

EPA-USDA National Workshop on Water Quality Trading

Managing Risk and Uncertainty

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Risk and Uncertainty

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?

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