



Great Lakes Trading Network

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

DRAFT

September 25, 2002 Conference Call

Representatives from the following organizations participated in the conference call: U.S. EPA's Office of Water (Dave Batchelor), Region 10 (Claire Schary), and National Risk Management Research Laboratory (Terri Hoaglin, Punam Parikh); Ohio EPA (Gail Hesse); Kieser & Associates (K&A)(Mark Kieser, Nicole Ott); Virginia Water Conservation District (Jim Wallace, Brian Noyes); Minnesota Pollution Control Agency (Jim Klang); Resource Strategies, Inc. (Joe Kramer); Washington Suburban Sanitary Commission (Cy Jones); West Virginia Department of Environmental Protection, (Randy Sovie). Mark Kieser chaired the call.

GLTN Incorporation

The GLTN will be incorporated as a non-profit entity with two major goals: to continue serving as a clearinghouse for trading-related information and to foster existing and emerging markets. The draft final set of edits on the Articles of Incorporation and the purpose statement suggested a new name for the GLTN: the National Trading Network. However, participants felt that the new name should reflect environmental improvement or services. The name needed to be more specific so that individuals and groups unfamiliar with the Network could locate its web page through an internet search engine. Additionally, a generic name may cause the site's server to become overloaded, as web users interested in other types of trading would be drawn to the site. It was also decided that the term "National" should not be a part of the name, because the geographic scope of the Network currently encompasses Canada, as well as the United States, and because air markets are operated on a global scale. The name "Environmental Trading Network" was agreed upon by the participants.

It was suggested and agreed upon that the first sentence of the purpose statement include the word "quality", so that the Network's goals are to utilize market based mechanisms to improve water quality, air quality and wildlife habitat. Further, the purpose statement of the Emissions Marketing Association (EMA) was recommended for comparison to the Network's draft statement, so as to ensure that they do not share too many similarities. The Network's mission should be unique from that of the EMA, primarily so that foundations can distinguish between the two groups when reviewing grant applications. The Network's primary distinctions from the EMA are its focus on water quality trading and its management of projects.

The question was raised as to whether the Network could receive and distribute grant funds. The 501(c)(3) status can be maintained as long as the monies fund projects that have a public benefit.

There was some discussion over whether the Articles of Incorporation should dictate the use of performance bonds. They might not be necessary for research oriented projects, but may be needed for brokering trades. Jim Klang indicated that under a revision of the Minnesota River TMDL, construction of waste water treatment plant upgrades requires bonds. Those plants purchasing credits would need a bond to assure that those reductions were real and maintained at least minimally over the term of the permit. As bonds may be relevant only to specific projects, they may not need to be mentioned in the Articles. However, if a certain function of the Network is not now specified in the Articles, can the Network still perform that function? The Articles were written with broad scope, so that the future role of the Network could remain flexible. However, the ability to broker trades and to issue performance bonds may need to be specified (now or in the future). Mark Kieser will seek attorney input on this particular point.

There was also a question regarding the Network's ability to own real estate. The rules regulating the purchase and sale of property by a nonprofit organization can vary by state. In Michigan, where the 501(c)(3) application will be filed, the Network should be able to own property to generate credits but Mark will ensure that this too is clarified with the attorney.

Farm Bill Grant Funds

Dave Batchelor suggested that the Network be poised to facilitate the funding of implementation projects managed by Network members through the \$100 million available annually for 10 years through the recently reappropriated Farm Bill. However, it is currently not known when the monies will be available. NRCS still has to develop the procedures for administering those funds. Though proposals have not been solicited, some are already being drafted. For example, the Chesapeake Bay Working Lands Nutrient Reduction Plan has been signed by each governor in that watershed. Those that are interested in applying for funds should engage their state conservationists now. The USDA operates from both the top down and the bottom up. Therefore, interest in the funds at the state level may facilitate their distribution.

USEPA Trading Policy

Dave Batchelor provided an update on the progress of the trading policy. Sixty comments were submitted. The environmental community expressed opposition to some specific points in the policy, but also supported some aspects of it. The Office of Water has been working with these groups and has made some changes to the policy that they are likely to support. There was concern that the policy may backdoor the watershed rule, which will have provisions to allow trading. The reallocation provision is being extensively debated. It will be achieved through permitting, as opposed to a formal re-write of the TMDL. Flexibility will be allowed from the start of the TMDL process for those who aren't aware they will need to trade to meet reductions or for those who aren't aware of the appropriate margins to utilize for the trades. The goals of the current policy revisions are to maintain the integrity of the TMDLs, to allow flexibility and to assure that the TMDLs are implemented properly.

Trading in West Virginia

Randy Sovie updated the Network on West Virginia's draft trading rules. The rule development is a stakeholder process which had its kick-off meeting on April 10, 2002. The second meeting was in July, 2002, and the first working session occurred a few weeks prior to the conference call. The new state anti-degradation rules have incorporated trading related language to improve water quality.

Trading in the Chesapeake Bay Watershed

Cy Jones provided a summary on efforts to promote trading in the Chesapeake Bay Watershed. The USEPA Chesapeake Bay Program Office developed trading guidelines within the last 2-3 years. However, little has taken place following their development. Lisa Bacon, of CH2MHill, concluded in a Water Environment Research Foundation-funded study that a 30% cost savings could be realized in the State of Maryland if trading were used to meet nutrient reduction goals rather than typical, more traditional approaches. New water quality standards for dissolved oxygen, water clarity and chlorophyll-*a* are now being developed for the Bay. In 1988 nitrogen loading to the Bay reached 338 million pounds annually. The 2000 goal was to reduce this amount by 53 million pounds annually and was close to being met. However, it has since been determined that a further reduction of 80 to 200 million pounds per year is needed. Various tiers of action will be pursued to reach this reduction, including the use of permitting to force technology applicable to point sources to meet a nitrogen effluent concentration of 1 mg/L. Waste water treatment plants have been described as "nitrogen-spewing" in the media, which creates a negative perception and increases public support for the reduction of effluent limits through technology. In reality, point sources have been estimated to account for less than twenty percent of the nitrogen load to the Bay. The Maryland Department of the Environment is not devoting any resources to trading, and there is no funding to build plants that can meet the 1 mg/L concentration goal.

The next conference call is scheduled for Wednesday, October 23, 2002 from 10:30 to noon, EST.