

**Geoffrey M. Craig**

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**From:** Geoffrey M. Craig [gmccraig@durango.net]  
**Sent:** Friday, April 04, 2008 1:51 PM  
**To:** Tom Gorton (tom@tomgorton.com)  
**Subject:** FW: Abling Cash water

Hi Tom:

I did some checking into the value of your Abling-Cash water rights. Please see my correspondence below with Steve Harris. I also spoke with John Ey, the Lemon Dam manager, and he had no clue what the value would be. As you can see, Steve's guess was 200k if sold as an irrigation right for use on decreed lands, and 300-500k if sold to be changed to domestic use. When we spoke, my top of the head guess was 100k, if sold as an irrigation right on decreed lands. Valuing it to sell for a change to domestic use is tricky, because the change hasn't been done yet, and the value depends on the amount of water you can get out of the change. In my email to Steve, I asked him to assume a buyer could get 32.5 acre-feet out of a change, based on previous change cases. However, the previous change cases were small, and one of them was in 1985. The Spraker case, adjudicated in 2004, used the same assumptions as the previous change cases (as we required it to help set a good current precedent), which may help in a future change. A change case of your water, which would be a larger change, may receive more scrutiny, so it's unclear whether the estimate of 32.5 acre-feet from the previous change case assumption would hold up, but hopefully it would.

I spoke to Danny Culhane, whose Dad adjudicated an augmentation plan, using McCluer Murray Ditch water (F-10) in 1974. They got approved for 40 augmentation units, each of which can augment one single family home and 1000 square feet of irrigation. Danny said he got 12k for the last unit he sold about 2 years ago. He thinks he could get 15-20k now, as there are many parcels that don't have a legal water supply. Assuming you could change 30 acre-feet of A-C water, that amount could be used to augment probably 300 homes with limited irrigation (about 1000 sf). If you could sell each aug unit for 15k, that translates into 4.5 million. A buyer, of course, would not pay that much on the front end, even if he could possibly get it on the back end, because of the risk and uncertainties of doing the change case, implementing the plan, etc. This value is higher than Steve's estimate below because Steve assumed the water would be used for direct use, whereby I assumed the water would be used to augment direct use, which takes less water because a lot of the water from the direct use goes back to the river as return flows, and you only need to augment your depletions, not your diversions. This high potential valuation, however, is complicated by a couple of factors. First, an irrigation right can only augment domestic use during the irrigation season (without the development of storage) which is what we are discussing for Edgemont. Because of the CWCB winter instream flow rights, DWR may not continue issuing well permits without winter water replacement, particularly if CWCB starts placing winter calls on the Florida River. The cost of developing storage would then need to be factored into the value of the A-C water and would reduce its value. Second, the Florida Water Conservancy District has filed an application to convert some of its Lemon Reservoir water over to augmentation. Once that occurs, there will be an augmentation source readily available on the Florida River that people can lease, thereby reducing the need for senior water rights for augmentation. In contemplating whether to buy water from an A-C augmentation plan, people would compare the price of Florida Project water, which would drive down the cost of water under other aug plans. For example, Public Service Company of Colorado leases augmentation water from Electra Lake for \$636 per acre foot per year. An acre-foot could augment about 10 homes with limited irrigation, so one home could be augmented for about \$64 per year. If the cost is 15k for an A-C aug unit, versus \$64/year for Florida Project water (assuming FLWCD rates are similar to PSCo), that decision is a no brainer for water users. They'll lease the Florida Project water.

Here's another way to value it. According to Eric Wilkinson, who is the General Manager of the Northern Colorado Water Conservancy District, municipalities on the Front Range are currently paying farmers 10-15k per acre-foot of consumptive use for irrigation water. If we used the low end of that (assuming water is more valuable on the Front Range), that would equate to \$300,000 for 30 acre-feet of water that was changed over to domestic use. That sounds reasonable to me. Of course if a buyer was buying it and then going to take it through the change case, he would want to discount the value because of the uncertainty of obtaining 30 acre-feet from the change case, and might only pay 150k. On the other hand, if the parties were amenable, they could do a contract for 10k per acre-foot, and then the final amount paid would be determined after the change case was done. That would give certainty to both parties.

In sum, my guess is a value between 150k and 300k would be reasonable.

4/4/2008

Please call with any questions or comments, or let me know if you would like me to do any additional investigation into this issue.

Thanks. I hope all is well with you.

Sincerely,

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**From:** Geoffrey M. Craig [mailto:gmccraig@durango.net]  
**Sent:** Wednesday, April 02, 2008 2:44 PM  
**To:** 'Steve Harris'  
**Subject:** RE: Abling Cash water

Thanks for your input Steve. Yes, it is tough to value water independently. I also asked John Ey what he thought it was worth and his response was: whatever a buyer will pay for it on a given day. John also pointed out that once Florida Res gets decreed for augmentation, the value of senior water rights on the Florida will go down. That's probably true.

Sincerely,

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**From:** Steve Harris [mailto:steve@durangowater.com]  
**Sent:** Wednesday, April 02, 2008 12:45 PM  
**To:** gmccraig@durango.net  
**Subject:** Re: Abling Cash water

Nothing like simple questions, hahaha.

One would be the best to get the HCU back up because of the many years of no irrigation. Irrigation water might be the difference between dry land and irrigated land in the area. Maybe irrigate 20 acres? I am not sure what dry land sells for now. Rough guess maybe \$10,000 extra per acre, \$200,000?????

Two has many problems, the most of which is the lack of use for the past few decades. DWR will undoubtedly

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require the zero years to be factored in. Assume 32.5 AF of depletion, just irrigation season so still have CWCB winter instream flow issue, and not yet changed in court. If I were purchaser I would agree to pay a price based on the how much HCU was eventually changed in water court. If it had been changed so it could be used for domestic wells at maybe 0.5 AF per well. About 65 wells at \$10,000 to \$15,000 per well so \$650,000 to \$1 million; since the water has not been changed maybe half that \$300,000 to \$500,000.

These numbers are very rough. Really dependent upon how much a particular person needs water.

Steve

Geoffrey M. Craig wrote:  
Hi Steve:

Tom Gorton owns 0.40 cfs of Abling-Cash (F-4) and ) and 0.25 cfs of Abling Cash (F-15). If these rights were sold "as is" as irrigation rights, what do you think they could sell for? Assume two scenarios. Under scenario one, the buyer has decreed lands under the A-C and can apply the whole amount to irrigation on decreed lands without doing a change. Under scenario two, the buyer will move the water to a new location and new purposes and will do a change case wherein we assume that he can get about 32.5 acre-feet of CU out of the change (based on previous change cases of A-C water). What value do you think would be reasonable under each scenario?

Thanks.

Sincerely,

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