

Catchment Opportunities Statement

MARKET ROUND 3

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Prepared in accordance with Rule 3.2 of the Catchment Market Rules

Prepared by: EnTrade as the Catchment Market Operator

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PURPOSE

This Environmental Markets Opportunities Statement ('**Opportunities Statement**') provides Market Participants that have registered for Somerset Catchment Market Round 3 with information to inform their Bids and Offers.

Somerset Catchment Market Round 3 will run from 09:00 Monday 17th June 2024 until 17:30 Monday 24th June 2024.

The Opportunities Statement:

- Informs Environmental Credit Buyers and Investors about the types and quantity of Environmental Credits expected to be available in the Market Round (**Demand**);
- Informs Project Suppliers about the type, quantity, and broad locations of Nature-based Projects available to provide different Environmental Services (**Supply**); and
- Sets out the types and/or locations of Eligible Projects agreed by the relevant Competent Authority(ies) able to supply Environmental Services that meet regulatory requirements (**Validity**).

The purpose and content of the Catchment Opportunity Statement are set out in the Market Rules. The Market Rules are published on the Interim Environmental Markets Board website [here](#).

MARKET ROUND 3 – GEOGRAPHIC AREA OF OPERATION

The Market will operate in the Somerset Levels and Moors Surface Water Catchment, as illustrated by the green shading in **Figure 1**.

This third Market Round ('**MR3**') is for:

- the supply of phosphorus mitigation Projects within the market operation area; and
- the sale of phosphorus mitigation credits ('**P-Credits**') from Contracted Projects in this market operation area.

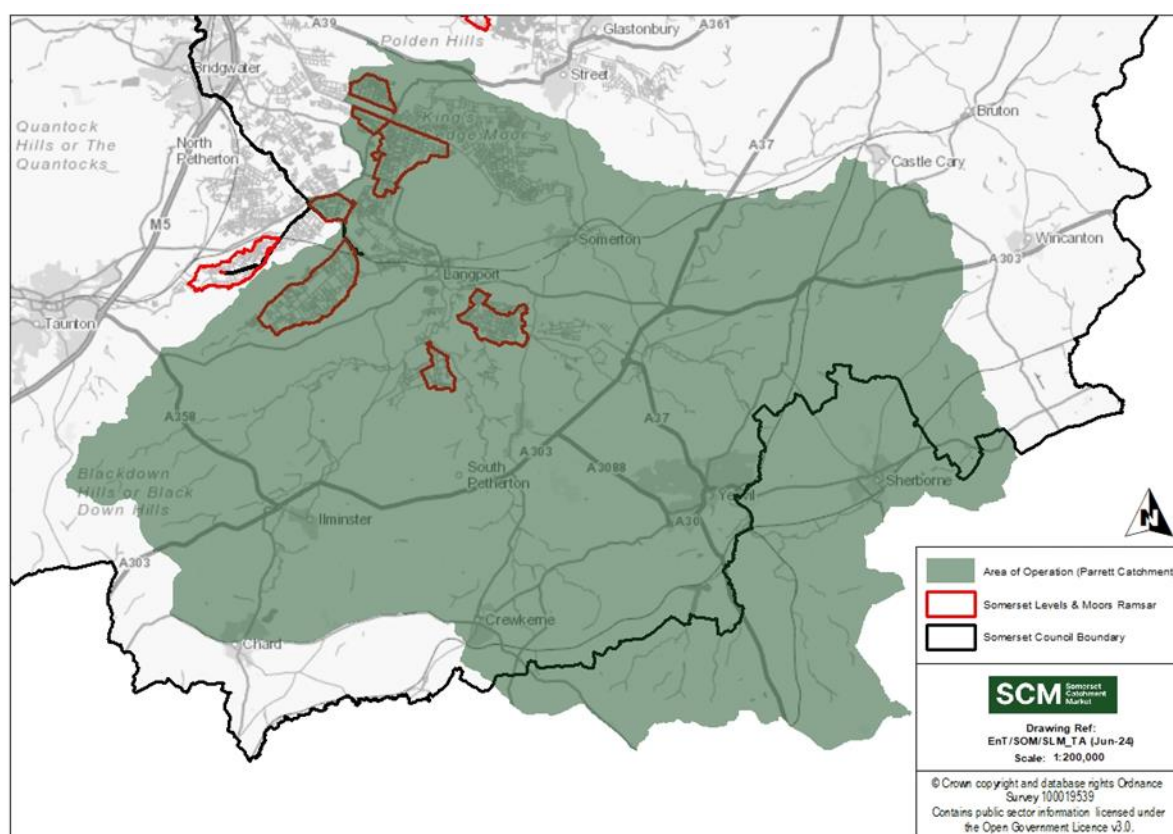


Figure 1: Eligible Area Map

This area of operation reflects the availability of mitigation in MR3 within the Parrett Catchment.

MARKET ROUND 3 – SUPPLY

This Section sets out the Registered Supply of Projects and the Environmental Credits available in MR3.

Supply of Projects – Type and Location

Table 1 shows the four types of Projects registered by Suppliers for MR3. Project Specifications are available on the website upon request.

Table 1: Project types, descriptions, and specifications

Project Type	Ongoing or Fixed-term phosphorus mitigation	Project Description
Arable reversion	Fixed-term	Reverting whole or part fields from arable or intensive grassland to low/medium-input grassland, to deliver fixed-term phosphorus mitigation for 3 to 5 years
Cover crops following combinable crops	Fixed-term	Planting whole or parts of arable fields (used for combinable crops, or maize and other late harvest crops) with fast growing dense cover crops, to deliver fixed-term phosphorus mitigation for 1 to 2 years
Interceptor wetland	Ongoing	Designed to capture and treat the nutrient run-off from surrounding agricultural land and maintained to deliver phosphorus mitigation for a minimum of 80 years
Woodland	Ongoing	Planting new woodland for specialist timber products on land that was previously intensively managed, excluding any phosphorus fertiliser requirement. Maintained to deliver phosphorus mitigation for a minimum of 80 years.

Supply of Projects – Quantity

The quantity of on-going P-Credits available in MR3 has been calculated by EnTrade using the approved Standard¹ applying the precautionary principle to account for uncertainty.

The quantity of short-term P-Credits available in MR3 has been quantified by EnTrade using the Standard approved by the Environment Agency for use in Wessex Water's Catchment Nutrient Balancing Programme.

The quantity of Project Supply registered for MR3 is shown in **Table 2**.

Table 2: Area of Registered Project Supply.

Project Type	Area (ha)
Arable reversion	36.10
Cover crops following combinable crops	114.84
Wetland	2.00
Woodland	11.67

¹ Graham, J., Young, D. and Yang, L. (2023), *Interim Nutrient Reduction Standard for Interceptor Wetland and Interceptor Woodland Projects*, Arup EnTrade, London.

Registered Projects can provide a total supply of approximately 48.46 kg/annum of on-going P-Credits.

Supplier Offer

To make an Offer through the on-line Portal, a Registered Project Supplier must enter their:

- (a) Project Registration Number
- (b) Offer Amount
- (c) Retained rights to environmental services.

Legal Status

- Offers may only be made by a Registered Supplier.
- Offers are for the delivery of a Registered Project.
- A Supplier whose Offer is successful in MR3 is legally bound to enter a **five-year agreement** to deliver the Project on the terms of the Nature-based Project Agreement ('NBPA').

Under the NBPA a successful Supplier will receive:

- their Offer Amount for the delivery of the Project, **plus**
- a lump sum for the on-going land use and maintenance of the Project, **plus**
- their share of any Market Surplus in the form of a Project bonus.

Project Registration Number

Suppliers who have Registered a Project(s) for Market Round 3 will have received a unique Project Registration Number.

The Project Registration Number will need to be entered into the Portal before you enter your Offer Amount.

Offer Amount

Project Suppliers must enter an Offer Amount that is the **minimum payment that they are willing to accept** to deliver the Project by the Delivery Date to the Project Specifications and Management Plan as set out in their Landholder Pack.

The Offer Amount must be exclusive of VAT.

In addition to the Offer Amount, successful Suppliers will also receive a Lump Sum Payment to cover the Lifetime Land Use and Maintenance for the Project. The value of land use and maintenance payments for different Project Types are set out in **Table 3**.

Table 3 - Value of Payments made to Project Suppliers

Project Type	Year 1 Establishment and Delivery	Annual Maintenance Payment per ha	Total Lifetime Land Use Payment per ha	Time Period Covered
Wetland	Amount set by Project Supplier (Offer)	£950	£20,000	> 80 years
Interceptor Woodland	Amount set by Project Supplier (Offer)	£650	£20,000	> 80 years
Woodland	Amount set by Project Supplier (Offer)	£200	£20,000	> 80 years

Project Type	Year 1 Establishment and Delivery	Annual Maintenance Payment per ha	Total Maintenance Payment per ha	Time Period Covered
Arable Reversion	Amount set by Project Supplier (Offer)	£720	£3,600	5 years
Cover Crops after Maize	Amount set by Project Supplier (Offer)	£135	£135	1 year
Cover Crops after Combinable Crops	Amount set by Project Supplier (Offer)	£160	£160	1 year

The full Maintenance and Land Use Payments will be paid to Suppliers as part of their Final Payment on verification of Project Delivery.

The Market Settlement Mechanism ensures that a successful Supplier will receive no less than their Offer.

Project Bonus

If successful, Project Suppliers will **receive at least their Offer Amount** for their Projects. Project Suppliers may also receive a Project Bonus. The size of the Project Bonus will depend on the Project Supplier's contribution to any surplus created by the trades in the Market Round.

Market Bonus

Because the quantify of phosphorus mitigation is estimated in advance, the Habitats Regulations require a highly precautionary approach to Project accreditation.

As the rights to P-Credits are traded in advance of the delivery of the mitigation, EnTrade also maintains a Credit Reserve (P-Credits that are not available for sale in MR3), to help eliminate any residual risk that the number of P-Credits traded could exceed the level of phosphorus mitigation actually delivered.

The Credit Reserve for MR3 has been approved by the Interim Board at 20%.

Credits from the Credit Reserve will be released if:

- Projects have been verified as being delivered to required Project Specifications; and
- Monitoring shows that Projects are exceeding their accredited performance; and
- Projects have been maintained in accordance with the approved Management Plan.

Project Suppliers may also receive a Market Bonus(es) from a share of the resale of any unused P-Credits released from the Credit Reserve in the future.

Retained Rights

All Projects in MR3 will deliver phosphorous mitigation. Some Projects may also deliver biodiversity gain.

All Project Suppliers have agreed to allow EnTrade to transfer rights to the phosphorus mitigation to Buyers if their Offer is successful in the Market Round.

Project Suppliers retain their rights to Biodiversity Units from the Projects and will provide a First Offer to EnTrade to sell these rights in a future Market Round.

MARKET ROUND 3 – DEMAND

This Section sets out the Registered Demand for P-Credits in MR3.

The total registered demand for on-going P-Credits in Market Round 3 is 24.71 kg/annum.

The registered demand to meet additional credit requirements is approximately 4.29 kg/annum.

Credit Validity

Somerset Council ('**Council**') has agreed that P-Credits bought by developers through the Market will be an approved form of evidence of phosphorus mitigation that the developer can redeem to meet 'nutrient neutrality' requirements² in accordance with Regulation 63 of the Conservation of Habitats and Species Regulations 2017³.

Prior to its approval of the commencement of a development the Council will require a developer to:

- enter into a s106 Agreement.
- submit an Allocation Certificate provided by EnTrade confirming the developer has been allocated the rights to the required number of P-Credits to meet their Credit Requirement.

The Council will also accept a Bridging Certificate from EnTrade that confirms that fixed-term Bridging Credits have been issued to a developer in accordance with their s106 Agreement in advance of the Issue of on-going P-Credits.

Credit Types

As a Registered Buyer you can make commercial Bids for both on-going and short-term P-Credits to meet your requirement for offsite phosphorus mitigation ('**Registered Credit Requirement**').

On-going phosphorus mitigation Projects may take up to five years to deliver and verify. To enable you to be certain that mitigation has been delivered prior to occupancy, EnTrade will secure fixed term Projects and issue P-Credits to bridge any gap until on-going P-Credits can be issued ('**Bridging Credits**').

Bridging Credits can only be issued where:

- the fixed term Projects that generate the Bridging Credits have been verified;
- the Projects that provide the on-going mitigation have been contracted; and
- the Buyer has paid for the on-going mitigation in full.

² Wood, A., et al (2022) *Nutrient Neutrality Principles*. Natural England Technical Information Note. TIN186. Natural England.

³ UK Government (2017) *The Conservation of Habitats and Species Regulations 2017*. Available at: <https://www.legislation.gov.uk/uksi/2017/1012/contents/made>

Buyer Bid

To make a Bid through the on-line Portal, a Registered Buyer must enter:

- their Unique Credit Requirement ID
- confirmation of their Bid Quantity for:
 - On-going P-Credits
 - Short-term P-Credits
- their Bid Amounts
- their latest Delivery Date.

Legal Status

- Bids may only be made by a Registered Buyer.
- Bids are for the supply of P-Credits to meet a Registered Credit Requirement.
- A Registered Buyer whose Bid is successful in MR3 is legally bound to enter into an agreement to buy P-Credits on the term of the Environmental Credit Supply Agreement ('**ECSA**').

Under the ESCA a successful Buyer will pay:

- the Bid amount for the P-Credits they have secured, **less**
- their share of any Market Surplus in the form of a Credit discount.

Unique Credit Requirement ID

A unique Credit Requirement ID has been provided to each Buyer at Registration, and this will be required to submit a Bid.

Bid Quantity

Each Registered Buyer has a Registered Credit Requirement calculated using the calculator approved by Somerset Council⁴ and submitted by Buyers at Registration.

The Registered Credit Requirement may include:

- a short-term phosphorus mitigation requirement
- an on-going phosphorus mitigation requirement
- both.

Each Buyer will need to confirm their Bid Quantity prior to making their Bid.

Bid Amount

- The Bid Amount is the maximum amount that a Buyer is willing to pay for P-Credits.
- A Bid Amount must be entered for each type of P- Credit (short term and/or on-going).
- Each Bid Amount must be entered as a value per Credit in GBP or;
a total amount for each Credit Type for the quantity specified in the Registered Credit Requirement.

A Bid Amount must be exclusive of VAT and in GBP.

⁴ <https://www.somerset.gov.uk/planning-buildings-and-land/phosphates-on-the-somerset-levels-and-moors-ramsar-site/phosphate-budget-calculator/>

The Bid for Credits must be sufficient to cover:

- the costs of delivering the mitigation Projects required to generate the P-Credits by the Suppliers;
- the fixed payment to Project Suppliers for land-use and maintenance; and
- the Buyer's contribution to:
 - EnTrade's Fixed Fees
 - Other Market costs including market governance, compliance, and monitoring.

details of EnTrade's Fees and Other Market Costs are set out below.

The Market Settlement Mechanism ensures that a successful Buyer will pay no more than their Bid.

Discount

If successful, the amount Credit Buyers will pay for the Credits will be no more than their Bid and they may also receive a Discount.

A Bid will be successful if:

- there are sufficient Credits available to meet the Buyer's Credit Requirement; and
- the Bid is for a sufficient amount to be settled in the Market.

If there is a surplus generated by the trades in the Market, the Discount a Credit Buyer receives on their Bid will be in proportion to their contribution to the surplus.

Latest Delivery Date

To be able to settle the Market Round each Credit Buyer must enter their latest delivery date for the P-Credits. The Delivery Date is the date that successful Buyers will be issued with the P-Credits they need to meet their Credit Requirement.

Costs to Market Operation

EnTrade's fees are based on the cost of the services it provides to Market Participants. These services are shown in **Table 4**, along with the Fees that have been approved by the Interim Board.

Table 4 - EnTrade's Costs and Fees for Market Round 3

Market Operator Cost	Fee per unit	Total Fee	Fees for Market Round 3 ⁵
Project Development	£2,500 - £4,100 per on-going Project £22 per fixed-term Project	£15,548	£12,438
Registration	£1200 per on-going Project £90 per fixed-term Project £127 per Buyer Credit Requirement	£4,495	£3,596
Project Accreditation	£4,000 per on-going Project £56 per fixed-term Project	£20,488	£16,390
Pre-Market Review	£8,500 per Market Round (including Discretionary Advice Service fees)	£8,500	£6,800
Market Round	£4,000 per Catchment Opportunities Statement £5,400 per Market Round for Bid and Offer Management. £5,000 per Market Matching £2,000 per Market Settlement Report £22,625 for Market Governance ⁶	£39,025	£31,220
Contract Management and Project Verification	£1,070 per on-going Project £100 per fixed-term Project £552 per Buyer	£11,030	£8,824
Credit & Registry Management	£400 per Market Participant per Market Round.	£3,518	£2,815
Total		£102,604	£82,084

⁵ EnTrade's Fees will be charged in two stages 80% of the Fees will be charged on Market Settlement and deducted from the Market Surplus. The remaining 20% will be deducted from the Market Surplus on the sale of P-Credits from the Credit Reserve.

⁶ Market Governance costs are the payment per Market Round to the Environmental Markets Board for Market oversight, based on a forecast of six Market Rounds per annum across EnTrade's Environmental Markets.

These Fees are based on all Projects settling in the Market Round and will be allocated against Settled Projects based on the average Settlement Rate from Market Round 1 and 2 which is, 25% for On-going and 43% for Fixed-term Projects.

Market Governance

The Somerset Catchment Market is overseen by the Environmental Markets Board. The Board has responsibility for ensuring that there is a transparent, fair, and efficient set of rules by which landholders can offer to supply Nature based Projects on their land, and third parties can bid for the rights to the Environmental Services delivered by these projects.

The Board also:

- appoints the Market Operator and monitors and enforces its compliance with the Market Rules.
- appoints a Scientific Advisory Group to provide expert scientific advice in relation to the relevant Standard(s) and Monitoring Plan(s) to apply to Projects.
- ensures that the Market Operator maintains the market infrastructures, systems, and processes necessary to operate a high integrity Catchment Market.

Further information about the Membership, Terms of Reference and Operation of the Interim Board can be found on the Environmental Markets Board website [here](#).

Other Market Costs

Compliance and Performance Monitoring processes have also been established to ensure that the Somerset Catchment Market is operated transparently, fairly, and efficiently and provides assurance that the environmental services will be delivered.

A summary of these assurance processes and their costs are set out in **Table 5**.

Table 5 – Compliance and Performance Monitoring Costs for Market Round 3

Other Market Cost	Cost per unit	Cost for Market Round 3
Compliance Monitoring	£7,800 per wetland £6,700 per woodland	To be determined at Settlement
Performance Monitoring	£38,000 per wetland £14,000 per woodland	To be determined at Settlement

The cost of Compliance and Performance Monitoring covers:

- 3 year programme monitoring nutrient reduction from the on-going projects
- Annual compliance reporting and verification
- Scheduled compliance visits to Projects
- Risk based compliance visits to Projects.

MARKET ROUND 3 – MARKET SETTLEMENT

Mechanism

Once Offers and Bids have been received, an independent market settlement process designed by the University of Exeter (the '**Lindsay mechanism**') will be used to:

- Determine the combination of Offers and Bids that most efficiently matches Project supply with Credit demand; and
- Determines the payments to be paid by buyers and made to Project Suppliers, in a way that fairly shares the surplus from trade between Market Participants.

An explanation of how the Market Settlement Mechanism works can be found [here](#).

Settlement Rules

In this Market Round three Settlement Rules will apply:

- Bids for on-going P-Credits are capped at 21kg/annum per Buyer.
- Bids for short-term P-Credits are limited to the additional credits a Buyer needs until the end of AMP 7.
- A Credit Buyer's bid for short-term P-Credits can only be successful if their on-going Bid is successful.

These Settlement Rules aim to maximise the number of Buyers who will be able to secure the P-Credits they need to meet both their short-term and on-going Credit Requirements.

Settlement Outcomes

There are two potential outcomes from Market Settlement for a Project Supplier:

- Offer to supply a Project is successful; or
- Offers to supply a Project is unsuccessful.

There are three potential outcomes from Market Settlement for a Credit Buyer:

- both Bids for on-going and short-term P-Credits are successful; or
- the bid for on-going P-Credits is successful, but the Bid for short-term P-Credits is not; or
- neither Bid is successful.

APPENDIX 1 – COMPLIANCE WITH THE MARKET RULES

Table 6 shows the content of the Market Opportunities Statement with Rule 3.2.2 of the Market Rules.

Table 6: Compliance of Catchment Opportunities Statement with Market Rules

Catchment Market Rule 3.2.2	Section(s) of Market Opportunities Statement	Page(s)	Notes
a. The geographic area in which the market will operate	Market Round 3 – Geographic Area of Operation	4	
b. Expected level of supply of different Project Types		6	
c. Project Types and Specifications	Supply of Projects – Quantity	5	Full Project Specifications and Management Plans are available in the Project Supplier's landholder pack, but also via request on the SCM website.
d. Terms of Nature-based Project Agreement		6, 7	Terms of the NBPA are available in the Project Supplier's landholder pack, but also via request on the SCM website.
e. Annual Payments available	Supply of Projects – Type and Location	7	
f. Structure and content of supplier offer		6, 7	
g. Expected demand for environmental credits and any geographic restrictions on their source	Supplier Offer - Legal Status	4 10 9	
h. Basis of compliance of Credits with Regulation		9	
i. Structure and Content of Buyer and Investor Bids	Table 2 - Value of Payments made to Project Suppliers	9, 10	The Market Rules have been varied to exclude Investors in early Market Rounds.
j. Costs for market operation		11, 12	
k. Market Settlement Rules	Supplier Offer	14	

APPENDIX 2 – FURTHER KEY REFERENCES

- A complete set of answered Frequently Asked Questions is available [here](#).
- Somerset Catchment Market Round 1 [Settlement Report](#).
- Somerset Catchment Market Round 2 [Settlement Report](#).
- Somerset Catchment Market [Website](#).
- The Market Rules are overseen by the Interim Environmental Markets Board ('Interim Board') and are available on the [Interim Board website](#).