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UTILITIES

Water to be auctioned by Chino Basin Watermaster

The auction is bound to raise the price. Putting water up for bid seems to be a first in California.

By Bettina Boxall

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Need more water? If you've got $30 million or so, you can bid for it at an auction this fall.

In what officials believe is a first for the state, a Southern California water agency is planning to auction off enough water to supply about 70,000 homes for a year.

Water sales are not uncommon in California, especially when supplies are tight, as they are in the current drought.

But putting water up for bid in an auction -- which is bound to drive up the price -- appears to be unprecedented in the state.

"Water in general has always been a very low-priced commodity, and I think the reality is, it's going to start catching up with other utilities. It's going to fluctuate with markets," said Ken Manning, chief executive of Chino Basin Watermaster, a quasi-public entity that manages the basin. "Whether that's right or wrong, I don't know. I just know where it's going."

The Chino Basin, most of which lies in western San Bernardino County, is one of the largest groundwater basins in Southern California.

Pumping rights were settled in a 1978 state court judgment that divvied them up among local farms, industry and water agencies.

Some of the businesses, including a Sunkist packing plant, have since closed operations and don't need all of their supplies.

So in a court-approved deal, the companies are selling the unused water to Chino Basin Watermaster.

The water agency, in turn, intends to auction the supplies at a much higher price and use the proceeds to pay for new facilities to replenish the aquifer.

The town of Prescott Valley, Ariz., helped blaze the water-bidding trail two years ago when it auctioned off permanent rights to a small block of its water for about $67 million.

The buyer was a New York investment firm that is marketing the water options to developers, who will need the supplies to get approval for any new residential projects in the area.

"You have to get creative," Assistant Town Atty. Colleen Auer said. "We knew if we sat in a typical backroom deal with the development community, there was no guarantee we would get the best price."

Prescott Valley, which was experiencing explosive growth until the real estate bust, is planning to spend the money on new water infrastructure.

Michael Hanemann, a resource economics professor at UC Berkeley, called water auctions "an idea that makes sense" but wasn't sure whether they would take off as a trend.

Water "is a limited resource and we need to be aware of that. Putting a price on that is good. It makes the real value of the water transparent," he said. "Raising the price, while unpleasant, is telling us something we need to know."

Manning said that three categories of potential bidders are surfacing: local water agencies, Southland developers who under state law have to demonstrate there is enough water to supply new projects, and private investment groups that deal in natural resources.

Chino Basin Watermaster will offer a total of 36,000 acre-feet, sold in four blocks, in the online auction to be held Nov. 4. An acre-foot is roughly a year's supply for two Southern California households.

Manning anticipates that the water will fetch $800 to $1,000 an acre-foot, or roughly $30 million. Underground storage in the basin will cost another $30 million.

"We think we're offering a reliable product. It's in the ground. So it will demand a higher price," he said.

Federal officials estimate that about 600,000 acre-feet -- slightly less than Los Angeles residents, combined, use in a year -- will change hands in California water sales in 2009 thanks to a supply shortage caused by the statewide drought and environmental restrictions on pumping water from Northern California.

The sellers are typically agricultural irrigation districts that leave some of their land unplanted for a year and negotiate short-term, individual deals with other farm districts or municipal water agencies that need water.

Supplies sold through the state's Drought Water Bank this year are going for $275 an acre-foot plus conveyance costs, which can amount to an additional $150 or more per acre-foot, depending on how far the water is piped.

Under fallowing agreements with the Palo Verde Irrigation District in southeastern California, the Metropolitan Water District of Southern California is paying roughly $210 and $410 an acre-foot, including transport, for two separate large blocks of water.

The higher rate is for drought supplies.

When the Mojave Water Agency looked for more long-term supplies for Victorville and the other high desert towns it serves, it pursued a different tack.

It is buying a portion of a state water contract from a Kings County farm enterprise for $73.5 million.

The deal, which is awaiting state approval, would entitle the Mojave district to an additional 14,000 acre-feet a year.

Kirby Brill, the agency's general manager, said it took a while to find a state contractor willing to give up water not just for a season or two, but forever.

"Everybody's just hanging on to what they have to sustain their operation. We're never going to have a real loose, EBay type of water market in California," he said. "There are so many hurdles."

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