Compensating Water Rights Holders for Reducing Consumptive Use: Through a Reverse Auction Exchange

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Topics Covered

- Concept and mechanics of a reverse auction exchange - the pricing mechanism used to compensate agriculture, and municipal and industrial water rights holders,

- Advantages of using a reverse auction exchange,

- Threshold priority issues that need to be satisfied by any pricing mechanism.
What is a reverse auction exchange?

1) an auction where there are many sellers and one buyer, such as the CWCB,

2) holders of water rights voluntarily enter into a transaction to temporarily lease their historic consumptive use,

3) a willing “seller” offers to lease a defined quantity of water (acre foot) at the lowest price they are willing to accept ($/acre foot),
What is a reverse auction exchange?

4) after the close of the bidding process, the CWCB would rank order the prices offered from the lowest to highest,

5) CWCB identifies those bidders with the lowest price, and that meet other criteria that determine the priority of the water right,

6) CWCB leases water based on the target acre feet for that basin/watershed.
Advantages of using a reverse auction

- Allows water rights holders to bid their fair market value of water
- Lowest total program costs to the State of Colorado,
- Low transaction costs to farmers,
- Scales-up quickly,
  - in response to changing Upper Colorado River Basin hydrology
- Allows all water rights holders to be eligible.
  - based on historic consumptive use
What needs to be satisfied before any pricing mechanism can work? (not-inclusive)

- Calculation of historic consumptive use by bidder,
- Short-term water leases must provide a reasonable, legal, and simple means to stay out of water court,
- CWCB must define how proportionality will be applied across basins/watersheds and TMDs,
- Mutual Ditch Companies and Irrigation Districts must be enabled to overcome barriers to external water transfers.
If a reverse auction is selected as the pricing mechanism:

The Colorado Engineer’s Office, CWCB, or other entity would need to create the enabling conditions that establish, and that oversee the auction process.

Examples include:

- establishing an electronic exchange platform,
- establishing eligibility and other criteria that establish priority,
- establishing trading rules,
- establishing rules to achieve proportionality and transparency,
- establishing rules by which bidders participate within their watersheds to meet a specified acre-feet target.
Thank you

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