

## Memorandum

To: Cynthia Krass, Snoqualmie Valley Watershed Improvement District Commission  
From: David Pilz, Amanda Cronin and Bruce Aylward  
Date: December 9, 2016  
Subject: Recommended SVWID 2017 Water Right Lease Auction Framework

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This memo outlines a recommendation for water right marketing in 2017 that was developed in consultation with the SVWID Irrigation Subcommittee, SVWID staff and legal counsel. The focus is on piloting an auction process for temporary water leases. The auction will allow both sellers and buyers to set the price at which they are willing to sell and buy water rights for the 2017 irrigation season. There are two primary goals for the auction: (1) To maximize participation, learning and community receptivity to water transactions in the Snoqualmie Valley; and (2) To conduct price discovery for temporary water rights, i.e., to learn the price buyers are willing to pay and the price sellers are willing to accept. As the first organized water marketing exercise in the watershed, the SVWID Irrigation Subcommittee noted that it is critically important that the auction be operated in a transparent, fair and equitable manner.

### General Short-Term Auction Framework for 2017

In 2017 SVWID will conduct a two-way water lease auction for interested farmers in need of water rights for the 2017 irrigation season. The water rights to supply this auction will come from several water right holders from which the SVWID will directly solicit offers to provide a source of leased water. Sellers must have a water right in good standing, be approved for transfer to the downstream location of buyers and be willing to commit to a one-year lease of their water rights. Water right buyers must be a member in good standing with the SVWID, must submit a completed bid form by January 17th, 2017 and either use surface water for irrigation or have a groundwater use that matches available supply and can be approved by Ecology for transfer. Before describing the auction more specifically, it is important to define several key terms. “Buyer” means a farmer who is interesting in acquiring a one year lease of water rights. “Seller” means a water right holder who is willing to lease some amount of their water rights to another farmer a one-year period in 2017. The term “Offer” refers only to sellers and it means the price that a seller is offering to accept for their water. The term “Bid” refers only to buyers and it means the price a buyer is willing to pay for water.

### The Role of Sellers

Sellers will be mailed an offer packet on January 5, 2017. If they wish to participate they will fill out the offer form with details including: contact information, location of irrigated acres, source of water rights (GW or SW), number of acres that will not be irrigated and the acre feet of water available for lease and the *price per acre foot at which they are willing to lease*. Sellers will only submit one offer price. The WID’s Tokul Creek water right may also be made available for lease but only if other seller’s offers are exhausted.

### The Role of Buyers

Interested buyers who are identified following a SVWID notice sent in mid-December will be mailed a bid packet on January 5 2017. If they wish to participate they will fill out the bid form with details including: contact information, location of proposed irrigated acres, proposed point of diversion for irrigation (GW well or SW pump), number of acre feet of water desired and the price per acre foot they are willing to pay.

## **Evaluation and Matching of Offers and Bids**

Following the auction date, the SVWID Irrigation Committee, assisted by AMP Insights will assess seller offers and buyer bids by location and source for matches that could be approved by Ecology. Seller offers and buyer bids will then be matched based on price until the price of any remaining bids is less than all remaining offers. The actual price that buyers will pay and sellers receive will be the midpoint between the last bid price and offer price that match (this is called the “market price”). At that point, if there is still demand for water at the market price (i.e. more bids to buy at or above the market price than supply) that demand will be met by the WID’s Tokul Creek right if possible (given transferability issues with Ecology). Any buyer bids that are below the market price are rejected. Any seller offers above the market price are not filled. After evaluating and attempting to match offers and bids, there may be a need for a second auction round. This might occur if no matches are made, or if there is significant demand that is unmet in the auction. Once the auction is complete, SVWID will then process contracts, leasing paperwork and payments in cooperation with the successful lessors and lessees.

## **Outreach**

Given that participation, transparency and fairness are objectives of the 2017 water right lease auction, the SVWID will make all efforts to advertise and provide accurate and consistent information to all potential participations. Advertising will include SVWID-wide emails, a SVWID-wide mailing announcing the opportunity to lease water rights in 2017, information on the SVWID website and the websites of partners, posters at key locations in the valley, public notice, and an article in the newspaper. Bid packets will be mailed to all individuals expressing an interest and will also be available in person at the WID office in Carnation. An open house discussing the auction and answering questions will be held in Carnation on January 11<sup>th</sup>. To encourage participation, SVWID will make available a range of prices per acre foot as a starting point for potential participations.