



Wisconsin's Green Fire Testimony on: 2019 SB 91; Relating to Buying and Selling Water Pollution Credits through a Central Clearinghouse

March 19, 2019

My name is Jim Baumann and I am here today representing Wisconsin's Green Fire. Wisconsin's Green Fire supports the conservation legacy of Wisconsin by promoting science-based management of its natural resources. Members represent extensive experience in natural resources management, environmental law and policy, scientific research, and education. I am here today to testify for information only on Senate Bill 91.

Personally, after a lengthy career with the Department of Natural Resources, I worked for the Great Lakes Commission the Fox P Trade project, a project to evaluate and further develop procedures for water quality trading in Wisconsin.

Presently, Wisconsin's Green Fire is preparing a written policy analysis of this bill and will make that analysis available within the next few days. So, I will limit my testimony today to three points.

First, our analysis suggests third-party assistance in water pollution credit trading, such as through a central clearinghouse, has value. Presently, neither buyers nor sellers have experience and expertise in the trading process and some form of facilitation can greatly assist in the process.

Second, the economics of trading in Wisconsin may be marginal due to the market value of credits and the transaction costs that will need to be incurred. A clearinghouse, as proposed in the bill, works best where there are many buyers and sellers, where the trade areas are very large and where the supply of relatively inexpensive credits exceeds the demand for credits. In many parts of Wisconsin, however, we see a limited supply of credits and corresponding higher costs of credits. We may also see small trade areas.

The economics seem to be the least favorable in water basins with total maximum daily load allocations approved by the U. S. Environmental Protection Agency and where many of Wisconsin's municipal and industrial dischargers are located. Federal and state requirements limit the agricultural credit supply, in particular, by requiring substantial levels of phosphorus control, such as 60 to 80 percent reductions, before credits may be generated for sale.

Water pollution credit trading for farms, in particular, requires a substantial number of transactions, ranging from assessing a farm to determine credit generation potential, designing

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and installing management practices, negotiating agreements, conducting annual inspections and so on. All of these transactions have a cost. In addition, there are the costs of the clearinghouse operations to compile and report information to the Department of Natural Resources and make portions of it available to the public.

Third, the bill provides limited state oversight for the central clearinghouse operator. The clearinghouse operator may develop a number of policies and procedures without Department of Natural Resources approval. We anticipate this could result in inconsistencies between the clearinghouse operation and federal and state requirements and lead to inadequate performance. For example, the clearinghouse seems to have the authority of set trade ratios different from those specified by the Department of Natural Resources, provided they are at least 1.2:1. Also, the clearinghouse conceivably has the authority to specify any length of contract without the approval of the Department of Natural Resources.

In closing, I wish to repeat that Wisconsin's Green Fire is preparing a written analysis of this bill and will make that analysis available.