

# Water Quality Trading



Water quality trading — sometimes called pollutant trading — is a market concept that can be used to help point source dischargers meet permit requirements. Trading can make economic sense because many different facilities and activities, such as businesses and industries, wastewater treatment facilities, urban stormwater systems, and agricultural sites may discharge the same pollutant into a water body, yet each may face substantially different costs to control that pollutant.

The use of trading allows pollution reduction activities to be assigned a water quality improvement value in the form of credits. These credits can then be traded in a local market to achieve cost-effective water quality improvements. The objective of a water quality trading program is to facilitate economic exchanges that demonstrably reduce pollution and clean up polluted surface waters more quickly.

## Draft framework

While no water quality trades have yet occurred in Washington State, the Department of Ecology (Ecology) produced a [draft water quality trading framework](#) in 2010. Included in the framework is a response to public comments.

It is Ecology's intent that all proposed water quality trading programs follow the requirements of the trading framework in order to achieve compliance with NPDES permits. Although our state's trading framework is in effect, Ecology considers it to be a draft at this time because we intend to modify it once we have established an actual trading program for a Washington watershed. The framework was initially produced because there was a potential for establishing a trading program in the Spokane River watershed to meet the TMDL wasteload allocations for phosphorus in the [Spokane River Dissolved Oxygen TMDL](#).

## How trading works

The simplest form of trading would involve two point sources. Both discharge the same pollutant, but because of the process used by one, it is able to control its discharge much more easily and cheaply than the other. The amount the first discharger is able to "over control" its discharge can be sold as credits to the second discharger.

As an example, if it is cheaper for Plant A to reduce phosphorus in its discharge than it is for Plant B, then Plant B can pay Plant A to reduce its phosphorus to meet both its own and Plant B's reduction requirements.

Many other flexible permitting approaches are also described as trading, but do not necessarily involve a market or even actual trades. For instance, some trading programs are actually using a group compliance approach, in which a group of dischargers has both a single cumulative

effluent limit and individual limits. Other programs use a watershed-based permit to apply a cumulative limit for all sources.

All of these approaches represent potentially flexible and cost-effective ways of meeting water quality goals, and could be considered based on local conditions. However, the choice of a specific method to meet an effluent limit is up to the point source discharger, and may include technological solutions as well as flexible permit options.

## **Lack of buyers stalling trading in Washington**

In recent years, several groups expressed an interest in developing trading programs in various watersheds in Washington. Most of these ideas involved having point sources pay for nonpoint improvements, and most of the groups proposing these programs were potential sellers, not buyers.

Until there is an interested point source buyer in a Washington watershed, no trading will occur.

## **More information**

If you'd like to read more about water quality trading, here are a few resources:

[Focus on Water Quality Trading](#) (Ecology publication)

[EPA's Water Quality Trading website](#)

[EPA's Water Quality Trading Evaluation](#)