

**Discussion Paper:  
Considerations for Interstate  
Trading and Offsets in the  
Chesapeake Bay Watershed**

Water Quality Trading and Offsets

U.S. EPA Region 3 Water Protection Division

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## **Purpose of the Paper**

Raise issues to be considered by jurisdictions and stakeholders in the Bay watershed interested in exploring or establishing trading and/or offsets across state boundaries.

It is not a technical memorandum.

## **What are the Technical Memoranda**

The memos provide the Bay jurisdictions with a framework for determining if trading and offset programs meet EPA expectations within the Bay watershed.

The memos were in response to findings made during a 2012 review of jurisdictions trading and offset programs.

Trading and offset 'expectations' pertain to the participation of an NPDES permit holder, and their permit limits traceable to the Bay TMDL.

For example, Virginia's nutrient trading program for offsetting post-construction stormwater runoff is outside the scope of the technical memos since the buyer and seller are both non-point sources.

Even though we refer to such examples as trading, there is much more program design flexibility since the memos (and EPA's national trading policy) do not apply.

## **Interstate Discussion Paper**

RTI International was contracted to identify relevant concepts and terms from the literature.

EPA wrote a few sections unique to the Bay TMDL.

As with the nine Technical Memos, EPA HQ, Bay jurisdictions, USDA, and TOWG all provided feedback.

Only three major river basins span more than one jurisdiction

- Susquehanna (NY, PA, MD),
- Potomac (DC, MD, PA, VA, WV), and
- Eastern Shore (DE, MD, PA, VA).

Inter-basin trading (across basins) may be possible for basins where there is room for load exchanges and demonstration water quality standards would still be met.

# What if each state has its own rules?

Unilateral approach - Essentially all trades are one-way trades.

Bilateral approach - Two programs establish an agreement that allows for credits to be traded in both directions between their programs.

Home Rule Approach - Credits entering State A from outside the state must meet the rules of State A.

External Recognition Approach – Credits entering State A may meet the rules of State B; essentially the opposite of the home rule approach.

Combined Approach – Mix of various features above.

Third Party Approach – Two states create a process to craft interstate trading rules unique to interstate trading.

<b><u>Policy Decision: Credits generated using assumptions and requirements or using seller's baseline?</u></b>	<b>Are the assumptions and requirements in the buyer's permit more stringent than the seller's baseline?</b>	<b><u>Will the buyer's permit be satisfied?</u></b>	<b><u>Will the seller's TMDL goals be satisfied?</u></b>
Scenario 1: Use assumptions and requirements of buyer's permit	Yes	Yes	Yes (over satisfied)
Scenario 2: Use assumptions and requirements of buyer's permit	No	Yes	No
Scenario 3: Use seller's baseline	No	Yes (over satisfied)	Yes
Scenario 4: Use seller's baseline	Yes	No	Yes



## **APPROACHES FOR HARMONIZING PROGRAMS**

- Eligible Practices for Generating Credits
- Requirements for Credit Certification, Verification, and Trading.
- Trading and Other Ratios
- Baseline and Credit Calculation

## **PROVIDING TRANSPARENCY: CHESAPEAKE BAY WATERSHED MULTI-JURIDICTION**

Discussion of the Chesapeake Bay Nutrient Trading/Tracking Tool (CBNTT).

That's a quick overview of the discussion paper.

Thanks for listening.

**Question?**