EPA-USDA National Workshop on Water Quality Trading

Managing Risk and Uncertainty

James Klang, P.E.
Senior Project Engineer
Kieser & Associates, LLC
Risk and uncertainty can enter trading programs during:

- **Credit determinations**
  - Introduced errors
  - Practice variability
- **Implementation of practices**
  - Site failure
  - Performance variability
- **Periods of market instability**
  - Lack of predictability
  - Wavering supply of credits
  - Increasing program requirements & costs
  - Record keeping (public transparency versus producer privacy)
Managing Risk and Uncertainty

Risk management by using a holistic program approach:

• Credit determinations and practice performance
  – Trade ratios (w/ margins-of-safety)
  – Create beneficial program policies, examples include:
    • Require practice design standards
    • Provide reasonable replacement windows
    • Require investment in a replacement pool as part of the purchase
Managing Risk and Uncertainty

Risk management by using a holistic program approach:

• Providing market stability and predictability
  – Support streamlined watershed permitting procedures
  – Honor past investments (updates target future activities)
  – Standardize procedures for approving credits
  – Consider methods to minimize credit supplier adoption barriers
  – Make increased program requirements & costs decisions with an appropriate consideration of cost margins and program redundancy
Questions?

James Klang, P.E.

Senior Project Engineer
Kieser & Associates, LLC
536 E. Michigan Ave., Suite 300
Kalamazoo, MI 49007

jklang@kieser-associates.com