

WATER MARKET INSIDER

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Supply & Demand: An Update on California's Spot-Market Responses to Hydrologic, Institutional, and Management Indicators

Overview

This issue of the Water Market Insider explores how the spot-market price of water observed across California responds to certain hydrologic, institutional, and management indicators. Scarcity, whether a result of policy decisions or natural conditions, directly influences market prices. The water market has often experienced a lack of readily available information for buyers, sellers, and observers alike – particularly when it comes to price. However, as a result of a partnership between Nasdaq, Veles, and WestWater Research, the transparency of California's water market has increased significantly with the launch of the Nasdaq Veles California Water Index (NQH20). The first of its kind, this index provides a benchmark for the spot-market price of water rights transacted across the state.

California's Water Market

California is home to one of the most active and dynamic water markets in the western United States. In 2019 alone, the state saw over \$1.1 billion in water market activity. The purchases included surface water, groundwater, stored, and other supplies spanning several market regions and water systems. Transaction structures are also relatively dynamic. Market participants actively transact through exchanges, single-year and multi-year leases, and permanent sale arrangements. The market is expansive, with many participants transacting across hundreds of miles of well-plumbed and interconnected systems. Consistent and competing demands stemming from urban growth and hardening crop water needs, among other factors, have driven a growth in participation in California's water market in recent years.

Where is the Water Going?

Between 2010 and 2019, over 10 million acre-feet (MAF) was transferred in the California water market. The greatest number of transactions by volume were located in the state's agricultural and urban centers south of the Sacramento-San Joaquin River Delta (Delta). These are also the areas that rely most heavily on imported supplies through major infrastructure projects, such as the Federal Central Valley Project (CVP), State Water Project (SWP), Los Angeles Aqueducts, and Colorado River Aqueduct.

