Trading Framework Concepts
NSAB, June 6, 2017

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Disclaimer...

• Preliminary thoughts for feedback and discussion
• No permanent decisions yet
• Significant policy shifts may be desirable to stimulate trading activity.
• We’re not endorsing any new policy approaches today, but some “what if” scenarios.
Existing Trading Programs

- PS-PS (active)
  - Wastewater allocation trading
  - Bubble permits, associations
  - Nutrient credits required for cap exceedances
- NPS-NPS (active)
  - Demand from new development
  - Supply from mitigation banks
  - Typically restoration of riparian buffers
- PS-NPS (rare)
  - Potential demand from WWTP
  - Options provided in strategy rules
  - TPBA agreement with DEQ/DA&CS

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Revisiting Terminology

- Nutrient load reduction credit: credit for reductions from baseline
  - Credits as currency
  - Nutrient offset credit: permanent
  - Nutrient exchange credit: term, renewable
- Nutrient allocation credit: allows for increased permit allocations
- Nutrient reduction practices
- Nutrient reduction projects
Expanding Trading Options

- New supply and demand from local governments
- Expanding the nutrient toolbox (in progress)
  - Catalog of Nutrient Reduction Practices
  - Nutrient reduction practices and projects
- Revision of nutrient offset rule (in progress)
- Readoption of J/F trading rules (future)
- Recommendations regarding new legislation or rules if warranted (future)
## Proposed credit structure

<table>
<thead>
<tr>
<th></th>
<th>Nutrient offset credit</th>
<th>Nutrient exchange credit</th>
<th>Nutrient allocation credit</th>
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</thead>
<tbody>
<tr>
<td>New development nutrient reductions</td>
<td>X</td>
<td></td>
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</tr>
<tr>
<td>Existing development nutrient reductions</td>
<td>X</td>
<td>X</td>
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<tr>
<td>Point source reductions</td>
<td>X</td>
<td>X</td>
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<tr>
<td>Point source allocations</td>
<td>X</td>
<td>X</td>
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</tbody>
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Market Players

• Potential demand
  • Developers (new d rules)
  • Point sources
  • Local governments (existing d rules)

• Potential sellers
  • Mitigation bankers
  • Agriculture
  • Local governments
  • Other private parties or corporations

• Regulatory
  • Federal, state, local oversight
  • Consultants, inspectors, market administrators...

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Trading Framework: Practical Issues

• Clarify new relationships between trading and NPDES permitting process.
• Provide a transparent, secure, and accessible market.
• As simple as possible (but no simpler)
• Minimize transaction costs
Trading Framework: Practical Issues

- Financing expanded trading infrastructure
  - Legislation necessary to authorize fees
- Ongoing verification, tracking, and transfer of credits
  - Audits/renewals
- Training, technical assistance
- Timing of credit generation and redemption
Trading Framework: Policy Issues

- Preserve current trading options
- Agriculture rule concerns
  - Existing regulatory obligations
  - Adoption premiums
- “Fair, reasonable and proportionate” standard
  - Price equity vs. high trading volume
- Preventing hotspots

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Trading Framework: Policy Issues

- Securities regulations?
- Further delegations to local governments?
- Clearly apportion risk (buyers, sellers, public)
- Trading ratios
  - Insurance, improvements, credit certainty...
Trading Framework: Testing Scenarios

• Farmer generates and sells credits
• Developer overtreats stormwater to sell credits
• Non-permanent credits sold for existing development
• PS-PS nutrient allocation trading
• PS purchase of NPS credit, cap exceedances
• Ag buffer restoration by mitigation bankers
• New practice undertaken by mitigation bankers
• New practice undertaken by farmers
• TPBA/DWR/DACS trading agreement
• Others?
Trading Framework: Deliverables

- Rules readoption - nutrient offset rule
- J/F rules readoption
- Catalog of Nutrient Reduction Practices
- Trading framework (policy guidance)
  - Recommend new legislation?
  - Recommend rule adjustments?
- Market platform(s)?
  - DWR, WTM, Markit...
Questions from DWR?

• What type of content would you like to see us address in the trading framework?
• What barriers are you concerned about with regard to nutrient trading?
• Outside of North Carolina, what models for trading are attractive and what do you like about them?