

Water Policy Report

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INDUSTRY GROUP DEVELOPING FIRST-TIME REGIONAL NUTRIENT TRADING PLAN

An electric utility research group is moving to implement a multi-state nutrient water quality trading program in the Ohio River basin — a program that sources say may have a better chance of succeeding than efforts in other watersheds because the program is starting with an interstate focus and the support of regulators.

The program, developed by the Electric Power Research Institute (EPRI), would be the largest water quality trading program in the United States, sources say, and would cover both point and nonpoint sources of pollution, including wastewater treatment plants, electric utilities and agriculture. It could potentially help reduce the size of the Gulf of Mexico's so-called dead zone.

A source with EPRI says the program's inclusion of nonpoint sources — which are not regulated under the Clean Water Act (CWA) — is a key element to the nascent program's success, since it would provide an incentive to farmers and other nonpoint sources to participate by using a variety of relatively low-cost best management practices, such as reducing the amount of fertilizer used, adjusting crop rotation patterns or installing runoff buffers like woodlands or wetlands between tilled acreage and rivers and streams. Those offsets could then be sold to point sources as a means of satisfying their CWA requirements, instead of installing costly nutrient reduction infrastructure, while achieving the same net reduction within the basin.

EPRI has been working over the past year with state, industry and agricultural stakeholders to explore the feasibility of creating an interstate trading program and develop program details. The recent awards of EPA and Agriculture Department (USDA) grants specifically focused on developing nutrient trading are assisting EPRI in starting to implement the program this week, sources say. EPA focused its 2008 Targeted Watershed Grants Program on developing a nutrient trading program in the Ohio River and two other Mississippi River subbasins as a way to reduce the size of the Gulf of Mexico's dead zone (*Water Policy Report*, June 23, 2008). The USDA grant is a Natural Resources Conservation Service conservation innovation grant focused on developing agricultural credit calculation tools for water quality trading.

During the Bush administration, EPA was pushing states in the Chesapeake Bay region to integrate their state-level nutrient trading programs into a interstate program. But states asked EPA Region III to hold off due to concerns that the complexity of allowing trades between state programs that have widely varying rules would hamper the individual state programs, which were just getting under way (*Water Policy Report*, June 25, 2007).

The state programs in Bay watershed have also struggled, with wastewater treatment plants in Pennsylvania wary of buying credits from agricultural sources because there is no way to guarantee the credits will be available in the future — resulting in the need for infrastructure upgrades anyway (*Water Policy Report*, March 3, 2008).

One of the differences between the EPRI program and other interstate trading pushes, however, is the involvement of state officials through the Ohio River Valley Sanitation Commission (ORSANCO) and nonpoint stakeholders, including agriculture organizations, according to an EPRI source. ORSANCO is a multi-state water quality management commission whose members are comprised of representatives from member states' environmental agencies.

“One of the first steps is getting an interstate agreement on working together to create an interstate system,” the source says. “But we're progressing together, so we don't face some of the challenges they have in the Chesapeake Bay.”

An ORSANCO source says the reason this program will work is that all state agencies are members of the commission, “so we have the state authorities at the table and we're growing out working relationships with agricultural and conservation agencies.”

ORSANCO has been involved in the trading program's development since it was launched last year and has been interested in a water quality trading program of some kind for six or seven years, the source says. While there are smaller intrastate trading programs already in operation or development in the Ohio River Basin, the EPRI proposal is the first to approach trading on an interstate basis, ORSANCO and EPRI sources say.

The EPA and USDA grants to EPRI total \$1.3 million to implement the program over the course of the next year. That will involve developing the governance structure and signing a formal memorandum of understanding between the member states so that the program will not have to permanently rely on government subsidies to make it function after the first few years.

“We want it set up so that we don't have to rely on long-term subsidies, so it's market-based and can stand alone,” the EPRI source says. “But we have 10,000 point sources and some 20,000 farmers, so getting everyone to agree on certain aspects is the overarching challenge to this overarching effort.”