Why Not Auction Water?

Perspectives on Auctioning the “Next Bucket” in Arizona

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Central Arizona Project
Project “ADD” Water

- ADD: Acquisition, Development, and Delivery
- Purpose: deliver more water to Maricopa, Pinal, and Pima counties (including Phoenix and Tucson areas)
- Participation by diverse set of stakeholders
Supply Acquisition, without ADD Water
ADD Water Concept

Sellers

Buyers

Single Buyer (CAP)

Allocation
ADD Water Auction Proposal in a Nutshell

Demand Curve of ADD Water Participants

PRICE
$/unit

Market Willingness to Pay

Single Buyer Acquisition Cost

Market-Clearing Price

Q_{\text{Auction}}

Q_2

Q_1

Q_0

QUANTITY
Participants’ Counter-Proposal

Demand Curve of ADD Water Participants

PRICE $/unit

Single Buyer Acquisition Cost

Market-Clearing Price

Impose Allocation Reductions

Q_{\text{Auction}}

Q_0

QUANTITY
Participants’ Counter-Proposal

Demand Curve of ADD Water Participants

Information About Water Scarcity

Market Willingness to Pay

Single Buyer Acquisition Cost

PRICE $/unit

Market-Clearing Price

Impose Allocation Reductions

Q_{Auction}

Q_0

QUANTITY
Why Are Water Auctions Not Embraced?

1. Conditioning
2. “Water is Special”
3. Fear of Unknown Impact
Panel Q&A