

Bay Restoration Fund Nutrient Credit Purchase

Presentation to:
Water Quality Trading Advisory Committee

Presentations by:
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Issue Statement

- Proposal: Amend the BRF statute to expand the uses of the sewer user fee to purchase nutrient credits. (Env. Art. 9-1605.2)
- Key Policy Issues:
 - How will credits be purchased?
 - What credits are eligible for purchase?
 - From where may credits be purchased (generated) relative to where the credit is applied?
 - How will credits be applied?

Purpose of the Issue Paper

The issue paper ...

- ... is an initial draft of policies and procedures for implementing the proposed BRF legislative amendment.
- ... supports and documents stakeholder dialogue on the subject.
- ... includes an appendix of policy questions & proposed responses.

Background

- In 2016 Maryland's Bay Cabinet outlined a framework for closing a funding gap to reach the 2025 goals.
- Transition to a pollution reduction credit based financing and accounting system.
- The BRF revenue collection system is one existing, efficient way to do this.
- The fund has two revenue streams:
Septic system fees and sewer fees.

Background (Con't)

- Septic User Fee Fund:
 - ~ \$17 million/yr (60%) for Septic Upgrades/Connections
 - ~ \$11 million/yr (40%) for Agricultural Cover Crops
- Wastewater Sewer User Fee Fund:
 - ~ \$50 million/yr pays for debt service
 - ~ \$60 million/yr available for restoration beginning FY18
- 1.6 million pounds of nitrogen must be reduced by non-permitted sources, from the 2010 levels, to meet the final goal (14% of the total reduction).
- The State has no way to compel non-permitted sectors to make reductions other than pay for it (septic and non-MS4 stormwater).

Options & Considerations (Con't)

- How are Credits to be Purchased?
 1. Open Auction: MDE takes bids and selects proposals with lowest cost/lb delivered to the Bay.
 2. MDE sets a “floor price” available to any entity that cannot sell the credit on the open market (MDE is buyer of last resort).
 3. MDE sets a “spark price” to stimulate credit generation activity.
 - Credits must be guaranteed for 5-15 years.
 - Bids must produce a minimum 1,000 nitrogen credits or 100 phosphorus credits.

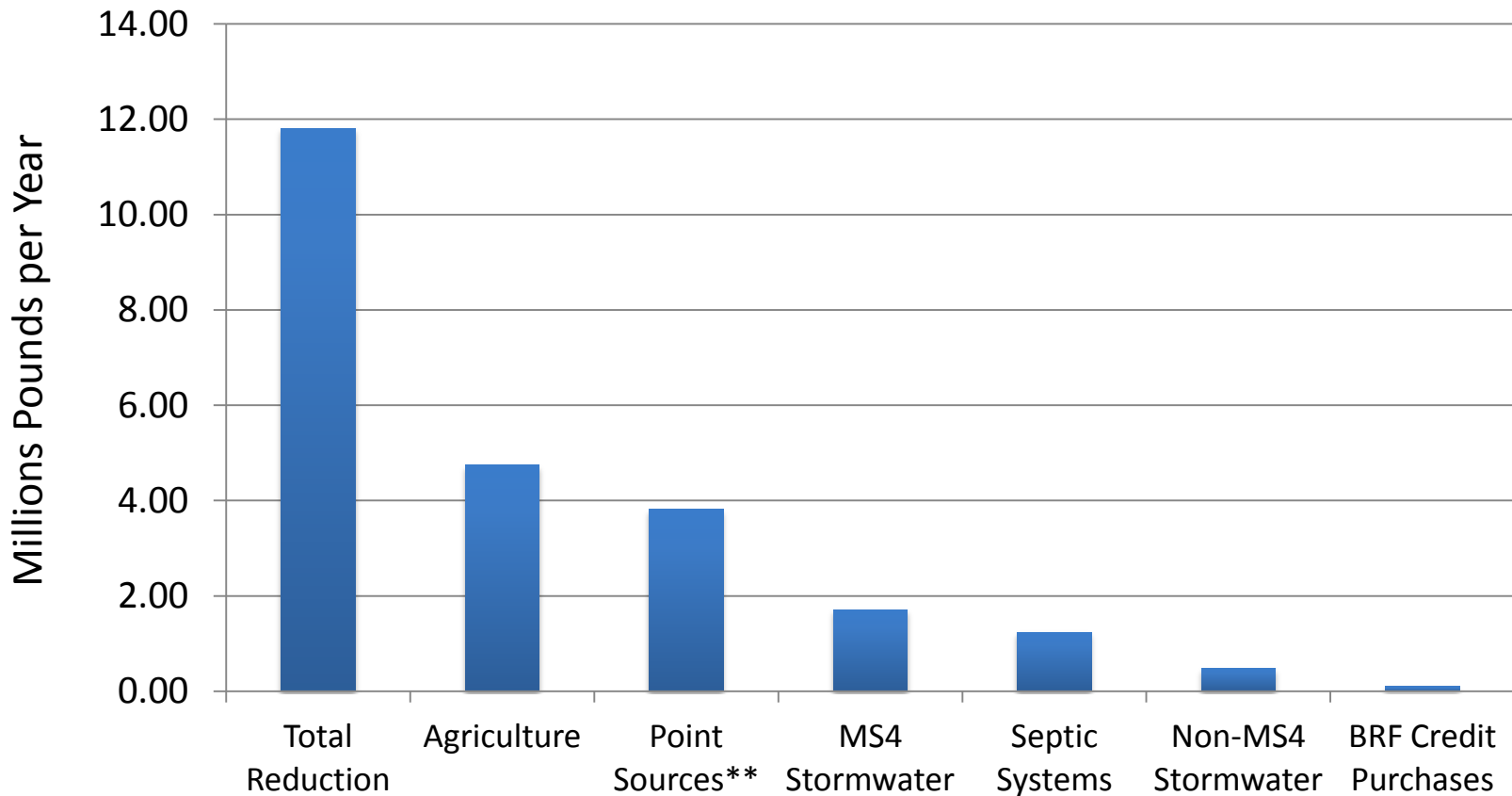
Options & Considerations

- What Credits are Eligible for Purchase by BRF?
 - Only credits traded via the Chesapeake Bay Nutrient Trading Tool (CBNTT) are eligible.
 - Annual credits are eligible, but must be part of a 5-15 year contract commitment*.
 - Credits will be limited initially to those that are accepted by the Chesapeake Bay Program Partnership.
 - Credits generated by wastewater treatment plants are not eligible.
 - Credits must be verified annually.
- * Cover crops will not be eligible, but can be used to reach the baseline for trading.

Options & Considerations (Con't)

- Where can the credits be generated relative to where the credit is applied?
 - Proposal: The location of credit generation may differ from where the credits are applied.
 - Rationales:
 - These are reductions; not offsetting new loads.
 - Promotes a lower cost way to restore the Bay.
 - Keep the initial program simple. Can change it.
 - Modest reductions imply insignificant geographic distribution water quality impacts (See Graph of Relative Reductions).

Comparison between Nitrogen Reduction Needs from 2010 – 2025 and Estimated BRF Credits*



* Assumes \$100/credit per year. \$10 million/yr cap → 100,000 pound reduction

** Does not count reductions that create future capacity.

Options & Considerations (Con't)

- How to Distribute the Credits?
 - Proposal: Two-Step Process:
 1. Distribute credits in proportion to the combined septic and sewer revenue paid into the BRF by local jurisdictions annually.
 2. Credits Applied in Preferential Order:
 - Septic Systems
 - Non-MS4 Stormwater
 - MS4 Stormwater

Options & Considerations (Con't)

- How to Distribute the Credits? (Con't)
 - N & P will be purchased & distributed in amounts that reflect the revenue contribution by jurisdiction and their reduction needs relative to the preferential order of sectors.

BRF Issue Paper Appendix A

- Stakeholder Concerns from 2016 (HB325):
 - No limits on when & how many credits (\$) may be purchased.
 - Questions regarding what the credits apply to.
 - Safeguard the uses of dedicated funds.
 - Potential impacts on Ag sector ability to meet its Bay goals.
 - State involvement in market place pricing.
 - Premature given limited understanding of trading program.
 - Potential expectation for restoration to occur in urban locale.
 - Potential impact on funding stormwater permit obligations.
 - Concern small WWTPs will not receive upgrade funding.

Intersection with Trading Manual?

- Issues Identified in CBF Letter of October 7, 2016 :
 - Specify Consistency with EPA Trading TMs:
 - Will seek EPA statement of sufficient consistency.
 - Require 2:1 ratio for trades involving nonpoint credits:
 - EPA accepts 1:1 for NPS:NPS trades, which will be the case for BRF credit purchase.
 - Capacity & performance credits from WWTPs:
 - Not applicable: wastewater credits not eligible for BRF credit purchase.
 - MS4 permit trading issues:
 - Not applicable

(Continued)

Intersection with Trading Manual?

- Issues Identified in CBF Letter of Oct. 7, 2016: (Con't)
 - Land application credits:
 - Not Applicable.
 - Trading Geography: Concerns about MS4
 - Proposal: Geography limits should not apply to BRF initiative at the present time per rationales expressed in the Issue Paper.

BRF Amendment: Next Steps & Schedule

- Oct. 17 – Present Issue Paper & ID a TAC Subgroup at **TAC Meeting**
- Oct/Nov – Discuss Issue Paper & Legis. with TAC Subgroup
- Nov. 17 – Discuss Subgroup findings at **TAC Meeting (@CBF)**
- Nov/Dec – Further meeting of Subgroup if needed
- Dec. 12 – Seek closure at **TAC Meeting (@MDE)**

End

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