser Associates, Fox Wolf Basin 2000, the Minnesota Pollution Control Agency, EPA's Office of Water and National Risk Management Research Laboratory, the World Resources Institute, Allegheny Energy and EPA Region 10 participated on the call. Dave Batchelor (Michigan Department of Environmental Quality) chaired the call.

The June 5 conference call summary was approved. The final version is attached.

The group welcomed Mary Ann Wilson, Director of Operations for the South Nation Conservation Authority (SNCA) in Ontario, Canada. She told the group about the Conservation Authority Act that was enacted to allow municipalities to create watershed based Conservation Authorities. The SNCA is one of roughly 30 authorities that manage water quality and resource programs in the province of Ontario. The authorities are formed by a consensus of municipalities in the watershed. They operate through a board of directors representing the municipalities. Conservation Authorities cover 90% of the populated areas in the Great Lakes, St. Lawrence seaway and Ottawa River in Ontario.

The authorities levy fees, based on population and geographic area, to support water management initiatives. The Province provides less than 10% funding for flood management projects. Fees are also collected for construction certificates along waterways and in floodplains. Other fees for recreational programs, grants and private donations constitute the largest sources of funding. Watershed programs focus on flood control, planning, control structures, natural areas, wastewater management, tree plantings and educational programs.

The SNCA is currently considering trading to offset growth as part of a Phosphorus Management Program. The million-dollar project involves approximately 1500 sq. miles. There are 17 wastewater lagoons and non-point source loadings constitute less than 7% of the total loading to the area. New loads are restricted by regulations, thus limiting development. Phosphorus trading to offset new loads that can't be avoided is currently being considered. A 4:1 offset ratio brings the cost of phosphorus credits in at \$300 / kg (\$136 / LB). This includes delivery (administration and transaction) costs. Basically the program work like this. The authority grants farmers funds to implement measures to reduce phosphorus loadings. Models are used to determine edge of field (soil loss equation) and delivery (AGNIPS) ratios. The farmers implement reductions with reductions (credits) going to the authority. The credit price is set and credits sold by the authority.

There was a brief discussion of this program. One observation made was that the price of credits under this program would exceed the \$70 to 150 / kg cost of phosphorus control in the US. Some parallels were drawn to the Cherry Creek program in Colorado. The GLTN offered its assistance to the SNCA.

Developing Markets to Manage Ecosystems

Dave and Mark presented an overview of the Multiple Markets project that has been funded by the Great Lakes Protection Fund. Dave provided background on the formation, evolution and direction of the GLTN. The Phase I planning grant for \$ 155,000 will be used to maintain the GLTN monthly calls and website for the next year. During the first six months of the planning grant, market research and a business model development will be conducted by the co-principal investigators and paid collaborators (Project Team) in conjunction with and through the GLTN at large. Paid collaborators include the World Resources Institute (WRI), Environmental Financial Products, Ltd. (EFI), the Wetlands Initiative and the law firm of Miller,



Canfield, Paddock and Stone. Articles of incorporation as a non-profit tax-exempt organization will be filed at the end of the planning grant period.

If research shows that multiple markets are feasible, Phase II would involve using the newly incorporated GLTN to implement a multiple market demonstration project. This would be done through and working with programs and projects in the GLTN. The last phase (Phase III) of the project would be a self sustaining GLTN as determined by the outcomes of Phases I and II.

Mark emphasized that the planning grant will be conducted by working closely with the GLTN at large. Information and work products will be shared, input solicited and information disseminated through monthly calls and the website.

The planning grant timeline calls for the business plan and multiple market feasibility study and articles of incorporation to be completed by the end of the year. The business model for the structure, organization and non-profit status of the GLTN will be drafted for review by the GLTN around the end of September or early October. This draft plan will be finalized with input from the GLTN before the final report is submitted in December. There will be periodic Project Team meetings and conference calls involving the GLTN throughout the course of the project to maximize input and dissemination of work products and information.

After the brief presentation, there was a period of discussion. Linda Stoll (FWB) described the roadblocks that have come up when the concept of allowing additional credits to be generated by wetland mitigation and emission reductions associated with implementing phosphorus reductions under a TMDL. The Wisconsin Department of Natural Resources does not support this concept. Jim Klang (MPCA) expressed the concerns that regulatory agencies have about first achieving reductions needed to achieve water quality standards with very limited staff and resources. Linda also noted that a 2:1 trading ratio does not appear to be workable in the Rock River watershed. The cost of point source controls is close to the cost of non-point source reduction costs up to a control level of 1.0 mg/l. Trading at a 2:1 ratio to get below a 1.0 mg/l level would likely be economically attractive to some of the point sources.

Mark made a key observation. The discussion (above) shows the value of the GLTN in helping people discuss strategies to meet interim water quality goals. It also shows the potential and raises the question as to whether markets can be developed to go beyond the regulatory programs that are currently being implemented. The value added by the GLTN is the exchange of information and neutral forum to discuss policy and program issues.

The next conference call is scheduled for 11:00 AM on Monday, August 13, 2001. Topics for discussion are welcome.