



Draft Principles Governing Development of an "Offsets" Policy

What is an "Offset"?

A non-traditional means of demonstrating indirect compliance with a Waste Discharge Requirement (WDR), for a given pollutant, by managing other sources and loads so that the net effect on receiving water quality from all known sources is functionally-equivalent to (and often better) than that which would have occurred through direct compliance with the WDR at the point-of-discharge. Offsets, which are voluntarily proposed by the discharger¹ as an Alternative Compliance Program (ACP), must be approved by the Regional Board and are enforceable through the WDR or other order.

Hypothetical Examples to Illustrate the Offset Concept²

Company X is seeking to discharge 10,000 gallons/day with an average TDS concentration of 1,200 mg/L to a groundwater basin with a TDS objective of 900 mg/L and a current average quality of 2,000 mg/L. Because there is no assimilative capacity available, the Regional Board intends to issue a WDR that restricts TDS concentrations in the discharge to no more than 900 mg/L. To meet this requirement, Company X would need to reduce the TDS in its discharge by 11.4 kg/day.

Offset Example #1: *(Equivalent Discharge Concentration)*

Company X proposes to construct and operate stormwater recharge basins in the area overlying the same groundwater basin. The new basins are expected to increase the total amount of precipitation that percolates to groundwater by 6 acre-foot/year (approx. 2 million gallons). The captured runoff has an estimated average TDS of 100 mg/L. The combined effect of the wastewater discharge and stormwater capture is 5.6 million gallons/year of recharge with a total volume-weighted average TDS concentration of 807 mg/L. Est. Offset ratio = 1.32:1

Offset Example #2: *(Equivalent Mass Reduction)*

Company X proposes to construct and operate a desalter in an area of the same groundwater basin where the average TDS concentration is 4,000 mg/L. They will pump and treat 1,000 gallons/day for the benefit of a nearby community. The reverse osmosis treatment system will reduce the average TDS concentration in the product water to 200 mg/L (effectively removing 3,800 mg/L or about 14.4 kg/day). Est. Offset ratio = 1.25:1

¹ Throughout this document the term "discharger" can connote either an individual discharger or a coalition of dischargers regulated under a common set of categorical WDRs.

² The examples are not being proposed as archetypes. They are offered solely to stimulate discussion and identify the key issues and concerns related to using offsets.

What is the purpose for establishing an Offsets policy?

- 1) Offsets provide a mechanism, other than approving an exception, for permitting non-compliant discharges in an area that lacks assimilative capacity while continuing to make progress toward attainment of water quality standards in the basin or management zone.
- 2) Offsets provide a regulatory alternative, other than prohibiting the discharge, when it is infeasible, impracticable or unreasonable to comply with WDRs directly.
- 3) Even where assimilative capacity is available, offsets provide another mechanism for permitting discharges with pollutant concentrations greater than the objective or higher than the current receiving water quality without necessarily causing degradation in that receiving water.
- 4) Offsets provide a mechanism to retarget the resources required to achieve compliance in order to produce greater public benefits (better net water quality, lower cost, less risk, faster, etc.).
- 5) Offsets provide a mechanism whereby diverse dischargers within the same management zone can pool available resources to implement Alternative Compliance Programs, in phases, on a risk-priority basis. And, the option to do so creates a strong incentive to establish such management zones.
- 6) Offsets provide a mechanism to develop and fund large-scale, long-term regional water quality improvement projects such as SSALTS by recognizing participation in such efforts as partial credit toward compliance.
- 7) Offsets create a market-based incentive to establish Mitigation Banks designed to implement water quality improvement projects by selling certified compliance credits. This is particularly useful for pooling the resources of many relatively small dischargers into a critical mass of funding to support projects that would normally be beyond their individual means.
- 8) Offsets encourage creative solutions to complex problems by measuring success at the true endpoint: net effect of water quality to end users. This outcome-oriented approach is consistent with the original goals of traditional water quality standards-based permit requirements.
- 9) The current Basin Plans do not authorize the Regional Board to consider offsets when evaluating compliance. Amending the Basin Plan to grant such authority would not automatically apply it in any instance. The Regional Board must take separate action, through the normal public notice and hearing process, to approve any proposed offset.

Where do Offsets fit within the array of existing regulatory options?

- 1) Offsets can be used, in conjunction with a "bubble permit," to demonstrate that the sum of all discharges and remediation projects is compliant with water quality standards. A bubble permit evaluates the net effect of the discharge and the offset, collectively, to determine compliance with WDRs designed to meet the objectives. As such, implementation of the offset project would be enforceable through the WDRs.
- 2) Where assimilative capacity exists, offsets can be used to reduce the amount of assimilative capacity that must be allocated in order to authorize the discharge. In such cases, the offset program may be construed as assuring the highest level of water quality which is reasonable, using Best Practicable Treatment or Control (BPTC) consistent with maximum benefit to the people of the state. This is particularly true where the net effect on receiving water quality and/or end users is better than would otherwise occur by enforcing strict compliance with water quality standards at the point of discharge. Implementation of the offset project would become a condition for allocating any assimilative capacity and enforceable through the WDRs.
- 3) Where there is no assimilative capacity available, or the Regional Board is unwilling to allocate the available assimilative capacity,³ offsets can be used to minimize the net negative affect on receiving water quality before authorizing an exception for non-compliant discharges. In such cases, the offset program may be used to help demonstrate that the discharger is making reasonable "Best Efforts" to mitigate excess pollutant loads where feasible and practicable. Implementation of the offset project would become a condition for granting the exception and is enforceable through the WDRs.
- 4) Offsets have been most commonly and successfully applied where a formal Wasteload Allocation (WLA) has been established for a given pollutant in a given receiving water. The presence of an accepted procedure for calculating and assigning pollutant loads facilitates the process needed to validation and account for credits generated by the offset program.
- 5) Although offset projects may be proposed for any type of discharge, they are a particularly useful tool to implement more cost-effective water quality control strategies through the categorical WDRs⁴ used to regulate diffuse non-point sources like the crop coalitions or the dairy industry. Historically, the large number of discharges spread over a wide area has made it nearly impossible to assemble adequate documentation to make the key demonstrations required by the state's Nonpoint Source Policy.⁵ Offsets may offer the opportunity to focus and simplify the necessary showings so that some monitoring and reporting resources can be redirected to support greater mitigation and remediation efforts.

³ California Water Code §13263(b)

⁴ California Water Code §13263(i)

⁵ Policy for Implementation and Enforcement of the Nonpoint Source Pollution Control Program. SWRCB Res. No. 2004-0030 (May 20, 2004).

Under what conditions should an Offset be considered?

- 1) When it is not feasible, practicable or reasonable for the discharge to comply directly with applicable WDRs. A "direct" demonstration of compliance may take place at the point-of-discharge or at the confluence with the receiving water. The latter allows the Regional Board to consider pollutant reductions that may occur as a result of system mixing or by the process of percolating through the ground to the aquifer.⁶
- 2) When it is not feasible, practicable or reasonable to prohibit a discharge that is unable to comply directly with applicable WDRs. This situation may also require that the Regional Board approve a conditional exception where the offset is one of the conditions.
- 3) When there is no assimilative capacity available in the receiving water or as a condition for allocating any available assimilative capacity in order to authorize a discharge. This situation may also require the Regional Board to approve a conditional exception.
- 4) When the net effect of authorizing the discharge, including the proposed offset, would result in better water quality in the receiving water than would be expected to occur if the discharge was able to comply with the applicable WDRs.
- 5) When the net effect of authorizing the discharge, including the proposed offset, would result in better water quality in the receiving water than would be expected to occur if the non-compliant discharge was prohibited altogether.
- 6) When the proposed offset project will provide substantially greater and more immediate public health protection (e.g. real risk reduction) than is expected to result if the discharge was able to comply with the applicable WDRs or the non-compliant discharge was prohibited completely.
- 7) When the proposed offset project is an integral part of and facilitates a larger strategic plan designed to achieve compliance with water quality standards through a phased program of implementation that has been reviewed and approved by the Regional Board.
- 8) When the cost and complexity of determining compliance for a large number of dischargers governed by a common set of categorical WDRs greatly exceeds the value of that demonstration and some portion of the resources required to provide such documentation will be redirected to provide substantial improvements in water quality or public health protection that can be more easily confirmed and quantified.
- 9) Pollutant removal, reduction, neutralization, transformation and dilution may all be acceptable means of generating offset credits (subject to verification by changes in mass or concentration at one or more specified assessment locations).

⁶ SWRCB WQO 81-5; In the Matter of the Petition of the City of Lompoc for Review of Order No. 80-03 (NPDES Permit No. CA 0048127), California Regional Water Quality Control Board, Central Coast Region (see pg. 6).

What implementation requirements should apply to Offsets?

- 1) Offsets should occur in the same receiving water where the discharge occurs. And, if a management zone exists, offsets should occur in the same management zone where the discharge occurs. An exception may be granted where the Regional Board authorizes an offset through an approved Mitigation Bank.
- 2) When there is no assimilative capacity available in the receiving water, the offset must result in a net improvement in water quality (e.g. the offset ratio must be > 1:1) compared to baseline regulatory requirements. Offset ratios <1:1 may be authorized only in accordance with the state's antidegradation policy.
- 3) Offsets must be for substantially the same pollutant. Cross-pollutant trading (e.g. TDS for nitrate, nitrate for arsenic, etc.) is should not be construed as "offsets." However, such "trading" may be permissible when there is assimilative capacity available for the pollutant being discharged and the discharger proposes to significantly reduce a different pollutant in the receiving water in a manner that provides "maximum benefit to the people of the state."
- 4) The proposed package (discharge + offset project) cannot result in localized impairments (e.g. "hotspots") to sensitive areas (esp. drinking water supply wells). This situation can best be addressed by implementing offsets within management zones that provide other mechanisms to assure water users remain protected. Additional mitigation may be required.
- 5) Offsets should be designed to cover a specified discharge for a defined period. Offsets can be renewed but must be periodically reviewed and reauthorized by the Regional Board. Generally, this process would coincide with the normal review cycle for the WDRs through which the offset was originally authorized.
- 6) Offsets must be approved, in advance, by the Regional Board. All terms and conditions governing implementation of the proposed Offsets must be enforceable through a WDR, Waiver or enforcement order. Failure to comply with the terms and conditions of an Offset approved by the Regional Board constitutes a violation of the underlying permit or enforcement order.
- 7) The terms and conditions governing an approved Offset should specify the remedial actions that must be undertaken by the discharger in the event that the Offset project fails for some reason and the metric(s) used to trigger such mitigations.
- 8) The Offset project must include a monitoring and reporting program sufficient to verify that the pollution reduction credits are actually being generated as projected and that these credits are adequate to meet offset the discharge loads in the ratio approved by the Regional Board.

More Hypothetical Examples for Discussion: *(the two examples are on page 1 of this handout)**

- 3) Municipal discharger operates wastewater treatment using a series of unlined ponds that overlie a groundwater basin with no assimilative capacity for nitrate-nitrogen. Average TIN concentration in discharge is 14 mg/L. As the city grows, discharger plans to replace the present treatment with an activated sludge system that will reduce the average TIN concentration to <10 mg/L. However, this upgrade is not scheduled to begin until 2024. In lieu of accelerating the construction plans to meet the current WDRs, the discharger proposes to expand the existing collection system to provide sewer services in an adjacent, upgradient community and to install additional aeration at the ponds to reduce the average TIN concentration from 14 mg/L down to 13 mg/L.. Mass balance calculations show that intercepting and treating sewage currently going to septic systems in that community and upgrading aerators will reduce the combined TIN load by 2% more than building the activated sludge system early. Expanding the collection system is estimated to cost less than one-third what it will cost to build the new wastewater treatment plant and will expand the utility's rate base by 10%. It will also result in the current pond system reaching capacity one year sooner than would occur under normal growth conditions. Therefore, the discharger also intends to begin the plant upgrade one year earlier than previously planned (e.g. 2023 instead of 2024).

- 4) A coalition of agricultural dischargers, operating under a common set of categorical WDRs, are discharging salts to the underlying groundwater basin where the average TDS concentration is 1,100 mg/L (e.g. "no assimilative capacity"). The agricultural operators are using the best available water supply (TDS = 175 mg/L) to irrigate their fields; but, with a 15% leaching fraction, the recharge quality averages approximately 1,050 mg/L. This is slightly better than the receiving water quality but slightly worse than the "Upper" end of the acceptable TDS range specified in the Secondary MCLs. However, TDS concentrations in the drinking water wells throughout the area are generally less than 700 mg/L. In lieu of increasing the leaching fraction, the dischargers are proposing to fund the first phase of the SSALTS implementation plan. This effort would focus primarily on preliminary engineering analysis (e.g. siting priorities), initial CEQA review, and regulatory permitting. The dischargers also propose to support the outreach efforts needed to secure the federal and state grant funding needed to pay for the capital construction anticipated in some subsequent phase of the program.

- 5) An industrial discharger disposes of its wastewater by a land application system that irrigates silage crops over a 500 acre area. The area overlies a groundwater basin where the average nitrate concentration is 30 mg/L (no assimilative capacity). There is an economically-disadvantaged community immediately adjacent to and downgradient from the discharger's property. The community draws its drinking water from the same basin and the groundwater is contaminated by both nitrate and naturally-occurring arsenic. In lieu of installing advanced waste treatment, the discharger proposes to construct and operate a well-head treatment system for the community that will reduce nitrate and arsenic levels to less than 10% of the state and federal drinking water standards.

- 6) The NGOs seek and receive significant grant funding from the HP Foundation to develop an independent, non-profit corporation with a charter to construct and operate small drinking water supply systems for economically-disadvantaged communities. However, the initial grant funding is sufficient to address only a small fraction of the total problem. The HP Foundation encourages the non-profit corporation to leverage the available resources by establishing a Nitrate Mitigation Bank. It does so and the Regional Board formally recognizes the mitigation bank as an approvable offset program (subject to continuing verification of nitrate credits by state authorities and independent auditors).
- (i) A coalition of dairy operators, governed by a common set of categorical WDRs, is discharging nitrate to groundwater at a large number of widely separated locations. Some of the dairies in the coalition are proximate to economically-disadvantaged communities with wells impaired by excess nitrate and some are not. Rather than attempting to discern the relative priority and develop appropriate offset projects for each dairy facility, the dischargers propose to propose to make regular payments to the Nitrate Mitigation Bank. The mitigation bank would be responsible for assessing needs and selecting the most cost-effective solution. Contributions from the dischargers would be used to meet the "matching requirements" or "O&M" expenses not normally covered by state and federal grants.
 - (ii) A separate crop coalition, governed by its own common set of categorical WDRs, is also dispersed over a wide area with varying proximity to economically-disadvantaged communities with nitrate-impaired wells. The coalition proposes to establish and collect an annual fertilizer use fee from its own members and to remit the proceeds to the Nitrate Mitigation Bank as an Alternate Compliance Program. The dischargers request that the Regional Board deem remission of said fees as an acceptable Offset under their WDR.
- 7) A small municipality relies on a pond system to treat its wastewater. Recharge water from the ponds presently has an average TIN concentration of 15 mg/L. Small, low cost operational improvements are expected to reduce that to about 13 mg/L. Meeting a WDR of 10 mg/L would require the city to construct and operate a modern activated sludge process that would cost several tens of millions of dollars. Therefore, to offset the remaining TIN, the city proposes to purchase, annex and retire 1,000 acres of active farmland on its border. The land will be rezoned for multi-use purposes and will have ordinances and/or covenants severely restricting the use of nitrogen-based fertilizers in this area. Mass balance analysis confirms that the load reduction which results by fallowing the farmland is functionally-equivalent to that which would be achieved by building a new wastewater treatment plant. However, the offset approach would cost 30% less and, eventually, the acquisition expense would be recovered when the land was re-sold for development. The ordinances and covenants would remain in place in perpetuity.

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