DRAFT COG Policy Position on Nutrient Trading & Offsets under the Bay TMDL

March 1, 2013

Nutrient trading can be used under the Chesapeake Bay TMDL to meet reduction targets for current nutrient pollution and to offset the pollution resulting from new growth. Trading programs have been or are being established and modified at the state level. States are also discussing methods to offset sources of future pollution in order to meet their Watershed Implementation Plans (WIPs), in which nutrient trading is expected to play a major role.

Under the leadership of its Chesapeake Bay and Water Resources Policy Committee, and given the clear regional commitment to protect local, tributary, and Bay water quality, COG takes the following positions on the inter-related issues of nutrient trading and growth offset policies.

Main Principles

Nutrient Trading

Fiscal Impact —Trading programs should be managed so as to lower the total cost of meeting the Bay TMDL nutrient reduction requirements.

Cost Effective – Trading should be allowed among all sources of load and among a sufficiently large geographic region (state-basin level) to realize the majority of cost savings identified by the Chesapeake Bay Commission's report, *"Nutrient Credit Trading for the Chesapeake Bay."*

Equity – The same basis (delivered loads) should be used to calculate the pollution credits generated by sellers and purchased by buyers.

Local Government Role – Although trading programs will be managed at the state level, they should defer to local governments' interest in preserving local water quality. And, there should be clear guidance for those programs that aid local governments in implementing trades.

Managing Risk – Trading programs should define who is responsible for assuming foreseeable risks, such as credit defaults and fluctuating prices. No single entity should be responsible for all the risks.

Offsets

Fiscal Impact — Offset programs should be developed and monitored to ensure that they do not lead to unacceptable outcomes, such as stifling all new growth in particular jurisdictions or rendering otherwise desirable new projects too expensive to build.

Cost Effective – Sources of new pollution requiring offsets should not have to rely solely on fluctuating prices in an uncertain trading market. Offset policy should include an option for fee-in-lieu payments and a mechanism for periodically evaluating the fiscal impact of offset purchases.

Equity – The same basis (delivered loads) should be used to calculate the amount of pollution to be offset as is used to calculate the amount of trade-able credits generated by a new project.

Local Government Role – Although offset programs will be managed at the state level, the programs should recognize local governments' role in managing growth and provide local governments with the option to use fee-in-lieu payments locally. And, there should be clear guidance for those programs that aid local governments in addressing when/how offsets are needed.

Managing Risk – Offset programs should define who is responsible for assuming foreseeable risks, such as credit defaults and fluctuating prices. No single entity should be responsible for all the risks.