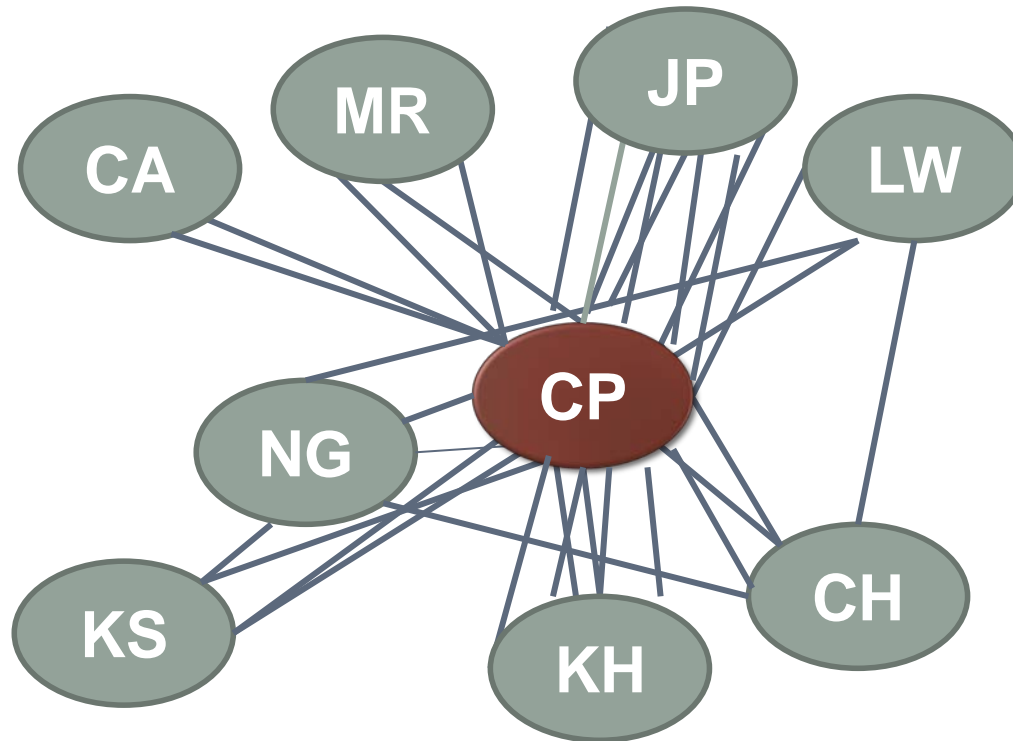


ADAPTIVE MANAGEMENT OF WATER QUALITY TRADING & STAC'S ROLE

Trading Working Group

Trading Group Network



Statement of the Problem

- Trading is often seen as a magic bullet
- *Yet*, trading is only intended to reduce costs of compliance with a regulatory cap
 - Bay trading is used to incentivize *voluntary* reductions
- State regulators have determined market rules but these may require adaptive management because:
 - Rules determine the environmental & economic performance of trading
 - What is best for water quality is not necessarily best for developing a robust trading program
- Only a limited number of voluntary trades have taken place to date in existing water quality credit markets

Motivations for Discussions with CBP

1. Can we assure performance in a transparent manner?
 - Will there be a localized degradation of water quality?
 - Will trading reduce costs of compliance?
 - Can we measure performance of trading?
2. What happens if trading doesn't meet any of its performance goals?

Adaptive Management Needs (Hershner 8/10/12)

1. Specify at the outset what program needs/seeks to attain through the operation of the programs (articulate its goals);
2. Identify the elements of trading programs that must be managed to attain those goals;
3. Develop guidance for state programs that is clear and consistent with that understanding;
4. Specify the metrics and timetable that will be used to assess performance.

Trading Discussion between STAC Economists and CBP (Nick DiPasquale & Darrell Brown)

1. Baselines do not present equal opportunities among states for agricultural sector participation.
2. Legal liability can be an impediment to market participation by municipalities and WWTPs
3. Equity issues are a concern, esp. for interstate trading programs
4. Program design can promote or hinder innovation
5. Verification issues are emerging because we could easily end up with two different verification systems:
 1. Rich Batiuk's efforts on BMP verification for TMDL accounting and
 2. Credit verification that might be done by a 3rd party.

Next Steps

Reactive

- Review of Technical Memoranda?
 - Baselines
 - Promoting transparency and accountability
- Establish that STAC can be responsive to need for review of trading or other economic/social issues

Proactive

- Manage expectations for trading
- Promote alternative approaches to achieving cost efficiency

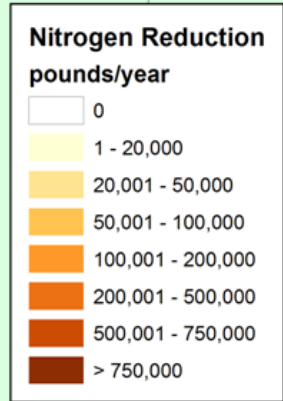
CBP Schedule for Technical Memos

Technical Memoranda to Support Chesapeake Bay Trading and Offsets Programs		
Task	Target Completion Date	Lead Office
Baseline Demonstration	Sep-2012	WPD/CBPO
Sector Growth and Offsets Demonstration	Sep-2012	WPD/CBPO
Trading Ratios for Uncertainty	Sep-2012	CBPO
Credit Calculation Methodology	Oct-2012	CBPO
Representative Sampling	Dec-2012	WPD
Net Improvement Offset	Dec-2012	WPD
Additionality	Dec-2012	CBPO
Local Water Quality	Dec-2012	WPD
Credit Permanence	Dec-2012	WPD
MS4 and Construction Offsite Mitigation	Feb-2013	WPD
Verification Measures	Feb-2013	CBPO
Interstate Trading	Dec-2013	CBPO
Products will be completed, as needed. Target dates may shift depending on workload, newly identified priorities and available resources.		

Opportunities?

- Dialogue continues
 - Help CBP staff understand technical trading issues & identify opportunities
- Research/Workshop topics
 - Alternative trading/offset program approaches
 - Managing uncertainty of performance of NPS options
 - Rigorous and independent credit certification and verification process
 - Needs for Interstate trading

Cost-Effectiveness of N reductions



Why we shouldn't give up on trading or something like it