The Status of Water Markets in Texas

Texas House of Representative Natural Resources Committee Hearing - February 2, 2016

Comments By:
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Texas Water Market Overview

• **Market Development:** Nascent market that is relatively small, but growing rapidly in response to multiple drivers.

• **Role of Water Authorities:** Currently provide an important water allocation role. Prices are not market determined.

• **Big Texas Water Deals:** Limited trading in the state but two of the largest water deals in the US have occurred in Texas.
Texas Water Market Size

• The Texas water market accounts for approximately 14% of total value traded annually across the western United States.

* Excludes river authority water supply contracts.
Texas Market Trends

- The market has leveled out since the Mesa transaction with average annual expenditures between $22-$41M.
- Expenditures between leases and purchases were roughly equal in 2014.
- Leasing volumes have remained relatively constant with most of those motivated by drought conditions.
- Permanent sales volumes have declined recently representing a shift in the Edwards market activity.
- River authority raw water supply contracts account for the majority of volume and value traded.
  - Not typical “Arms Length” water transactions.
  - Prices are set to cover operating costs and are not market determined.
Texas Water Market Regions

Active
- **Lower Rio Grande**: Active market for sales and leases of surface water rights.
- **Edwards Aquifer**: Active market for sales and leases of groundwater entitlements.

Developing
- **Colorado River**: Some recent small surface water trades for municipal use with one large transaction in the last 10 years.
- **Brazos River**: Trading has been limited for surface water but growing demand within region.
- **Austin Region**: High growth area with growing water demands. Limited surface water trading with some groundwater transactions.

Early Stage
- **Upper Rio Grande**: Sporadic surface transactions in urbanizing area.
- **Panhandle Region**: Previous large trade with unclear future needs.
- **Dallas Region**: Highly urbanizing area with long term water needs with large water infrastructure projects.
- **Houston Subsidence**: Shifting supply source creating potential for market growth.

*Excludes river authority water supply contracts, and $103 million CRMWA panhandle groundwater purchase in 2011.*
Market Participants

Volume Sold by Sector, 2010-2014

- Irrigation: 72%
- Municipal: 6%
- Industrial: 9%
- Investor: 13%

Volume Purchased by Sector, 2010-2014

- Irrigation: 41%
- Municipal: 47%
- Industrial: 12%
State Market Comparison

Arizona
- Sale: 19%
- Lease: 53%
- Single Use Credits: 28%
- Price range: $100- $325/AFY
- Total: $44M

Texas
- Lease: 11%
- Sale: 89%
- Price range: $50- $275/AFY
- Total: $58M

Colorado
- Lease: 2%
- Sale: 98%
- Price range: $175 - $750 /AFY
- Total: $49M

California
- Sale: 17%
- Lease: 83%
- Price range: $175- $2,200/AFY
- Total: $250M

Traded Annually
WestWater Research
Leaders in Water Marketing

- **Economic and Financial Advisory Firm**
  - Nationwide practice in water valuation, water acquisition planning, water investments, and economic planning.

- **Waterlitix**
  - The most comprehensive database of water right price and sales information.
  - Data on over 15,000 western water rights transactions maintained by a team of analysts.

- **Creating Value Through Innovation**
  - Arizona effluent transaction nominated for 2014 “Water Deal of the Year.”

- **Large Scale Development Experience**
  - Advised on over $750 million in water transactions.
  - Experience in every western state including Texas.

- **Bringing a Market Perspective**
  - Work regularly with public and private water user to provide a professionally managed water acquisition program.

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<thead>
<tr>
<th>Main Office</th>
<th>West Coast</th>
<th>Southwest</th>
<th>Intermountain</th>
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<tbody>
<tr>
<td>805 W. Idaho Street</td>
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