

The ‘Commoditization’ of Water in The West

Article By:

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The treatment of water as a commodity, rather than a utility service, is gaining momentum in the western U.S. A recent Pro Publica/The Atlantic (February 9, 2016) article addresses the acquisition of water by hedge fund investors as commodity investments, instead of water service.

A New York City hedge fund manager, Disque Dean Jr., has identified numerous financially distressed agricultural properties with valuable water rights. Mr. Dean has acquired a number of these properties through his Water Asset Management fund, with an eye toward bringing a market based approach to water allocation.

Historically, access to water in the West has been allocated on the principle of “prior appropriation”-a concept of “first in time, first in right” to the water. While numerous limitations on the use (“beneficial use” is required to retain water rights) and its transfer, Mr. Dean asserts that allowing the purchase and sale of water on a market basis is one solution to the issue of the growing scarcity of water west of the Mississippi.

The experience of Crowley County, Colorado however, is offered as a cautionary tale on the treatment of water as a commodity. One of Colorado’s most fertile agricultural areas has dried up in the face of the sale of water to metropolitan water districts located far from the area where the water rights were originally held. Farmers and ranchers in the area seized the opportunity to cash out on their valuable water holdings, leaving much of the county’s former farm land high and dry. While other western states have dealt with the water as commodity issue more successfully (California’s Palo Verde Valley is offered as a success story) the creation of “water markets” and their ultimate impact in the West, is still up for grabs.

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