

Water Quality Trading

Wisconsin Government Affairs Seminar
Water Quality Trading
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What is Water Quality Trading?

- Allowing one entity with a surface water discharge to remove additional pollutants while allowing another to discharge more.
- Under an agreement between the two parties involved in the trade.



Who can trade?

- Point to Point
 - POTW to POTW
 - POTW to permitted MS4
- Point to Nonpoint
 - POTW to Agricultural source
 - POTW to urban nonpoint source
- Others: Nonpoint to Nonpoint



What are the Benefits?

- Can provide a more cost-effective means to meet water quality goals



EPA Water Quality Trading Policy

- Draft Framework for Watershed-Based Trading. May, 1996
- Water Quality Trading Policy. Jan. 2003
- Water Quality Trading Assessment Handbook. Nov. 2004
- <http://www.epa.gov/OWOW/watershed/trading.htm>

EPA Policies on Trading

- Must be consistent with Clean Water Act
- Trading area must be the same watershed
- Nutrients (N and P) and sediment and other oxygen-related pollutants preferred
- “Credits” can only be generated for reductions greater than regulation or TMDL baselines
- Can't trade to meet a technology based requirement

State Law

- 1997, Act 27 allowed trading of pollution credits (s. 283.84 Wis. Stats.)
 - Trades implemented under DNR administered pilots
 - Allows POTW to discharge above WPDES permit levels if:
 - Reaches agreement with a point source
 - Reaches agreement with a nonpoint source
 - Works through a broker (DNR or local government)

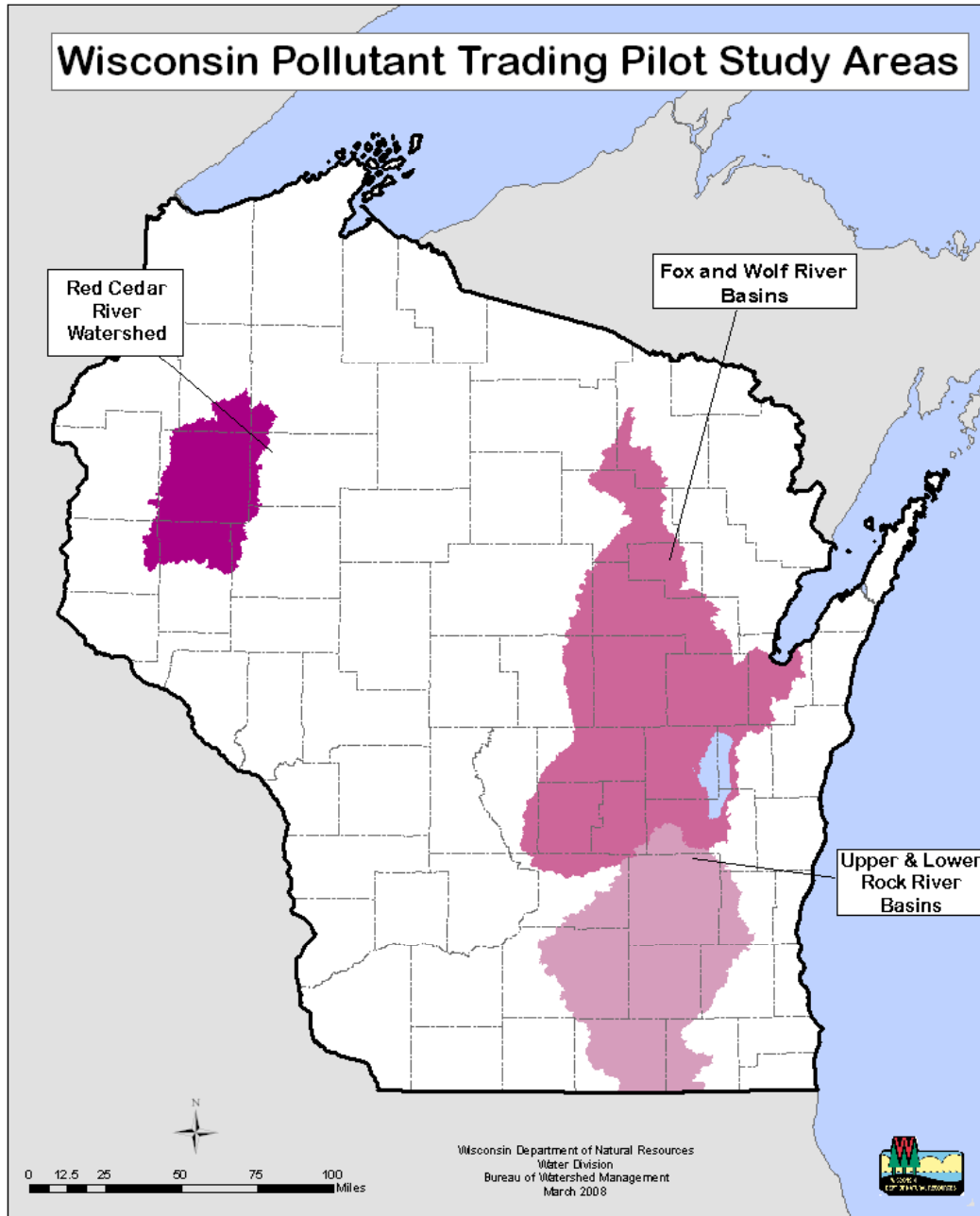
State Law

- Must meet all the following:
 - Trade must improve water quality
 - Trade must be for same pollutant or same water quality standard
 - Term of trade not to exceed 5 years
 - Area selected meets the following:
 - Watershed includes impaired waters
 - Watershed includes both agriculture and municipal sources
 - Potential participants are interested.

State Law

- Local Advisory Group Required
- Mining sites cannot trade
- Permits shall be modified to allow trades
- DNR has to provide an annual report on the progress of the pilots
 - <http://dnr.wi.gov/runoff/pt/>


Wisconsin Pollutant Trading Pilot Study Areas



Actual Trades from Initial Pilot Projects

- No trades in Rock River or Fox Wolf
- Trade in Red Cedar Watershed
 - Trade involved Cumberland POTW and agricultural nonpoint sources.
 - Cumberland is going on 3rd permit with a trade included
 - County LCD was the broker

Overall Lessons Learned

- Administrative costs are significant
County LCD in best position to broker
 - POTW load in the watershed has to be low
 - Cost differential between point and nonpoint controls has to be high
 - Need a defined set of tools to quantify loads from nonpoint sources and BMP efficiency
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Can there be more pilots?

- DNR was required to administer one pilot
- DNR set up three pilots
- Funding was initially provided to assist in the effort
- Money was used for monitoring, studies of ag BMPs, staff time, trading workshops, etc.
- Additional pilots are up to the discretion of the DNR.

Challenges to Developing A Trading Framework

- Technical:
 - Trade ratios
 - Geographic targeting
- Economic
 - Cost per pound reduced for point and nonpoint
- Legal/Regulatory
 - Length of trade – 5 year term cap
 - How will permit be modified – who is responsible for compliance?
 - Can there be downstream trades (e.g. remover is downstream)?
 - Trust between trading partners

Challenges – Cont.

➤ Administrative/Institutional

- Point to nonpoint negotiations
 - May need a mediator
 - Legal work – trading contract
- Broker
 - Can act facilitator
 - Handles money exchange
- WPDES Permit modified by DNR – public review process

Opportunities for Trades

- To meet water quality based effluent limitations for pollutants such as BOD or phosphorus
 - WDNR currently working on a phosphorus water quality standard
- To meet TMDL
 - Can trade with nonpoint sources below LA
 - Can trade with point sources below WLA
 - New source to an impaired waterbody