

INNOVATIONS IN WATER QUALITY TRADING: SIGNIFICANT TOOLS, SIGNIFICANT PROGRESS

PROJECT SUMMARY: In 2013, Willamette Partnership and its partners from The Freshwater Trust, the States of Idaho, Oregon, and Washington, and US EPA Region 10 received an Natural Resources Conservation Service (NRCS) Conservation Innovation Grant to make it faster and easier for states to support water quality trading (WQT)—a flexible approach for permitted entities (e.g., stormwater and wastewater utilities, transportation infrastructure) to save money, meet clean water goals, and support a vibrant local economy.

We’ve done that—locally, and nationally. Clear, practical, and defensible policy at the state level gives regulatory agencies what they need to write permits that allow trading to occur, and gives permittees the confidence that they need to invest rate payer dollars in a green infrastructure option. The project team built policy and technical approaches that have been shared across the state agencies in the Pacific Northwest and across the country. In the last four years:

- Four states have used products from this project to build state trading policies;
- The National Network on Water Quality Trading formed and published a comprehensive guidebook on trading program design; and



Figure 1. Logic model for project impact

- The Association of Clean Water Administrators (ACWA) with Willamette Partnership released a toolkit of WQT policy templates for states.

These policy innovations have made it easier for regulators, permittees, and landowners to build programs that invest compliance dollars in conservation that gets results, saves money for rate payers, supports local economies, and provides multiple additional benefits to soil, air, and wildlife.



Figure 2. Map of the project’s products and impacts of the policy and process innovations.

Water Quality Trading

What is Water Quality Trading?

Water quality trading is a mechanism to help achieve local water quality improvements. Trading allows sources with very high costs of reducing pollution to negotiate equal or greater pollution reductions from sources with lower cost. For example, in a water quality trading program, a city's waste water facility can work with farmers and landowners to reduce sediment by implementing conservation practices such as installing livestock exclusion fencing along stream banks. Facilities then pay for the water quality benefits resulting from these practices as a way to meet their own clean water requirements.

This is the most basic value proposition for water quality trading, economic efficiency – cleaner water at a lower cost.

One Tool, Multiple Benefits

Water quality trading programs provide multiple benefits. For permittees, trading provide flexibility in how they achieve pollution reduction targets and cost savings to their rate payers. For landowners, trading provides an opportunity to fund conservation measures that go above and beyond what is required, supporting the rural economy and stewardship of the land. Trading also provides "co-benefits" to the environment, like habitat for fish and bird species and reduced streambank erosion.

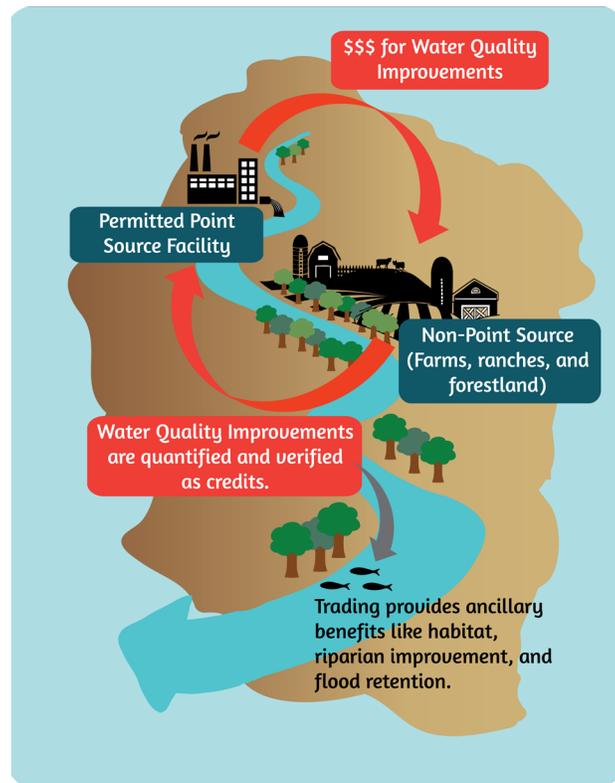
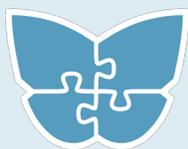


Figure 3. Basics of water quality trading.



**WILLAMETTE
PARTNERSHIP**

Who is Willamette Partnership?

Willamette Partnership is a conservation nonprofit dedicated to solving complex environmental problems in ways that work for people. We are known for helping state and federal natural resource agencies, businesses, and conservation interests take advantage of opportunities to achieve conservation and economic outcomes. We work throughout the western U.S. with a focus on the Pacific Northwest.

NRCS Conservation Innovations Grant Program

This project was funded through NRCS Conservation Innovation Grants (CIG). CIG is a competitive grant program that stimulates the development and adoption of innovative approaches and technologies for conservation on agricultural lands. Through CIG, NRCS partners with public and private entities to accelerate technology transfer and adopt promising technologies.



**United States
Department of
Agriculture**

Natural Resources Conservation Service

The Process

We believe the regional recommendations could result in the states developing regionally consistent and robust guidance to help ensure water quality trading programs have the quality, credibility, and transparency necessary to ensure water quality improvements are achieved.

--Dan Opalski, Director of Office of Water and Watersheds, EPA Region 10

Timeline

Action

Impacts

2012

Project kickoff and convening state agency partners

2013

Convene Northwest and National partners to develop shared WQT tools and policy recommendations

Build common language, sources of information, and understanding of WQT between states and EPA.

2014

Joint Regional Recommendations released:

- Oregon and Idaho begin updating state policy.
- Idaho begins revising the Lower Boise River WQT Framework.

States are supported for faster, defensible updates to WQT policy.

Common playbook, vetted with diverse stakeholders, for states to build trading programs.

2015

National Network releases Options and Considerations Guide. Stakeholders apply the guide in program development in CA, MO, ID, WI.

Strengthen Oregon's regulatory framework, give certainty to buyers and landowners.

Oregon finalizes WQT rule.

2016

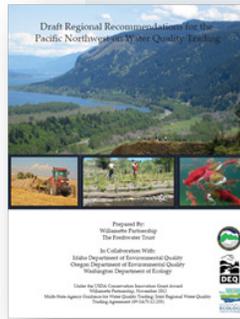
ACWA and Willamette Partnership release state WQT toolkit. CA and AK apply toolkit.

Faster and easier to develop defensible state policy supporting trades.

Idaho finalizes state guidance.

Strengthen Idaho regulatory framework, give certainty to buyers and landowners.

The Products



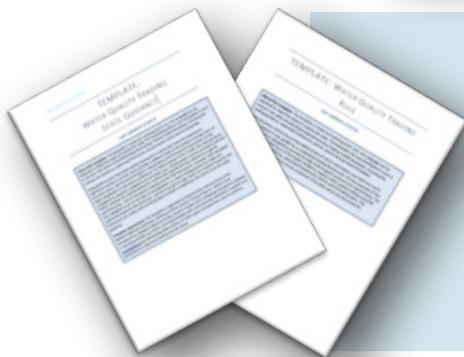
Joint Regional Recommendations

Recommendations on the development of water quality trading in the Pacific Northwest. These recommendations were piloted in ID and OR and became a starting point for the National Network guide.



National Network Guide

A dialogue of producers, environmental groups, regulatory agencies, utilities, and practitioners built a comprehensive reference guidebook for each of the elements important to trading. The National Network Guide includes thorough references and represents exhaustive conversations on the details of each element from different viewpoints.



ACWA & Willamette Partnership State WQT Toolkit

The Association of Clean Water Administrators and Willamette Partnership built a toolkit that lets states easily translate the National Network Guide into state policy documents, including:

- State rules and guidance,
- Permits and trading plans,
- Watershed trading frameworks.

I can't tell you how appreciative I am of the work you have done (and continue to do) with the National Network and ACWA. I feel I may be the epitome of your target audience. The Toolkit and the Options and Considerations documents are such excellent resources. The fact that I am relying on them to develop the next generation of our Laguna framework is a source of comfort for my management team and board members.

-- David Kuszmar, North Coast Regional Water Quality Control Board, Watershed Protection Division, TMDL Unit

RESULTS:

State Policies based on Recommendations, Guide, and Toolkit

There are now several examples of states using these policy innovations to advance trading in OR, ID, CA, WI, and MO. Other states are actively using the tools to form their policies and trading programs.

Looking Ahead

Remaining Challenges

Is the juice worth the squeeze?

This project did a lot to clarify the steps, language, and elements of trading, but there are a lot of local decisions that need to be made and skepticism about trading to overcome.

Oregon's rulemaking process was met with skepticism from environmental groups seeking strict nonpoint source baselines, utilities who worried about complex reporting, and producers wanting to ensure trading didn't impose new regulatory expectations.

Trading programs need and want to be responsive to local environmental, economic, and social conditions, which means that it is still hard to launch and sustain programs. The tools and resources developed here have made it faster and easier to develop a trading program, but it will still take time and effort by local stakeholders. That effort may be difficult to justify for the sake of lower cost regulatory compliance without additional water quality improvements and economic benefits.

Making trading normal

There are continued barriers to making trading a normal part of a permittee's compliance options. We were not able to establish a go-to regional quantification tool for nutrients or temperature, and the use of trading for Clean Water Act compliance has not been affirmed in the courts.

Recommendations

States need to be leaders

Opportunities for trading will be built at the state level. State agencies need support from their utilities and agencies, like USDA, to make time within hectic jobs and limited budgets to advance trading.

Quantification is next choke point

States have policy and process templates. Applicable, defensible, and usable quantification tools are the next place to reduce start-up costs and increase consistency.

Whole watershed solutions are cool

Talking about significant progress to water quality goals brings stakeholders together more effectively than talking about cheaper regulatory compliance alone. If we can link trading with watershed-scale water quality goals, regulatory certainty for landowners, and conservation finance, we may get much more energized stakeholders. Similarly, targeting BMPs that create multiple environmental, economic, and social benefits may help rise above some of the legal quarrels related to trading under the Clean Water Act.



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