

## **9th Annual Upper Colorado River Basin Water Forum: Tools for Adaptation**

November 13 – 14

Colorado Mesa University

Grand Junction, Colorado

1. Oral presentation
2. A panel presentation that discusses the advantages and disadvantages of alternative water pricing mechanisms, e.g. water banks, that achieve an Upper Basin states storage account of 500,000 AF

### **Title:**

**Compensating farmers for reducing consumptive use through a reverse auction exchange**

### **Authors:**

Steven Ruddell

Board of Directors - Animas La Plata Water Conservancy District

Durango Utilities Commission

[sruddell9999@gmail.com](mailto:sruddell9999@gmail.com)

C: 202-380-6417

David Stiller, PhD

Past Executive Director - North Fork River Improvement Association

Past Board of Directors - Fire Mountain Canal & Reservoir Company

[dave@drywest.com](mailto:dave@drywest.com)

C: 970-260-0601

### **Abstract:**

In Colorado, because property rights for water are well-defined, enforced, and transferable separate from land ownership, “conserved water” can be attained through a Demand Management program. Within the context of the Upper Basin Demand Management Storage Agreement, it is proposed that a new targeted water market be created in Colorado by using a reverse auction exchange as the pricing mechanism to compensate water rights holders for leasing conserved water in order to achieve Colorado’s share of the 500,000 AF target. This market-based pricing mechanism would enable both senior and junior water rights holders to bid the amount of water they want to lease, and the lowest price that they are willing to accept (\$/AF). Combining a Demand Management program with a reverse auction would make it possible for Colorado, as well as the other Upper Basin states, to avoid a compact call by the Lower Basin states at the lowest total program cost to the State of Colorado and other participating states while achieving low transaction costs for water rights holders. A reverse auction exchange is readily adaptable to changing Colorado River flows and would scale-up quickly in response to continued Colorado River Basin drought. When properly designed, a reverse auction will satisfy the required voluntary, temporary, compensated, and proportional criteria set by the Colorado Water Conservation Board, and is a water pricing policy solution that is in compliance with Interstate Drought Contingency Plan Agreements. The use of a reverse auction exchange does not preclude establishing or participating in other water markets that may achieve other purposes, such as Alternative Transfer Mechanisms or buy-and-dry sales or leases, as envisioned for water banks under current Colorado law and the Colorado Water Plan. The proposed water pricing mechanism does not overcome all barriers, however. For example, any program to establish an Upper Basin states storage account from leased

water must be capitalized. Additionally, current legal and regulatory practices may inhibit short-term leasing of water rights. It appears certain that legislative and regulatory actions will be required.