

Proposing a Reverse Auction Exchange¹: *Compensating Farmers for Reductions in Consumptive Use*

**SWCD Water Seminar
November 1, 2019
Durango, Colorado**

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Topics Covered

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- ❖ **Concept and mechanics of a reverse auction exchange**
 - **the pricing mechanism used to compensate farmers,**
- ❖ **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?

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- 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?

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- 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

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- **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) 6

- 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:

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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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