



Groundwater Trading: Practitioner Update

Introduction

Sarah Heard, Director of MarketLab at The Nature Conservancy, and Matthew Feinup, Executive Director of the Center for Economic Research & Forecasting at California Lutheran University, will discuss on-the-ground examples of and experiences with groundwater trading, including challenges and lessons learned.

The Fox Canyon Water Market, in Western Ventura County, is the first groundwater market implemented under the Sustainable Groundwater Management Act (SGMA). During the 2019/20 water year, the first year of basin-wide trading in Fox Canyon, the market enjoyed robust participation. In that same year, market transfers of pumping allocation resulted in a net reduction in total pumping in one of the most vulnerable areas of the basin, an agency-designated pumping trough. The Fox Canyon Water Market exemplifies many elements of good design identified by the California Water Commission in its May 2022 white paper, [*A State Role in Supporting Groundwater Trading with Safeguards for Vulnerable Users: Findings and Next Steps*](#). The behavior of groundwater users in Fox Canyon who are not participating in the groundwater sustainability agency (GSA)-sanctioned water market reinforce important warnings noted in the Commission's paper: in particular, that well (or parcel) aggregation rules can allow powerful entities to aggregate large numbers of wells, giving such users the ability to transfer pumping without oversight or application of trading rules and with an unfair advantage over other traders in the basin. The GSA's allowance of unrestricted well aggregation, and the unregulated market it has enabled, has significantly undermined the functioning of the formal water market that proved what a powerful tool groundwater trading can be for SGMA implementation.

The Kaweah Subbasin, in Tulare County, is also developing a groundwater trading program, and may be trading allocations in at least one GSA as soon as late-summer 2023. The development of the Kaweah Sub-Basin Water Marketing Strategy incorporates many of the suggestions for good design identified in the Commission's white paper.

Background

In March 2021, the Secretaries for Natural Resources, Environmental Protection, and Food and Agriculture, requested that the Commission initiate the Action 3.6 of California's Water Resilience Portfolio, which calls on the Department of Water Resources (DWR), the State Water Board, the California Department of Fish and Wildlife (CDFW), and the California Department of Food and Agriculture (CDFA) to: *"Create flexibility for groundwater sustainability agencies to trade water within basins by enabling and incentivizing transactional approaches, including*

groundwater markets, with rules that safeguard natural resources, small- and medium-size farms, and water supply and quality for disadvantaged communities.” In response, the Commission led a thorough and inclusive public dialog to frame state considerations around how groundwater sustainability agencies (GSAs) might shape well-managed groundwater trading programs that include appropriate safeguards for communities, farms, and the environment. The Commission developed a white paper that draws on the public discussions and includes a set of conclusions and suggested next steps.

Groundwater trading is one voluntary management action that a GSA could decide to employ to aid in the management of groundwater. There is potential for groundwater trading to be used broadly by GSAs. To date, several GSAs are already developing trading programs and the prolonged drought periods recently experienced may be hastening the timelines to account, allocate, and trade groundwater. The decision to design and implement a local groundwater trading program rests solely with GSAs.

This agenda item will continue the advancement of Goal One of the Commission’s Strategic Plan, which calls on the Commission to “serve as a primary public forum for the discussion of improving water management policy to assist regions in achieving climate resiliency.”

Meeting Overview

Commissioners will hear from the panelists noted above, take questions from the public, and then engage in a discussion with the panelists.

This is an informational item.

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