

EXECUTIVE ORDER 52 WORK GROUP

Agenda Item 3: Nutrient Credit Exchange-Related Concepts

July 27, 2016

Goals

Meet growth needs including new dischargers, without harming existing dischargers

- Protect Existing Dischargers, Their Investments Made, and Their Economic Development
- At the Same Time, Provide Opportunity to Reliably & Cost-Effectively Offset New Discharges for Other Economic Development

Protect Existing Dischargers, Their Investments & Economic Development

- **Maintain recent regulatory commitments**
 - 2005 WLAs & the related facility investments
- **Existing WWTPs are key to economic growth**
 - Most economic development depends upon WWTPs with adequate capacity and associated WLAs
 - Need to protect existing industry will recruiting more
- **State should NOT shift cost of cap maintenance**
 - From new dischargers onto existing dischargers

Provide Opportunity to Offset New Discharges Reliably & Cost-Effectively

- To achieve lower total compliance costs in Virginia, it is important to continue and expand **markets**, rather than resort to command-and-control regulatory approaches
- Virginia can use basin-level **credit streams backed up** with a State assurance of adequate credit supply, to meet offset needs at lowest, most-competitive cost

Exchange Association-Based Trading Expansion Concept for Offsets

- **Expand Exchange Association Participation**
 - Add New Dischargers under revised bylaws and agreement
 - Concurrently add MS4s under 2012 and 2016 legislation
- **Extend Exchange Forward Market (“Class A”)**
 - Forecast/estimate credit streams (A + B) 10-yrs forward
 - Increase forward trading horizon to 10-yr basis
 - Continue annual process to increase Class A sales & purchases each year within 10-year period
- **Continue Exchange Spot Market**
 - Use “Class B” spot market as insurance for all participants for unexpected year end needs

Bilateral Trading Market

- **2-Party Trades Independent of Exchange Assn**
 - Continue bilateral market as opportunity for short-term and long-term offsets
- **Success Stories**
 - Spotsylvania-to-Washington 5-year credit trade
 - HRSD-to-Suffolk permanent WLA trade
 - WWTP-to-MS4 credit trade
 - Chesterfield-to-Tranlin 5-year credit trade

Benefits of Expanded Trading

- **Produce Rolling 10-Year Offset Coverage**
 - Combination of an Exchange Assn *10-year forward* market plus spot market access (not to mention bilateral market opportunity) will increase long-term supply and certainty
- **Provide Assurance Beyond Each 10-Year Period**
 - Then issue becomes establishing the best method for increasing certainty *beyond 10-year* Exchange Assn horizon and for providing assurance that long-term needs will be met cost-effectively

Long-Term Credit Assurance: Grants for Voluntary Offset Projects

- **LEGISLATION** – Amend WQIA to authorize State WQIF capital and O&M grants to “POTW Offset Hosts” as a credit supply backup source with incentives to meet & exceed target
- **PROJECT COSTS** – WQIF (or Gov Opportunity Fund) would pay 100% to 110% of voluntary nutrient projects and operations (offered by Owner, selected by State) to go beyond WLA concentration baseline (ultra-treatment, reuse, other)
- **CREDIT USE** – State-funded credits are assigned to WQIF Revolving Nutrient Offset Fund, based on capital investment asset life and term of O&M grant commitment (e.g., 20 years)
- **APPROPRIATIONS** – No near-term appropriations required; fund only on an as-needed basis in future budgets if and when credit stream becomes inadequate to meet offset demands

Supporting Regulatory Improvements

- **REUSE REG REVISIONS** – Eliminate unnec. restrictions
- **WLA CERTAINTY** – Limit “WLA take backs” by SWCB and use WQS Compliance Schedule Rule to protect 10-year trading period in event of any TMDL/WLA adjustments
- **CONCENTRATION LIMITS** – Remove concentration limit “ratchet” disincentive to pushing limit of credit generation
- **HOLD HARMLESS POLICY** – Establish “accident forgiveness” / “good Samaritan” policy for WWTP upsets
- **NEW NUTRIENT-RICH DISCHARGES** – Conserve WLA and WQIF Funds by applying merit-based screening and “ultra-technology” to new non-domestic discharge permits

Summary

- **Maintain Regulatory Stability for Existing Dischargers**
- **Expand Exchange-Based Trading Opportunities**
- **Extend Exchange-Based Trading to 10-Years Forward**
- **Enact Credit Assurance (Future Grants When Nec.)**
- **Adopt Supporting Regulatory Improvements**