

# Pollutant Trading 101- A Tool for Improving Water Quality in Idaho

## Questions and Answers about Trading

*Q: What is Pollutant Trading?*

A: Trading is one strategy to reduce problem pollutants (like total phosphorus) from rivers and lakes. Trading allows a wastewater treatment plant, factory, or other point source discharger to purchase controls of a particular pollutant elsewhere in the watershed instead of installing tighter controls for that pollutant at his or her plant. The conditions of trading must be included in the point source dischargers NPDES permit.

*Q: Who can participate in Trading?*

A: Trading occurs between point source dischargers typically, but can occur between point source and non point sources if specific analysis and measures have been identified in the watershed.

*Q: Why would pollution sources want to trade?*

A: Trading may save dischargers money. The intent is to achieve expected reductions of a problem pollutant at a lower cost.

*Q: What are the benefits of Trading?*

A: The potential exists in some watersheds for cost savings, it is an incentive to reduce pollutants beyond the current limits, it is an incentive for technological innovation, the emphasis is on water quality improvement, and under certain conditions it affords the opportunity for independent groups to purchase and retire pollutant discharge credits.

*Q: What are the problems with Trading?*

A: Enforceability is the key. This is why trading with non point sources like agricultural entities or canal companies are difficult. Point sources are regulated through their NPDES permits. Non point sources are not regulated. Monitoring is essential, and point sources are required to monitor. Equity is a concern in that some trading proposals could shift the burden of pollution control from wealthier entities to poorer entities. And hot spots that create localized impacts by increasing pollutants in a specific area may become a problem. This is why trading often requires the seller to be upstream of the buyer.

# Essential Safeguards for Any Pollutant Trading Program

*TMDLs are typically a Prerequisite* – They provide the framework by setting the overall cap on a specific pollutant and divide the reductions amongst various sources.

*Good Compliance Records* – Dischargers must have a good track record of compliance with their NPDES permits including EPA consistent QAPPs and monitoring.

*Pollution Discharge Limits in Permits* – Trading is limited to only what is over and above the required WQBEL or Technology Based Limit, whichever is more restrictive. Trading is not allowed to achieve a technology based limit.

*Adequate Trading Ratios* – When non point sources are authorized to trade a detailed trading framework must be designed that takes into account all the variables and uncertainty of BMPs applied, locations in the watershed to trade and what practices and under what conditions the trades are valued.

*Localized Impacts/Hot Spots* – Trading programs must be designed to ensure there aren't localized impacts. The easiest way to avoid them is to require the seller of credits to be upstream of the buyer. However, in some watersheds, depending on the pollutant, the number of sources and points of compliance, downstream sellers can sell to upstream buyers. Trading is not authorized between watersheds.

*Time Frame for Trading* – Trades can only occur between parties for the same month in which the credit is generated. Credits cannot be banked.

*Sufficient Monitoring* – A consistent and verifiable monitoring program must be in place in the watershed in order to trade. Point sources are required to monitor but ambient monitoring within the watershed is also necessary to ensure water quality improvements are in fact occurring, and that localized impacts are not.

*EPA Oversight* – EPA maintains oversight of trading programs throughout the country. This ensures some level of continuity, and also within a specific EPA region. In particular in Idaho, EPA maintains more oversight as they issue NPDES permits for the State of Idaho.

*Public Involvement* – Idaho DEQ in concert with Region 10 EPA develops Pollutant Trading Frameworks on a Watershed basis with local Watershed Advisory Groups and public participation. This is crucial to the success of a Trading program.

## Steps for Developing Pollutant Trading Frameworks in Idaho

1. There needs to be a TMDL in place (or equivalent so the pollutant load and source is known) and authorization to Trade (The Authorization can come later)
2. A Market for Trading must be identified. This typically involves meeting with key entities that would be likely trading partners, determining if the pollutant of choice is viable for trading and if there are in fact, opportunities to make enough reductions in the watershed that are above the required limits set for that pollutant. This can take a few weeks up to several months to determine, dependent upon funding, timing and staffing.
3. If a Market for Trading in the watershed exists, a trading framework must be developed that identifies the sectors that would trade, determines trading ratios (this is quite time consuming if non point sources are allowed to trade) for the pollutant, examines water quality conditions to identify localized impacts and develops a trading framework document. This step can take anywhere from several months to two years, dependent upon funding, timing and staffing.
4. The Trading Framework document must go to public comment for no less than 30 days. Changes to the document as appropriate would be made based on the public comment received. A final Trading Framework for the specific watershed would be adopted and incorporated as an appendix of Idaho's Pollutant Trading Guidance. This timing is included in the above.
5. If trading is not authorized by the TMDL, the TMDL would need to be administratively updated to authorize trading for the watershed. This is a formality but necessary.
6. In the next permit cycle NPDES permit would be in a position to authorize trading under the conditions of the approved Trading Framework for the watershed and any additional conditions the permit writer determines are necessary to protect water quality based on the permittee's past performance. This timing depends on when the last permit was issued. If it was recently the permittee may have to wait until the next permit cycle unless EPA could be convinced to reopen the permit early.
7. Trading can commence between the point source discharger under the conditions of the NPDES permit and consistent with the Trading Framework for the watershed. This includes the filing timely of all required trade execution documents with DEQ or its designated agent and any required by EPA when a trade occurs.

