

Tone & Parrett Catchment Market

FREQUENTLY ASKED QUESTIONS FOR CREDIT BUYERS

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What is a Catchment Market?

A Catchment Market is an on-line marketplace where Nature-based Projects and the Environmental Services from these Projects can be bought and sold.

The Tone and Parrett Catchment Market is a marketplace for Nature-based Projects that contribute to water quality improvement (phosphorus reduction), biodiversity net gain, carbon net zero targets, and flood mitigation across the catchment of these two Somerset rivers.

Wessex Water, with the support of Natural England and the Environment Agency, is developing this market as a pilot to demonstrate the potential for Nature-based Projects to meet regulatory commitments and support a green recovery. If successful, the Catchment Market concept will be applied across wider areas, including the remainder of the Somerset Levels catchment.

What is a Nature-based Project?

A Nature-based Project is a change in land use that creates or improves habitat for nature that also delivers other Environmental Services, such as pollution reduction and carbon storage. Nature-based Projects might include creating wetlands, planting new woodlands, or reverting intensive farmland to species rich grassland.

What are Environmental Services?

Environmental Services (sometimes referred to as ecosystem services) are the biodiversity, water pollution reduction, flood mitigation and carbon sequestration outcomes delivered by Nature-based Projects.

Environmental Services can include providing habitat for threatened species, reducing diffuse sources of nitrogen and phosphorus run off into waterbodies, and reducing peak flows in rivers and streams.

Who buys Environmental Services?

Environmental Services are typically bought by businesses that have obligations to regulators, customers and shareholders to reduce their environmental impacts. These businesses are referred to as Credit Buyers.

Credit Buyers might include water companies, housing developers and food manufacturers.

Environmental Services may also be bought by Government where they deliver public benefits, and philanthropic organisations where they contribute to wider environmental or social goals.

How are the Environmental Services verified?

The Environmental Services delivered by the Nature-based Projects will be accredited and verified using methodologies developed by an approved Standards Organisation, and endorsed by the Environment Agency and Natural England.

Once a Project has been implemented to agreed standards, the Catchment Market Operator will either:

- Issue Environmental Credits where it is the Standards Organisation (Phosphorus and Nitrogen reduction); or

- Register the Project for Environmental Credits issued by other Standards Organisations such as the Woodland Carbon Code.

The Environmental Services delivered across the catchment will be monitored and verified using agreed methodologies.

An independent Technical Advisory Group will provide advice on the scientific evidence to underpin these standards and methodologies.

Who can participate in the Catchment Market?

Farmers and other landholders who are prepared to make changes to the way their land is used and managed, to increase the habitat value of the land and the Environmental Services the land delivers. These landholders are referred to as Project Suppliers.

Businesses (Credit Buyers) who need to buy Environmental Credits for particular Environmental Services to meet their regulated obligations or voluntary commitments to improve the environment.

Businesses and organisations can also participate in the Catchment Market as:

- Project Buyers, who are prepared to finance Nature-based Projects that deliver a suite of Environmental Services (e.g. biodiversity, nutrient reduction and carbon) in exchange for the Environmental Credits they need to meet their own environmental obligations with the option to sell surplus credits to Credit Buyers. Wessex Water is the Project Buyer for the Somerset Catchment Market.
- Project Investors, who are prepared to finance the Nature-based Projects in exchange for a share of the revenues from the sale of Environmental Credits.

Are there any eligibility requirements?

Yes. Farmers and other landholders will need to demonstrate that they will have legal control of the land for the duration of any contract to establish and maintain the Nature-based Project(s). Farmers will also need to attest that they meet all relevant legal requirements regarding how the land is managed.

Businesses (Credit Buyers) will need to demonstrate that they are buying the Credits to meet their own regulated obligations or voluntary commitments.

Project Buyers and Investors will need to demonstrate that they have the capacity to make on-going payments to farmers and landholders for the Nature-based Projects, to contribute to the monitoring and verification costs and to meet any shortfall in environmental delivery.

All participants in the Catchment Market will need to comply with the relevant Catchment Market Rules.

Why participate in a Catchment Market?

The Catchment Market will supply high quality Nature-based Projects and Environmental Credits using methodologies approved by the environmental regulators, and recognised by planning authorities.

Buying Environmental Credits in the Catchment Market will save you the time and cost of sourcing and negotiating offsets. You will also not need to buy land or enter into agreements with landowners.

As a business, all you need to do is register the number and type of Nature-based Projects or Environmental Credits that you need, and then bid a price that you are willing to pay in the Market Round.

Prices in a Market Round will reflect the number and quality of the Nature-based Projects available (supply), and the number and willingness to pay of Buyers for the range of Environmental Credits available (demand).

Once there are sufficient Buyers and Suppliers to participate in a Market Round, a minimum (Reserve) price will be set for each type of Nature-based Project and for each type of Environmental Credit.

If the supply of Environmental Credits is high the market will settle at or close to the Reserve price.

How does the Catchment Market Work?

Like all markets, the Catchment Market works by bringing buyers and suppliers together. A Catchment Market is held over a period of time and operates in three Stages:

- 1) Expression of Interest;
- 2) Market Bidding; and
- 3) Contracting, Payment and Credit Registration.

Figure 1 - Stages of a Catchment Market



Stage 1: Expression of Interest

In the Expression of Interest Stage:

- Farmers and other landowners and managers (Suppliers) offer to implement Nature-based Projects on their land;
- The Catchment Market Operator calculates the Environmental Services these Nature-based Projects are expected to deliver, and registers Environmental Credits for those services;
- Businesses and other Buyers express their interest in buying the Environmental Credits.

Once there are sufficient Buyers and Suppliers interested, the Catchment Market Operator will release a Catchment Opportunities Statement setting out the types of Projects and Environmental Credits required and the Project location(s). The process then moves to the second stage.

Stage 2: Market Round

In the Market Round Stage, the Catchment Market Operator invites:

- suppliers to submit bids to implement the projects, and
- buyers to submit bids to buy the Environmental Credits.

A bid for a Nature-based Project will typically include:

- a price for implementing each Nature-based Project on the ground; and
- an annual payment for maintaining the project.

A bid for Environmental Credits will typically include:

- the quantity of each type of Environmental Credit the Buyer needs
- the period of time the Buyer needs the Credits to cover
- the price per Credit they are willing to pay.

Bidding is carried out in Market Rounds. A Market Round will last up to a month.

During a Market Round, Buyers and Suppliers will be provided with Market Information about whether the price(s) that they have bid are high enough (Buyers) or low enough (Suppliers) to secure a contract. Both Buyers and Suppliers will have an opportunity to re-bid their prices in response to Market Information.

At the end of a Market Round, if the Market Prices for the Environmental Credits is sufficient to meet the price a Supplier has offered to implement a particular Project, the Project will proceed to Settlement.

If a Supplier's bid price is not reached in one Market Round, the Supplier can either withdraw the Project from the Catchment Market, or wait for the next Market Round.

If a Buyer's bid price is not high enough to secure a contract, the Supplier can either withdraw their bid from the Catchment Market, or wait for the next Market Round.

At least two Market Rounds are expected each year.

Stage 3: Contracting, Payment and Credit Registration – Market Settlement

At Settlement:

- Suppliers whose bids have been successful will enter into a Nature-based Project Agreement to implement their Project(s).
- Buyers whose bids have been successful will enter into an Environmental Credit Purchase Agreement to obtain their Environmental Credits.

Once these Market Agreements are signed:

- Payments will be made to Suppliers for Project implementation
- Credits will be issued to the Buyers, or redeemed in accordance with the Buyers instructions.

Credits may be redeemed by Buyers to meet Local Planning Authority planning requirements or environmental permit obligations.

Who is the Catchment Market Operator?

The Catchment Market Operator (CMO) is the organisation that establishes and operates the Catchment Market.

The Catchment Market Operator:

- Registers Nature-based Projects and expressions of interest for Environmental Credits
- Calculates the Environmental Credits the Nature-based Projects deliver
- Registers the Environmental Credits
- Manages the Market Bidding and Settlement processes
- Transfers Credits to the Buyer

In the Tone and Parrett Catchment Market, EnTrade is currently acting as the CMO. The CMO's services are paid for by fees charged to the Project Buyer (initially, Wessex Water in the Tone and Parrett Catchment Market trial) and Credit Buyers when they enter into supply agreements.

INFORMATION FOR CREDIT BUYERS

An Expression of Interest process for Buyers to identify credits for Environmental Services they expect to buy in the first round of the Tone and Parrett Catchment Market will commence in February 2021.

What types of Credit can I obtain in the Tone & Parrett Market?

Although it is expected that interest will focus on Phosphorus Credits, to meet the nutrient neutrality requirements for Habitats Regulations, the range of credits that can be purchased through the market also includes:

- Biodiversity Offset Credits (calculated in line with Defra's Biodiversity Metric process, to be ready for compliance with biodiversity net gain requirements),
- Voluntary Carbon Credits (using either the Woodland Carbon Code or internationally recognised methods for farm carbon gains), and
- Natural Flood Management Credits (using advisory measures suggested by the Environment Agency relating to areas of Surface Water flow interception and peak flow storage).

Where can I use Phosphorus Credits bought in the Tone & Parrett market?

Nutrient Credits to meet neutrality offset requirements must be from locations sufficiently close to a housing or other development for them to be treated as allowable mitigation, as opposed to compensation. The Catchment Opportunities Statement will include maps endorsed by Natural England that will indicate the sub-catchment(s) from which Nutrient Credits must be obtained to be eligible for use as a mitigation offset for developments in particular areas.

All Environmental Credits sold in the Market will be assigned a location validity so that they can be guaranteed as meeting the mitigation requirements for a particular set of development locations.

As an example, Nature-based Projects in the Tone Catchment will be able to offset developments in that catchment in areas such as Taunton and Wellington.

However, developments in the River Brue catchment will not be capable of being offset by Credits from Nature-based Projects in the Tone & Parrett Catchments. An extension of the market to include Projects in the whole catchment area of the Somerset Levels is a possibility later in 2021, subject to a successful demonstration in the Tone & Parrett.

When can I buy Environmental Credits?

Between mid-February 2021 and mid-March 2021, housing developers and other potential Credit Buyers are being asked to register an interest in buying Environmental Credits. In parallel, farmers and other landholders will register the Nature-based Projects that they will offer to supply in the Market Round.

If enough Nature-based Projects are registered, the first Market Round of price bidding is expected to run in May 2021. Settlement and agreements could therefore be in place for the supply of Projects (between the CMO and Project Suppliers) and supply of Credits (between the CMO and Credit Buyers) from July 2021, with some early provision of Credits (allowing occupation of housing) from Autumn 2021.

How can I use Phosphorus Credits for Habitats Regulations compliance?

The rules for use of Credits in the planning process are still being discussed between the CMO and the Somerset Local Planning Authorities (LPAs). These discussions have been constructive and are expected to be completed by the end of February 2021. The proposed approach is outlined below:

- Environmental Credits will be bought from the Market through an Environmental Credit Supply Agreement (ECSA) between the CMO and the Credit Buyer. The ECSA will specify the location, duration and quantity of Credits that will be supplied,
- Subject to agreement with LPAs, the Buyer can use an ECSA as evidence that the proposed development will meet the Appropriate Assessment requirements for Phosphorus neutrality in the Somerset Levels. The LPA can then choose to issue Planning Permission with a requirement on the developer to achieve a level of nutrient offset that can be met by redeeming Credits from the Catchment Market prior to occupation of the planned development (e.g. with a Grampian Condition or s106 agreement).
- Credits will be issued to a developer once the delivery of the Nature-based Project to the required standard, has been verified by the CMO. Credits issued will be held on the Credit Register until the developer needs to redeem (or retire) the Credits to meet their planning conditions. The ECSA will require the CMO to secure, issue and register the Credits in accordance with an agreed schedule, that matches the phasing of the development.

If the market proceeds along its proposed timeline, the first Environmental Credit Supply Agreements which would allow a Local Planning Authority to grant planning permission could be in place from July 2021, with the earliest redemption date for any Credits likely to be December 2021.

What information will I need to provide to register an Interest in buying Credits?

First, you will need to register some basic details about you and your needs on the EnTrade website.

Then you will need to provide some information about the types, timing and locations of developments and their expected phosphorus (and biodiversity) offset requirements via an Expression of Interest portal. This portal will be available from mid-February 2021 and we will inform all registered Credit Buyers as soon as it goes live.

The Expressions of Interest will enable the Catchment Market Operator to:

- estimate the baseline demand for Environmental Services and how this matches to projected supply;
- design the market to ensure fair access and competition for Environmental Credits and payments for supply of Nature-based Projects.

Expressions of Interest are not binding. However, only formally registered interests will be allowed to proceed to the first round of Market bidding, later in 2021.

What price will I pay to meet an offset requirement of 1kg of Phosphorus?

As in any market, the price you pay will be variable, and in this case, depend on two major factors:

- the costs of the Nature-based Projects offered from the supply side
- the demand for Credits from other Buyers.

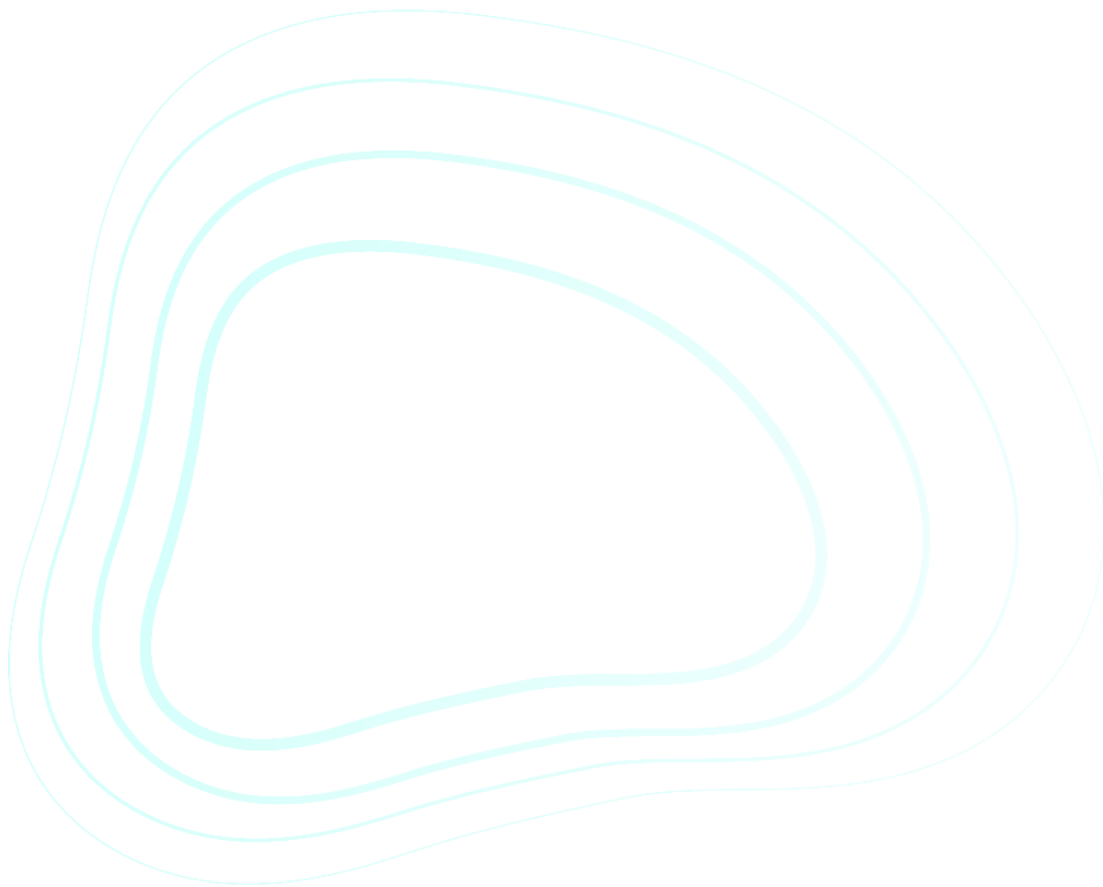
The Catchment Market Operator (CMO) is currently gathering information on the levels of interest from the supply side. The market will only run if there is enough interest in supplying projects. This will ensure that there is a degree of competition amongst potential suppliers. The CMO is also working with regulators to gather information on the design requirements (including longevity and location) that projects must meet to fulfil regulatory requirements.

The price of a Phosphorus Credit that settles in the Catchment Market will be for the period(s) required and be inclusive of all ongoing management, risk buffering, transaction, and verification costs. Additionally, the credit will be underwritten by the main Project Buyer in the market, Wessex Water, who takes responsibility for addressing any future shortfall in credits delivered by projects that supply to the market.

Although it is not possible to specify a price until the market runs, Buyers can set the maximum price they are prepared to pay. Because of the competitive elements to supply bidding, and the market's ability to assess the precise Phosphorus quantity and locational viability of credits that are supplied by of Projects, Buyers can expect to obtain credits for a cost that is lower than from purchasing land and taking it out of agricultural production.

Who should you contact to discuss or register your interest?

Register your interest on the EnTrade website or contact David Baxter by email, david.baxter@entrade.co.uk



Appendix

DETAILED FAQs

1. HOW MANY CREDITS WILL I BE ABLE TO BUY?

A Market Bidding Round is expected to run at least twice in each Calendar year. The number that can be bought in each Round will be limited by a Buyer's ability to demonstrate an actual requirement for offsets determined by the relevant LPA. Credits may be purchased to meet a scheduled development over a number of years, in which case the CMO would source the Credits over a number of Market Rounds. This limit on forward buying will help reduce price volatility if short-term demand is very high.

2. HOW LONG ARE CREDITS VALID FOR AFTER I BUY THEM?

Credits will be valid for the period needed to meet the planning condition for which they have been purchased.

3. CAN I TRANSFER CREDITS BOUGHT FOR ONE DEVELOPMENT TO BE USED BY A DIFFERENT ONE?

Credits can be transferred between developments subject to variation of the ECSA, provided the development is owned by the same person, has the same locational requirements, and the Credits are used within the original validity period. Approved transfers will be recorded in the Credit Registry.

4. WHAT HAPPENS IF A PROJECT SUPPLYING MY CREDITS FAILS IN SOME WAY?

You will not be affected if you are a Credit Buyer. Once you have entered into an Environmental Credit Supply Agreement, it is the responsibility of the counter party to that agreement (the Project Buyer, which is expected to be Wessex Water in the initial Market Rounds) to ensure that the overall number of Credits supplied by the market is matched by a verified supply, from a range of eligible Projects.

5. COULD I CREATE MY OWN NATURE BASED PROJECTS AND SELL UNUSED CREDITS THROUGH THE MARKET?

Yes. The Market Rules allow for any Project Buyer to register credits in the markets, provided they accredit projects and contribute to the Market's running costs in accordance with its Rules.

6. CAN I RESELL CREDITS THAT I NO LONGER NEED?

Yes, but only through the Catchment Market. Unused Credits which cannot be used or transferred to meet other requirements of the Buyer can be returned to the Market for reimbursement and resale in accordance with the Market Rules.

7. SHOULD I REGISTER AN INTEREST EVEN IF MY DEVELOPMENT IS OUTSIDE THE TONE & PARRET CATCHMENTS?

Yes. Subject to support for a first round of market bidding in the Tone and Parrett catchments. A second round of bidding, covering Projects that supply credits in the whole catchment of the Somerset Moors and Levels, could be opened within four months of the first round.

8. IS THE PURCHASE PRICE FOR CREDITS A ONE-OFF, OR WILL FUTURE PAYMENTS BE NEEDED?

Credits are purchased for a defined period (eg 2 years or permanent) with a single payment.

9. HOW DO YOU ENSURE THAT SUPPLIERS DO NOT COLLUDE TO SET ARTIFICIALLY HIGH PRICES?

The Market will be operated by an independent Catchment Market Operator who will ensure that the Market Rules on transparency and confidentiality are followed to prevent unfair releases of information that could distort prices. Market participants must attest that they have not engaged in anti-competitive behaviours. Serious penalties exist for such behavior. Market monitoring will be put in place to detect evidence of patterns

of bidding that may indicate collusion. Any evidence of such behaviors will be forwarded to the relevant authorities.

10. CAN YOU PROVIDE ME A FIXED PRICE?

The basis of a market is to find the mutually beneficial price. This will be markedly affected by local conditions for supply and demand; hence a fixed price cannot be settled ahead of the Market. Once Market Bidding Rounds are completed, the price settled for credits in that round will be fixed.

11. HOW DO I KNOW THAT CREDITS ARE RELIABLE?

All Credits placed on the market for sale will be derived from Projects that have been accredited using standards agreed by an Interim Steering Group which includes Natural England and the Environment Agency. The Market Rules sets out the detailed requirements that are followed to ensure credits are reliable, including the long term monitoring and verification approaches, plus the responsibilities on the Project Buyer (Wessex Water) to supply additional credits at its own cost should any short- falls in Project performance be uncovered by the Monitoring and Verification Plan.

12. WHY IS THE MARKET FOCUSED ON TONE & PARRETT?

The Market concept was originally designed before the wider requirements for nutrient neutral development in the catchment of the Somerset Levels and Moors became a formal issue. The Project Buyer in the Market, Wessex Water, developed the market to focus on meeting its regulatory compliance requirements which are solely focused in the Tone and Parrett catchments. If the concept works, then it will be possible to extend coverage within a few months of testing.

13. WHY ARE DEVELOPERS HAVING TO BUY CREDITS FROM WESSEX WATER?

At the moment, Wessex is backing the Market as a trial. The Market is being set up to allow many different project buyers or investors to supply projects that can be accredited, provided they are willing to abide by the Market Rules which are overseen by a Steering Group of regulatory authorities as well as Wessex Water.

14. WHO DECIDES THE SIZE OF MY PHOSPHORUS OFFSET REQUIREMENT?

The Local Planning Authorities are responsible for deciding the approaches that must be used to calculate Credit Requirements.