Trading Framework Concepts

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Disclaimer…

- Preliminary thoughts for feedback and discussion
- No permanent decisions yet
- Significant policy shifts <u>may</u> be desirable to stimulate trading activity.
- We're not endorsing any new policy approaches today, but some "what if" scenarios.

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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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- 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

- 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)

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Proposed credit structure

	Nutrient offset credit	Nutrient exchange credit	Nutrient allocation credit
New development nutrient reductions	X		
Existing development nutrient reductions	X	X	
Point source reductions	X	X	
Point source allocations	X	X	X

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- 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

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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

- 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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- Securities regulations?

- Further delegations to local governments?

- Clearly apportion risk (buyers, sellers, public)

- Trading ratios

  - Insurance, improvements, credit certainty...

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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?

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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…

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QUESTIONS?

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- 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?

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