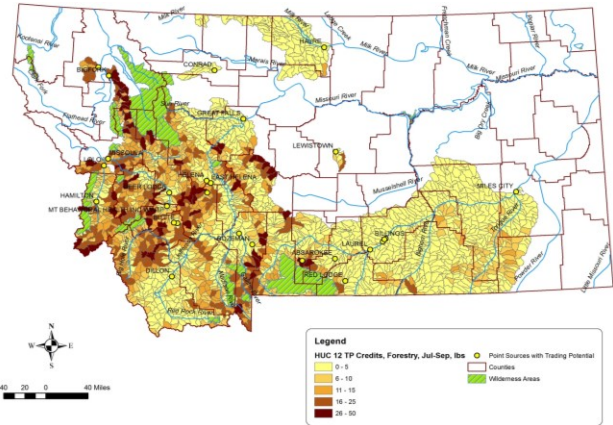


Review of MT Draft Nutrient Trading Policy and Business Case Analysis

Based on K&A's national WQT expertise, Montana DEQ asked Mark Kieser in 2010 to review their draft nutrient trading policy in the context of USEPA's 2003 Trading Policy for concurrence or potential conflicts. These efforts included assessment of: draft policy elements in relation to other state trading policies, guidance or rules for comparison to successful or problematic elements established or attempted elsewhere; the level of flexibility or rigidity in relation to other high priority watershed management or related programs in Montana; textual or narrative suggestions that would provide clarity or enhance opportunities for policy acceptance and use; recommendations for new/additional elements as appropriate to achieve goals of the policy; potential trading applications that could flow from the policy to help illustrate opportunities for the state; and, references from other states or trading programs regarding written policies or rules regarding trading/offsets of on-site/septic systems with point sources. Efforts included interaction with several DEQ program staff.

As a follow-up to the WQT policy and the state's more recently released numeric nutrient standards, DEQ selected K&A, with a local MT engineering firm, to develop the economic business case for WQT use to comply with these new numeric standards. A supply and demand analysis was to determine the type of recommended trading framework for future DEQ investments in program development.

Based on study findings, the K&A team identified that there appeared to be a relatively limited number of potential point source/nonpoint source trading opportunities in Montana. These were also likely to be spread out over four, five-year permit cycles. Results of estimating treatment plant upgrade costs compared to costs of water quality credits produced by agriculture and forestry practices did, however, indicate that purchase of credits can offer a lower



cost of compliance for some but not all treatment plants and watersheds. During the next few years the regulatory schedule for variances in MT will impose water quality improvement mandates on relatively few plants positioned to benefit from trading.

Accordingly, establishing a comprehensive WQT framework and state program to manage credit trading (such as a registry, full time staffing, etc.) was not recommended. Alternatively, a relatively modest level of further regulatory guidance was proposed to reduce uncertainties and transaction costs to parties interested in credit trading thereby boosting the chances for Montana to realize economic gains from trading. Additional guidance would help lead to standardization of matters such as credit calculations, trade ratio determination, crediting-project verification and permit modification procedures. DEQ used these recommendations to assess their next steps and budget needs to implement these recommendations recognizing there would likely be few trades in the state.

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<i>Project Costs:</i>	<i>Project Duration:</i>
\$5,000 Policy Review	2010
\$50,000 Business Case	2014