Chesapeake Bay Commission

Policy for the Bay

TESTIMONY

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Subcommittee on Water Resources and Environment
Committee on Transportation and Infrastructure
U.S. House of Representatives

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Thank you Chairman Gibbs, Ranking Member Bishop and Members of the Subcommittee for this opportunity to testify about the economic potential of nutrient trading in the Chesapeake Bay Watershed. The partnership of the Federal government is critical to the success of the Bay's restoration and I appreciate your interest in this important topic.

The Chesapeake Bay Commission is a tri-state legislative commission advising the General Assemblies of Pennsylvania, Maryland and Virginia on matters of Bay-wide concern. Fifteen of our 21 members are elected state legislators, three are cabinet-level secretaries representing each of our member states' governors, and three are citizen members. We are bipartisan and our members represent the full range of urban, suburban and rural life enjoyed across the watershed. In their work to write and enact laws and policies that further the goal of a restored Chesapeake Bay, our members must balance many ecological, social and economic concerns.

To that end, the Commission frequently conducts in-depth research on a variety of Bay-related issues. From blue crabs to biofuels and land conservation to the cost of a clean Bay, the Commission is known for its groundbreaking policy analysis. Recently, the Commission turned its attention to nutrient credit trading.

The Commission remains neutral on whether trading programs should be established or not. However, several states rely on nutrient credit trading in their Watershed Implementation Plans (WIPs) developed to comply with the Chesapeake Bay Total Maximum Daily Load (TMDL), and all three of our member states have begun to develop and implement nutrient credit trading programs. Therefore, the Commission felt it was necessary to answer two fundamental questions:

1) What is the potential for nutrient credit trading to lower the cost of TMDL compliance?
2) What are the critical elements that must be included in a nutrient credit trading program to provide cost-savings while ensuring environmental protection?

To conduct the economic analysis, we contracted with RTI International, an independent, non-profit institute that provides research, development, and technical services to government and commercial clients worldwide. We also convened a panel of environmental and trading experts to guide our work.

We evaluated a variety of scenarios with two main variables:

1) the types of nutrient sources allowed to participate by buying or selling credits.
2) the geographic boundaries within which a trade is allowed to occur (in-basin-state, in-state, in-basin, watershed-wide).

These scenarios and our key findings are described in our report entitled *Nutrient Credit Trading for the Chesapeake Bay: An Economic Study*. A hard copy of this report has been provided to you.

To summarize our findings, the answer to our first question is **"potential" cost-savings can be significant, especially at a scale that maximizes the balance of buyers and sellers**. But, potential cost savings will always be higher than actual cost savings when real-world conditions are at play in the market. Policy makers should not simply reach for the scenario that provides the greatest cost reduction without assessing other real-world factors like protection of local water quality.

To answer the second question, we found the following elements were most critical for maximizing cost savings and ensuring environmental protection:

1. **A measurable and enforceable pollution "cap."**
   A "cap," such as the Chesapeake Bay TMDL that applies to total loads across all sectors, ensures that reductions achieved through trading are not offset by increased loads occurring outside of the trading program. A cap also provides the incentive for buyers and sellers to enter the marketplace.

2. **Inclusion of urban stormwater.**
   To date, wastewater treatment plants have been the primary purchasers of nutrient credits. Due to the high cost of retrofitting urban stormwater controls, our report showed the greatest "potential" cost savings occurred when the trading scenario included regulated stormwater. As urban stormwater sources face increasing pressure to reduce nutrient loads at significant cost, they may seek nutrient credits from other less expensive credit sources, such as agriculture, as a path to compliance. However, the rules to establish this market are still under development.

3. **Protection of local water quality.**
   Nutrient credit trading can shift the geo-spatial pattern of load reductions. Program rules must ensure that any redistribution of loads resulting from credit trading is legally protective of local TMDL limits and local water quality.

4. **Robust verification and transparency.**
   Buyers need assurance that the credits they purchase will keep them in compliance. The public wants assurance that pollution reductions are real and that environmental improvement will result. Assurance is best achieved through a rigorous system of verification and approval of credits, monitoring, and enforcement. Despite the costs this would add to a program, our analysis found that "potential" cost savings were still significant.

In conclusion, the Commission does not have a position for or against trading. Instead, we acknowledge that trading is a tool already in use by our states, and it has the potential to improve water quality at a reduced cost, <u>if it is done correctly</u>. We believe that if the states pursue inter-state trading, it may be wise to begin in a targeted area where benefits can be maximized. Additionally, the Federal government would need to work collaboratively with the states to develop a common trading "currency" across states lines through consistent definition of a credit and common standards for verification and transparency. The Chesapeake Bay, our nation's largest, most productive estuary, is a shared responsibility -- not just of state and local governments and the private sector, but of the Federal government as well.

Thank you.