

## **Trading and Offsets Workgroup**

### **Call Summary**

Wednesday, March 16, 2016

10:00 AM to 12:00 PM

### **Welcome, Introduction and Announcements -- *David Foster, Chair***

### **District of Columbia's Stormwater Trading Market – Josh Kurtz, TNC**

- In an effort to reduce the polluting effects of stormwater on regional waterways, Prudential Financial is investing \$1.7 million towards a new pilot collaboration between The Nature Conservancy and Encourage Capital called District Stormwater LLC (DS). Underlying the DS investment is Washington, D.C.'s Stormwater Retention Credit Trading Program, a first-of-its-kind environmental market for stormwater management. Josh Kurtz from The Nature Conservancy provided an overview of the program for the Trading and Offsets Workgroup.
- Jeff Corbin (MDE): So I understand, based on press from the last week, that there's true private capital coming into this. So I assume if they're going to provide capital, that this is an investment, so there would need to be a return on investment for these groups laying down the money. Do you know what kind of return on investment these people expect?
  - Kurtz: I do know there is a rate of return we were looking at. When we initially modeled this, we looked at between 5-10% return on investment, but I'm not sure what the negotiated rate of return is with Prudential.
  - Evan Branosky (DOEE): On the DOEE's program website, we've created a green infrastructure financial return calculator, so you can model out some different returns based on capital costs and what prices are in the market. Capital cost data for some projects does exist, and we have some posted on the website. We use this to calculate the inland fee, actually. We find many projects that over their expected lifespan could generate profits, and of course there are some that could not, but there's definitely potential.
- David Foster (Chair): You talked about this being limited to DC, but you gave an example in Prince George's County, Maryland. So is it currently feasible for a person in the District to buy their offsets from Maryland?
  - Kurtz: No, you can only purchase your offsets within the District. I just wanted to highlight that project as a good example of what we're looking for. But you can't purchase credits generated outside D.C. boundaries.
  - Foster: Is there a possibility of extending those boundaries?
  - Kurtz: I think that's something we're interested in. Our CBP work is housed in our chapter, and they're watching this very closely. Once you start getting into moving across jurisdictions, there's a lot of complications, so we just want to see how the market pans out in the District.

- Ridge Hall (CLA): What role does DOEE play in this, and what sort of paperwork is involved? Is there a permit requirement?
  - Branosky: Since the late 90's, the District government has had a stormwater plan review process in place, which still remains. That process, when a project applies for construction permits, it first files its general permit application with the District's Department of Consumer/Regulatory Affairs, and stormwater management is on that checklist. So the developer would have to submit a stormwater management plan. That goes to the DOEE, and that plan is then reviewed by our staff, and once it is approved then the project can move forward with construction. At the end of construction, projects need an inspection, and they have to submit an 'as-built' stormwater management plan. Projects need to do this in order to receive their certificate of occupancy, so they can't really skip that step. Once that's done, the project can apply for certification of stormwater retention credits. And you can also apply for multiple DOEE programs by going through that process.
- Ginny Snead (Louis Berger): What sort of measures for success as part of this pilot are being evaluated? Or, at what point do you deem these investments a success, and what's that based on?
  - Kurtz: We have several metrics for success: 1) economic success- getting a rate of return back for the investor; 2) Underlying ecological analysis/assessments that lead to metrics (# of gallons retained). We're also looking at large scale projects, but we're also using metrics based off of impaired watersheds, so we want to do scenarios with the most ecological benefit. We're also really interested in trying to evaluate building in social metrics. We want to see a demonstration that we can recoup the capital, finish capital expenditure, and create some rate of return that would allow other organizations to bring private capital in for other projects moving forward. It's a tougher one, in terms of quantification, just to see an increase in trades and green infrastructure being deployed in the market.
- Bob Rose (EPA): When you look around the country, what policy features in the DC program made you feel that this was the most applicable? And what about those programs, policy-wise, made it applicable in your mind?
  - Kurtz: A lot of pieces of the regulation we saw as a way to make it successful – it's simplified. DOEE did a great job of making it straight-forward. There's also some regulatory mechanisms already in place that we've seen as successful elsewhere – on-site requirement, existing stormwater fee, post-construction standard. And the fact that it was built into the site-design and the credit certification was already built into an existing regulatory/oversight framework helped. The level of detail they went into in the BMPs helped us feel comfortable with the retention value they modeled out.
  - Rose: In this case, because we're trading gallons, and that has a visual component, do you think that has an advantage for the project you're pursuing versus other trading programs, but that the other ones are more difficult for investors for visualize?
  - Kurtz: The ability for us to take out investors, developers, some of our membership, to see the city council members to see these – the fact they're tangible- they are seen by many people, and they use gallons which are easily quantifiable, made it a lot more palatable and helped us build support for our project.

- Hall: Does the generation of the credit have to take place in the same watershed? Then you could get a comparable amount of environmental protection either way.
  - Kurtz: As the system builds out and we monitor water quality benefits, we'll have to monitor that at a programmatic level. Right now there is no requirement to keep everything within the same watershed, and to really evaluate that we'll have to get to a bigger level.
  - Branosky: There is not a requirement, correct. But you need to also consider that all of this trading is occurring within one MS4 permitted jurisdiction, so these regulated sites aren't individually credited entities. So their onsite retention requirement isn't as clearly tied to achieving TMDL allocations within that water-receiving body. Any retention achieved is an improvement beyond the baseline, and will signify a benefit for that water body. In addition, trading in the District heavily favors green infrastructure installations in city parts where it will have the greatest environmental benefit. Most development occurs in the Potomac watershed, and that runoff is already going to Blue Plains for treatment. The greatest need for green infrastructure is in the separate sewer system, where land values are the lowest. So the cost savings from putting green infrastructure in areas with lowest land values is also providing the greatest water quality benefit.
- Corbin: The initial commitment from Prudential is \$1.7 million, and I'm not being critical of that. But I'm trying to figure out how far we think that'll go. What kind of impact do you envision with that \$1.7 million?
  - Kurtz: We're still evaluating the site and doing preliminary analyses, but we are trying to take that money and maximize the amount of retention we can get. I don't have a preliminary number on how many gallons that will be, but that's something we're going to have fairly soon, to share. I would envision something on the scale of the Prince George's County example.
- Pat Gleason (EPA): In terms of keeping updated, should we look at the District's website?
  - Kurtz: Looking at the District website is helpful to see other new projects coming online. Regarding this project, we'll be posting updates as we're knocking out milestones through our website. We're also working with Encourage Capital to utilize their media people, and I'd be more than happy to come back and give updates if you'd be interested in that.
- Foster: Washington is unique in having combined sewer systems. Do you think this program would be equally applicable to other cities without combined systems?
  - Kurtz: I think it would, but we're really focused on areas with MS4 systems and permits.

#### **Interstate Trading – *George Van Houtven, RTI***

- George Van Houtven discussed recent work by RTI to investigate the challenges and opportunities for interstate water quality trading.
- Foster: Our focus tends to come back to the implications for nutrient trading on the Chesapeake Bay. Looking back at your book, you discuss the tremendous potential savings from in-basin state trading, in-state trading, and watershed-wide trading, and yet the potential additional savings were relatively small from that. Has there been new data on this, or do you have an estimate on potential savings if our regulations are harmonized?

- Van Houtven: I'm not aware of anything off the top of my head in terms of new data or estimates. We haven't done much additional work on that; I will say that on some level, the cost savings are going to occur when you take advantage of heterogeneity and there's diversity in cost structures. I think it may be the case that at some point you're not adding a lot of additional heterogeneity into the system. Other studies have looked at the optimal size for trading, and bigger is not always better in this case, but it's difficult to develop a set of rules to delineate these boundaries.
- Hall: A common response is that we should walk before we try to run, and many of us have also pointed to the problem of lack of trust. So then the question is: might we sacrifice more in lack of trust than we would gain in potential savings?
  - Van Houtven: That will certainly exist and be a major hurdle moving forward. We have to look at both the advantages and disadvantages, and I'm simply here to highlight what's going on elsewhere, especially between Canada and Quebec. Unfortunately, there's not a lot of evidence on inter-state trading, because they're still setting up the infrastructure.
- Mindy Selman (USDA): There's not a lot of appetite for inter-state trading, but my feeling was that there was a lot of advantages, even if we're not doing a lot of inter-state trading to create harmonization among the programs, at least on critical elements like quantifying credit or minimum assurances on verification. I'm wondering whether you think there are advantages to having a more common playing field, for bankers and project developers that are moving across states to develop programs.
  - Van Houtven: Great point. If you go back to the slide on advantages and disadvantages, taking advantage of economies of scale, which will occur. You will avoid duplication and that can help ease cost. I think there's a number of ways in which coordinating across states can be beneficial even if you don't have trade across state lines. But what exactly those are and how large are still unknowns.

#### **Jurisdiction Roundtable updates -- Pat Gleason, Coordinator**

- Maryland – The new water quality trading advisory committee is holding their 3<sup>rd</sup> meeting next week (week of March 21<sup>st</sup>). Their second meeting focused on MS4s and the agricultural sector, and how the two of them can trade with each other and under what circumstances. It's been evident throughout the discussions that the major concern is local water quality, and the group feels that inter-state trading, though of interest, is hard to reconcile with the need to protect and maintain local water quality. The option for inter-state trading will remain in the guidelines, but they will likely not be immediately pursued. The states have been working together on their tools and their funding. Maryland has just completed its enhancements to its registry with funding from a CBIG grant. This unified registry will be usable by all of the states. If there is inter-state trading, this infrastructure would be helpful in supporting that.
- District of Columbia – The District are getting ready to make changes to their registry, conveying some different information and making it more user-friendly. They are working to incorporate a discussion board into their registry. There might be some RFAs coming out within the next few weeks.

- Foster: The Supreme Court decided not to hear the challenge to the TMDL. Could anyone from DC fill us in on that? And no sooner had that been settled when we learned there was yet another lawsuit by Chesapeake Waterkeepers. Any information regarding that?
  - Rose: The Supreme Court just chose not to take the case. Just as a reminder, it had gone through an initial ruling and an appeal, which were both in favor of EPA's actions on the TMDL. So there was no change in interpretation on that status. Regarding the second case, I'll be learning more about that soon.

## **Adjourned**

**Next conference call: April 20<sup>th</sup>, 10:00 – 12:00 PM**

### **Participants:**

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