

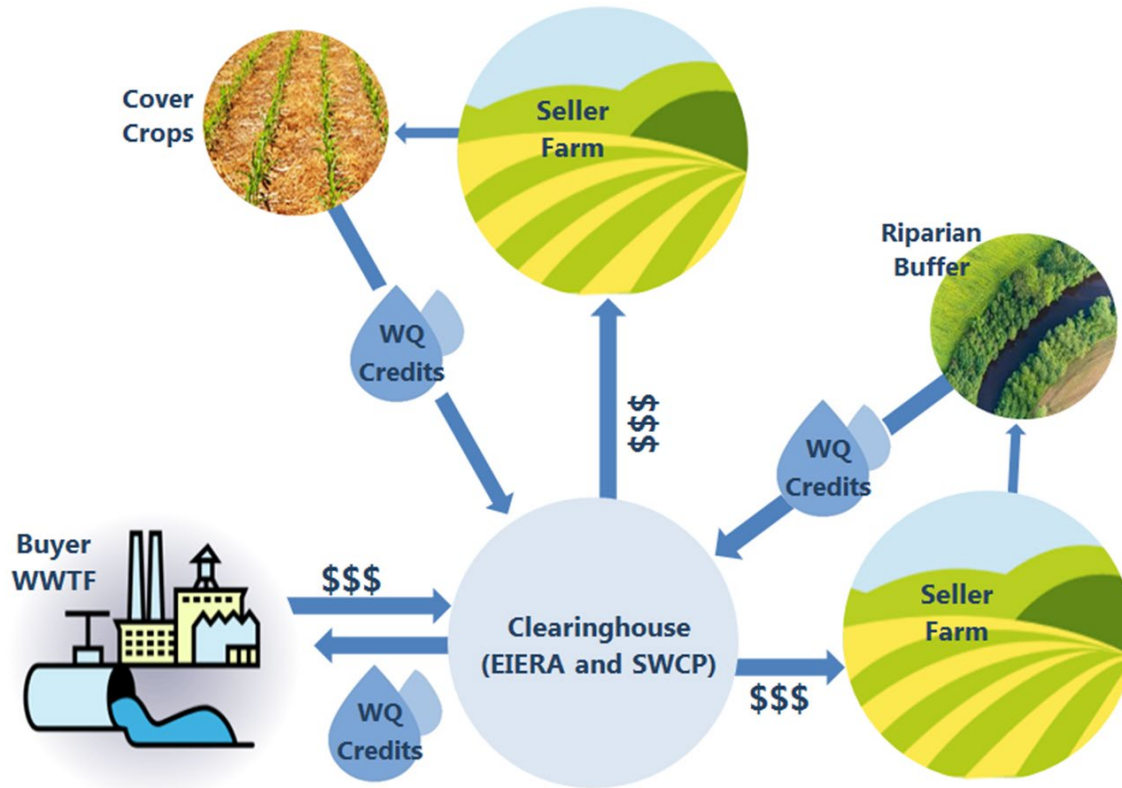


Nonpoint Source Trading

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Two Approaches to Trading

- Direct Contracts
- Indirect Contracts (via bank/clearinghouse)



Offset Verification and Enforceability

- Decision Point: “The point source can only purchase offsets AFTER a BMP is on the ground”
 - Fee-in-Lieu vs Immediate Reductions
- All BMPs must be verified prior to credit generation
- Enforceability is less of a concern for the permittee and more of a concern for the nonpoint BMP owner.
 - Must ensure the viability of the BMP for its ENTIRE designed lifetime. (anti-backsliding)
- Reminder: Verification and Enforcement is the responsibility of the State Agency, not the point source or nonpoint source. (it is the State’s trading program)

Trade Ratios

- Uncertainty remains on the exact effectiveness of nonpoint source BMPs at mitigating nutrient pollution.
- Due to a wide variety of factors, like geography, local geology, etc.
- Trade ratios are used as a safety buffer to ensure that any offset purchased by the point source will always result in the minimum reduction or greater.
- For example, a 2:1 trade ratio means that for every 1 pound of pollutant the point source desires to offset, they will actually purchase 2 pounds worth.

Some Funding Questions

- Clean Water State Revolving Fund
 - Cannot be used to purchase credits
 - Can be used to build BMPs (ie direct trade)
- State Funded Conservation Programs
 - BMPs Can generate credits
 - State Program is essentially “reimbursed”
 - Can effectively act like a mini SRF for BMPs
- Return to the Basics: Remember the 2 fundamental goals of market-based trading programs