

Tone and Parrett Catchment Market

FREQUENTLY ASKED QUESTIONS FOR PROJECT SUPPLIERS

5 January 2021

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.

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 Environmental Services. Nature-based Projects might include creating wetlands, planting new woodlands, and reversion of arable farmland to species rich grassland.

What are Environmental Services?

Environmental Services (sometimes referred to as ecosystem services) are the biodiversity, water quality, 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.

Businesses 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 approved by the Environment Agency and Natural England.

Environmental Credits will be issued by the Catchment Market Operator once a Project has been implemented to the agreed standards.

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

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 landowners who are prepared to make changes to the way their land is used and managed, that will 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 are prepared to buy Environmental Credits to meet their regulated obligations or voluntary commitments to improve the environment.

Project Buyers are businesses or organisations 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 a share of the Environmental Credits they need to meet their own environmental obligations.

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 (See Appendix Question 11).

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, and 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?

Suppliers of Nature-based Projects will be paid a price for their Projects which reflects the prices offered by Buyers for the Environmental Credits from these Projects.

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 demand for Environmental Credits is high the market will settle above the Reserve prices.



Farmers and other landowners and managers

Offering a Nature-based Project for sale in the Catchment Market will give you an opportunity to secure a medium – long term contract with Wessex Water to establish and maintain the Project, and which will provide a predictable income.

If your Nature-based Project can generate more than one type of Credit e.g. nutrient reduction **and** biodiversity, **and** there are buyers for these Credits, this will be reflected in the contract and you will obtain higher on-going payments for the Project.

Businesses and other Buyers

Offering to buy Environmental Credits in the Catchment Market will provide an opportunity to reduce the cost of finding and contracting Environmental Services or offsets to meet your environmental obligations.

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: Expression of Interest; Market Bidding; and Market Settlement.

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 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 been 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: Contracts, Payments & Credits - 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, EnTrade is currently acting as the CMO. The CMO's services are paid for by fees charged to the Project Buyer (Wessex Water) and Credit Buyers.

INFORMATION FOR FARMERS AND LANDOWNERS

An Expression of Interest process for the first round of the Tone and Parrett Catchment Market has commenced. Projects need to be registered by the end of January 2021.

Where are you looking for projects to be located?

Broad target areas have been identified for the first Expression of Interest. These target areas can be found on the EnTrade website.

The precise areas will depend in part on who the Buyers are and what types of Environmental Credit they need.

For example, a key focus for Buyers in the Tone and Parrett catchment market is nutrient reduction, especially Phosphorus.

Nature-based Projects on land that

- have high clay content soils;
- are close to and/or connected to a water course; and
- currently have relatively intensive agricultural land use,

may be well suited to deliver Phosphorus reductions.

Nature-based Projects that are close to, or connect areas of priority habitat for wildlife, may be able to generate Biodiversity Credits. Biodiversity Credits can be used to meet biodiversity net gain obligations.

If your land has some of these characteristics, we are particularly keen to hear from you.



When will the first Catchment Market Round be held?

Between November 2020 and January 2021, farmers and landowners are being encouraged to register their interest in implementing Nature-based Projects.

The types of Nature-based Project are:

- reversion of intensive farmland to species-rich pasture;
- creation of wetlands / ponds;
- creation of new areas of woodland;
- planting new hedgerows;
- establishing edge-of-field / in-field buffer strips;
- livestock exclusion from watercourses; and
- growing overwinter cover crops.



Visit www.entrade.co.uk/somerset-catchment-market for more information about the type and specification of Projects.

If sufficient Nature-based Projects are registered, the first Market Round is expected to run in March 2021.

What information will I need to provide to register a Project?

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

Then you will need to provide some information about the types and locations of potential Nature-based Project(s), along with some basic farm data.

This will enable the Catchment Market Operator to:

- estimate the baselines for the Environmental Services provided (e.g. current levels of nitrogen and phosphorus loss to water from the land); and

- assess the potential of the project to generate Environmental Credits.
- Details of the proposed Projects will then need to be entered onto the EnTrade website.

Figure 2 - The Expression of Interest Process (Supplier)



What price will I be paid?

The price you will be paid for a Nature-based Project will depend on the type, scale and location of the Project. It will also depend on the duration of the Agreement and the conditions on the future land use that you are willing to accept.

Example: the price of a wetland

The market price for phosphorus credits from a wetland that meets the requirements for offsetting under the Habitats Regulations is likely to be higher than from a wetland that does not meet these requirements.

To secure this higher price you will need to:

- be in the right part of the catchment
- maintain the performance of the wetland, which will be monitored by the Project Buyer, and
- agree to put in place a legal mechanism, such as a covenant, to ensure that it is retained as a permanent feature on the property.

If you do not want to or are unable to enter into these sort of arrangements, your wetland will still be valuable for the phosphorus reduction, however you can expect the market price to be lower.

You will be paid the market price for the Market Round in which your project is registered.

A minimum (Reserve) price will be set for each type of Nature-based Project at the start of each Market Round.

The first set of Reserve prices will be set in late spring 2021.

Market research indicates that if there is enough demand for Credits from Credit Buyers, prices paid will be above what could be earned through alternative land management schemes such as Countryside Stewardship.

Who should you contact to discuss or register your interest?

FWAG-SW is working with Wessex Water to assist farmers and other landowners and managers to identify and register their Projects.

You may contact FWAG-SW or log-in to EnTrade for further information and to register your interest.

Appendix

DETAILED FAQs

1. WHEN WILL THE PAYMENTS BE MADE?

Each Project will be covered by a standard Nature-based Project Agreement with Wessex Water which will set out payment schedules for any ongoing maintenance payments. Some Projects will attract upfront payments to cover establishment costs.

2. WILL THE ONGOING PAYMENTS INCREASE IN LINE WITH INFLATION?

The Nature-based Project Agreement with Wessex Water will set out the ongoing payments which will be linked to an inflationary index.

3. HOW WILL THE DIFFERENT CREDITS BE CALCULATED AND WHO BY?:

The Catchment Market Operator will calculate the credits using information provided by the Project Supplier using methodologies approved by the Environment Agency and Natural England.

4. AT WHAT STAGE IN THE PROCESS AM I COMMITTED?

You can pull out at any time during the Expression of Interest Stage. If you choose to participate in the Market Bidding Stage, you will be committed once you have made a Bid. If your Bid is accepted you will be expected to enter into a Nature-based Project Agreement with Wessex Water at the Bid Price you submitted.

5. HOW LONG ARE THE AGREEMENTS?

The length of an Agreement will depend on the type of Project being implemented and can be proposed by the Project Supplier. Some Agreements will be for a fixed-term (up to 9 years). Other Agreements may involve retaining the Project on the land on a permanent basis. Permanent and longer-term agreements will attract higher prices in the Market.

6. CAN I EXIT THE AGREEMENT?

Yes, but there will be costs. These costs will depend on the type and length of the Agreement. The Project Agreement will set out the rules that must be followed by a Project Supplier who wants to exit the Agreement. In general, Project Suppliers who want to exit their Agreement will need purchase Credits from the Market equivalent to those that they were contracted to supply. There may be some exceptions – such as the availability of a better deal under future ELMS schemes (see answer to Question 14).

7. WHAT HAPPENS WHEN THE AGREEMENT EXPIRES?

This depends on the type of Project and Project Agreement. In general, when fixed-term Agreements expire Project Suppliers will be free to do with their land what they wish to, subject to general legal restrictions. However, Project Suppliers who have been paid to retain the Project on the land on a permanent basis, will be required to do so.

Some specific points for particular Project types are given below:

PERMANENT PROJECTS LIKE HEDGEROWS AND WETLANDS.

Some Projects such as wetlands and hedgerows are likely to be considered permanent by authorities and therefore the Project Provider would need to seek permission from the relevant authority to remove them under the relevant legislation (e.g. the Hedgerow Regulations 1997). Project Providers should also be aware that there may not be any ongoing maintenance payments available for the upkeep of such Projects once the term of the agreement with Wessex Water comes to an end.

REVERSIBLE PROJECTS LIKE ARABLE REVERSION AND BUFFER STRIPS.

Although there is no obligation from Wessex Water to maintain this type of Project once the Agreement expires, the Project Provider may need to seek permission from the relevant authority to return the species-rich grassland land to intensive agricultural production. Project Providers should also be aware that there may not be any ongoing maintenance payments available for the upkeep of such Projects once the term of the agreement with Wessex Water comes to an end.

FELLING WOODLAND ONCE THE AGREEMENT HAS EXPIRED?

Statutory requirements for felling apply and these must be observed.

8. ARE THE AGREEMENTS WITH THE LANDOWNER OR TENANT OF THE LAND?

Agreements are with the person or organisation in control of the land for the duration of the Agreement – this person or organisation is known as the Project Supplier. For permanent Projects, the Agreement may specify requirements for Covenants on the land that will transfer to any new owner. It is a tenant's responsibility to obtain any necessary permission from their landlord to enter an Agreement.

9. WHO OWNS THE ENVIRONMENTAL CREDITS GENERATED BY THE PROJECT?

Once a Project Supplier enters into a Nature-based Project Agreement, the rights to the Environmental Credits from the Project will be transferred to the Project Buyer (Wessex Water). Credits generated by a Project will initially be owned by Wessex Water. The CMO will track the source and ownership of Environmental Credits through the Credit Registry.

10. WHAT HAPPENS IF THE VALUE OF THE CREDITS GENERATED BY THE PROJECT SIGNIFICANTLY INCREASES OVER THE TERM OF THE AGREEMENT?

Under a standard Nature-based Project Agreement, the rights to the Environmental Credits from the Project are transferred to the Project Buyer (Wessex Water). If a Supplier wishes to retain some of the Environmental Credits they must indicate this in their Project bid(s). Project Suppliers who retain some of the Environmental Credits can expect to be paid less for the Project. Credits retained by a Project Supplier will be registered in the Credit Registry. Subject to the Market Rules, owners of Environmental Credits can sell their Credits in a future Market Round.

11. ELIGIBILITY: WHAT SORT OF LAND IS ELIGIBLE?

Eligibility criteria with regard to:

LOCATION

All land parcels within the target catchment will be eligible. However, to meet the needs of particular Credit Buyers some Projects need to be in very specific locations such as; the catchment of a protected area, e.g. a Ramsar wetland, or a drinking water protection zone. Higher prices will usually be paid for Projects in these locations (subject to meeting other conditions such as permanence).

TENURE/CONTROL OF LAND

See answer regarding non-farming landowners below.

ARE NON-FARMING LANDOWNERS ELIGIBLE?

Yes, any owner or manager of land is eligible to Register and participate in the Catchment Market as long as they have full control of the land for the period covered by the Agreement, and all necessary permissions to implement the Project.

PRIOR COMPLIANCE WITH EXISTING REGULATIONS

All relevant legal requirements regarding how the land is managed should be met for a project to be eligible. This legislation includes but is not restricted to: The Nitrate Pollution Prevention Regulations 2015 (NVZs), The Environment Permitting (England and Wales) Regulations 2016 and The Reduction and Prevention of Agricultural Diffuse Pollution (England) Regulations 2018 (the Farming Rules for Water). Project Suppliers will be asked to

declare that any land being entered into the Agreement is currently being managed in compliance with the relevant legislation, and that it will be managed that way for the duration of the Agreement.

12. WILL I NEED TO OBTAIN PLANNING AND OTHER PERMISSIONS?

For some Projects it will probably not be necessary to obtain planning or other permissions. But for other types of Project such as wetlands, and potentially woodlands, permissions and permits may be required. It is the Project Supplier's responsibility to check and obtain all necessary permits and permissions. Examples of permissions that might need to be sought are from Highways Authorities for wetlands near public highways, or the Environment Agency for any Projects on floodplains.

13. COMPATIBILITY WITH OTHER EXISTING LAND MANAGEMENT SCHEMES:

EXISTING PUBLIC SCHEMES FROM DEFRA.

Other than for receipt of payments from the Basic Payment Scheme and some Capital Grants, Fields or part-fields already entered into any other payment scheme or contract will not be eligible for the Catchment Market until those other contracts have expired. Fields or part-fields that are registered as part of Countryside Stewardship Capital Grant scheme could still be eligible (for example, where a whole field has been registered as part of a hedgerow creation or farm track grant).

OTHER PRIVATE SCHEMES SUCH AS VOLUNTARY CARBON OFFSETTING.

Land parcels that are already entered into any other payment scheme or contract will not be eligible for the Catchment Market until those other contracts have expired.

14. COMPATIBILITY WITH FUTURE PUBLIC SCHEMES SUCH AS THE NEW ELMS.

The Agreement will stipulate that fields or part-fields cannot be entered into any other public or private payment scheme or contract, but Wessex Water envisages that there will be a clause in the Agreement that allows the landowner to exit the Agreement if ELMS payments exceed the payments under the Agreement and Wessex Water has not agreed to match these payments.

15. CAN EXISTING PROJECTS PARTICIPATE IN THE MARKET (E.G. PROJECTS THAT HAVE BEEN FUNDED BY PREVIOUS SCHEMES BUT ARE NOT CURRENTLY UNDER ANY AGREEMENT)?

No, the Catchment Market pays only for new Projects. Eligible land must demonstrate that it was Cultivated Agricultural Land i.e. land that has been ploughed, sowed or harvested at least once in the last year and/or land where manure or fertiliser has been applied at least once in the last 3 years.

Other mechanisms may be available to pay for retention of existing land uses.

16. CAN I SELL PRODUCTS AND SERVICES FROM THE CONTRACTED LAND?

Provided it does not impact the requirements of the Agreement and the way in which Credits are generated, then it should be possible to sell products (e.g. hay) and services (e.g. wildlife safaris) from the contracted land.

17. WHO WILL PAY FOR ANY ADDITIONAL PROFESSIONAL COSTS THAT MIGHT BE INCURRED THROUGH THE PROCESS?

Professional costs associated with the design and implementation of a project are the responsibility of the Project Supplier.

18. WHAT ARE THE TAX IMPLICATIONS FOR THE OWNERS AND TENANTS?

There may be tax implications of receiving income from Nature-based Projects for both landowners and tenants and we encourage you to seek professional advice before entering into any Agreement. Wessex Water will not be able to pay for any tax advice that potential Project Suppliers obtain.

19. WHO WILL YOU SHARE MY DATA WITH?

Your personal data will be collected and stored by EnTrade for the purpose of operating the Catchment Market. Your personal data will be managed in accordance with EnTrade's Privacy Policy which can be found at www.entrade.co.uk/privacy-policy.

Information about your land and its current use, along with information about potential Nature-based Projects will be used by EnTrade to estimate the potential of your Project(s) to generate Environmental Credits.

Where the Farming and Wildlife Advisory Group has assisted you to Register for the Catchment Market, any personal data that you provide to FWAG will be managed in accordance with FWAG's Privacy Policy which can be found at: www.fwagsw.org.uk/privacy-and-cookies-policy

Your information and personal data may be shared with Wessex Water for the purpose of entering into a Nature-based Project Agreement. Your personal data will be managed in accordance with Wessex Water's Privacy Policy which can be found at www.wessexwater.co.uk/privacy-policy.

20. HOW WILL WESSEX WATER MONITOR THE ENVIRONMENTAL BENEFITS CREATED BY PROJECTS, AND WHAT RIGHTS WILL THEY HAVE TO ACCESS THE LAND COVERED BY AN AGREEMENT?

In order to verify the environmental outcomes created by a Project, the Agreement will include the right for Wessex Water to access the relevant land to undertake environmental surveys and take samples for analysis (e.g. soil and water samples) but only after giving the Project Supplier reasonable prior notice and whenever possible at a mutually convenient time.