

---

# DRAFT: A STRATEGY FOR STIMULATING DEMAND

---

July 5, 2017

## Introduction

---

Insufficient demand is the most significant barrier facing water quality trading currently. Based on feedback from the Steering Committee and other stakeholders, the National Network on Water Quality Trading will focus the next 18 months on stimulating demand for water quality credits and other market-based programs producing defensible investments in nonpoint source water quality as a compliance alternative.

To date, the Network has been operating under the assumption that more buyers would join water quality trading markets if programs could get up and going more quickly and at a lower cost, and if trading programs were consistent, legally defensible, based on clear state policies.

Over the past 5 years, the Network and its participants have attacked each of these barriers—publishing the comprehensive guide *Building a Water Quality Trading Program: Options and Considerations*; developing templates for state-level policy; and hosting dialogues on program evaluation, market-based approaches to stormwater management, and engaging ag intermediaries.

But that demand has not materialized and it's time for a new theory of change, a new strategy for understanding why we aren't moving faster toward the widespread application of trading and market-based programs to achieve clean water.

The WQT and markets-sector have been talking about this topic for at least a decade and there are a lot of theories - More regulatory or legal certainty. Outreach to states, EPA, utility managers. Templates for states, EPA, utility managers. New buyers from corporate or philanthropic sectors. Stricter effluent limits for points sources. – and the list goes on. To separate

### Network Purpose:

The purpose of the National Network (“Network”) is to establish a national dialogue on how water quality trading can best contribute to clean water goals. That includes providing options and recommendations to improve consistency, innovation, and integrity in water quality trading.

### Networks Operations 2012-2017

Network was structured as a dialogue between those stakeholders who are central to making WQT programs work (agriculture, permitted point sources, state water quality agencies, environmental groups, and practitioners). Dialogues were focused on framing a new issue and developing tools to make *Building a Water Quality Trading Program* more usable. Each dialogue was designed to produce a deliverable, designed to fill a strategic gap or advance the state of the issue.

This structure assumed the main limiting factor for advancing trading was access to information, generated with the perspectives of diverse stakeholders. After three dialogues, we're not sure this assumption is still true.

the signal from the noise, the Network will conduct an objective assessment that can confirm and update this conventional wisdom. We want to build a shared, modern theory on how to stimulate demand and water quality markets. The Network and its participants are most effective when we act together. This assessment and resulting action agenda will give members and funders confidence that their actions are targeted at stimulate demand for water quality trading and market-based programs.

The demand assessment described below is a key strategy through which the Network can understand the barriers for buyers to engage in water quality markets and identify actions that the Network and its participants can take to stimulate demand.

## Assessing Demand Opportunities and Barriers

---

### ➤ Goal

Stimulate additional demand by the **municipal and industrial wastewater and stormwater sectors** in water quality trading and market-based programs producing defensible investments in nonpoint source water quality as a compliance alternative.

### ➤ Objectives

- Identify barriers and develop an action agenda;
- Get that information to those who can apply it to remove barriers and encourage investment; and
- Increase the consideration, application, and investment in water quality trading and applicable market-based programs.

### ➤ Partners and Advisors

- a. A **Demand Advisory Panel** will be formed by the Network coordinator to inform and guide the demand assessment. The Demand Advisory Panel will be composed of individuals representing the waste water, stormwater, regulatory sectors and credit developers. The key role will be to review draft materials and concepts, provide access to buyer and developer networks. This may include NACWA, WEF, National Rural Water Association, AWWA, US Water Alliance.
- b. **Ecosystem Marketplace**: Forest Trends Ecosystem Marketplace is a leader in assessing and communicating market status and trends. We will seek additional funding to support engaging the (likely Genevieve Bennett) on a rapid review of lessons from other markets, interview design, outreach to interviewees, coordinating the timing of interviews/surveys to leverage similar outreach for the 2018 State of Watershed Investment survey, and leverage launch resources to distribute survey results to a broad and impactful audience.
- c. **National Network Steering Committee** and Network participants will be invited to review intermediate products and provide feedback on the methodology going forward. This engagement will occur through Steering Committee meetings and through one in person gathering.

### ➤ Methods

There are 5 components to the demand strategy, collectively creating a comprehensive, modern understanding of the barriers to moving this space forward and arenas in which action can

move it forward. Not all components will receive the same level of attention. Objectives and relative level of effort is provided for each component of methodology.

- 1. Decision structures (15%, month 1-4):** Confirm our understanding of the decision making structures through which trading is chosen and transactions are approved. For example, wastewater utilities often follow a facilities and capital improvement planning process that includes a 20 Year Facilities Plan; Capital Improvement Plan; and permitting processes. Who says yes and who is influential in those phases and decisions?

Build one or more conceptual models for the process and key actors in decision making that accepts or rejects the use of a trading model and transactions. Willamette Partnership staff will construct draft model for review and feedback from the Demand Advisory Panel. The model will serve as the basis for a rapid gap analysis whereby WP and the DAP will evaluate any instrumental decision makers that have not been involved in the Network and WQT conversations about demand and barriers. The gap analysis will also help identify interviewees that can provide important new perspectives.

- 2. Lessons from other markets (10% month 1-4):** Identify the lessons learned from the similar environmental markets (e.g., wetlands, endangered species).

A relatively rapid review of the conventional wisdom developed from the last 15 years of water quality trading market implementation and experiences in similar environmental markets (e.g., effects of federal clarity drawn from 2008 wetlands policy). This information is the basis for our current thinking and modes of operating. It is an important basis from which to identify assumptions and evaluate if they still hold true.

- 3. Spatial analysis (15%, month 3-6):** Understand the geography of demand – where might we find more or less opportunity? More interest?

Using new tools, such as EnviroAtlas, and other spatial information, we will evaluate the geography of demand. It can be difficult to develop concrete or quantitative conclusions from objective spatial data because, in part, there are so many “soft” criteria that we know to be important for the maturation of a water quality market program, such as local champions within a state agency or buyer organization. In this case, we will be looking to visualize those soft characteristics in a series of maps and pull out any clear regional differences.

- 4. Interviews & Surveys (35%, month 3-9):** Understand the assessment methods and decision criteria applied to trading as an option, barriers and opportunities to application as seen by the target decision makers.

This is meant to be the meat of the analysis. Interviewees will be selected based on the decision model and spatial analysis described above. We will be targeting decision makers and influencers in the demand sector, particularly those that are not consistently participating in trading and markets conversations. We will be targeting those that we would expect to benefit from trading and a mix of those that have either chosen not to evaluate trading as an option to meeting their needs; evaluated and rejected trading as an option; evaluated and chosen trading.

Interview questions can mirror [EPA's 2008 assessment of water quality trading report](#). This assessment can be framed as looking to see where WQT has made progress and where it hasn't in the last 10 years, whether any of the suggested EPA changes were implemented, and what other actions can be taken by other groups or organizations to push trading forward.

Interviews are time intensive, so we will supplement this with a survey getting at the same questions across a larger audience. This will allow us to go beyond anecdotes and into rigorous conclusions. We are looking for ways to partner with Forest Trends Ecosystem Marketplace and the surveys that will go out as part of their 2018 state of watershed payments report.

5. **Action Agenda and Outreach (25%, month, month 9-15 ):** Identify and disseminate the key leverage points through which the NN or Network members can increase the use of trading

The culmination of the assessment will be the development of a comprehensive and prioritized action agenda, specifying the products, processes, and campaigns that would address key barriers identified in interviews. Wherever possible, we will apply the results of the spatial analysis to make recommendations that are regionally specific. Amongst the action agenda, there are likely to be pieces well suited to the Network as a whole (e.g., develop a template pro-forma)

#### ➤ Timeline

We anticipate the demand assessment and report development will take approximately 1 year, with the report publication anticipated in June 2017. During the process, we anticipate at least one gathering to launch intermediate products, gather feedback, and build interest in the final action agenda.

Following the release of the report, the coordinator will work with the Steering Committee to conduct outreach to get the report taken up in target audience groups and fundraise for specific action agenda items.

#### ➤ Launch and Outreach

The power of the demand analysis comes when Network participants and other interested organizations from across sectors are activated to take on the action agenda. As part of the launch, we will coordinate with leads from a range of sectors to develop companion blog posts, sector briefing documents, template power point materials, or outreach plans for their networks.

#### ➤ What Does Success Look Like?

Ultimately, the outcomes that we would like to see from this effort are more transactions creating cleaner water. This will take time, so the metrics are tiered to realistic timelines for report uptake, action, and effect.

- a. Feb 2018: In the 3-6 months after the report release we are looking to see that it is reaching those who can implement the action agenda and that they are beginning to act on that information:

- i. Outreach events (e.g., webinars, conferences) and # of participants, particularly from targets sectors.
  - ii. Page views and downloads of the report and report materials
  - iii. Initiatives underway to address action agenda items (e.g., proposals developed or funded).
- b. June 2018: At 1 year after the report is released, we are looking to see that the barriers identified are being actively addressed and buyers are increasingly evaluating trading as an option.
- i. Initiatives underway to address action agenda items (e.g., proposals developed or funded).
  - ii. **[SOME METRIC FOR BUYER INTEREST AND CONSIDERATION OF TRADING]:** pre and post survey through NACWA members? But is that worth it? Asking: Was trading actively considered in your facilities plan? In your permit renewal?
- c. June 2019: After 2 years, we expect to see increased market activity
- i. Increase in investment in WQT programs over the 2017 State of Watershed Investment report
  - ii. # new states or programs
  - iii. Completed action agenda items

## ➤ Conclusion

This strategy represents an attempt to take a long hard look at the assumptions under which WQT has been operating and evaluate how well it matches the reality that decision makers are facing. The products are designed to support the full suite of Network participants in their individual and collective actions to move forward with WQT and Market-based approaches to clean water.