

Big north-to-south California water sale dries up

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When the water supply is tight in California, the product often flows to where the money is. Typically, that means north to south.

In the record-breaking drought of 2015, however, practically no one has a drop to spare. That means the buying and selling of water can grind to a halt, even with jaw-dropping prices on the table.

That appears to be the case with a [mammoth deal engineered](#) by the Metropolitan Water District of Southern California and a group of Sacramento Valley rice farmers.

Earlier this year, Metropolitan and several other purchasers tentatively arranged to pay \$80 million for 37 billion gallons of agricultural water from the Feather River. The price: a whopping \$700 an acre-foot. It would have been one of the largest and costliest water sales the state has ever seen.

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Now the deal is largely falling apart. The reason: Many of the farmers were told this week their own supplies are being curtailed because of the drought. As a result, most of them are invoking opt-out clauses and canceling the sales.

The deal “dried up, so to speak,” said Ted Trimble, general manager of the Western Canal Water District. “If we’re water-short, we’re not going to move water out of the area.”

The Butte County district is backing out because its annual allocation from the State Water Project has been cut in half, the maximum cutback allowed under its contract with the Department of Water Resources. The State Water Project, which includes Oroville Reservoir on the Feather River and the California Aqueduct, provides water to about 25 million Californians, including water agencies in parts of the Bay Area as well as the San Diego and Los Angeles metro areas.

Another would-be water seller from Butte County, the Richvale Irrigation District, got the same news from the state and also is backing out of the deal.

“It won’t happen. We won’t sell water in a curtailment. The water’s needed up here,” said Sean Earley, general manager at Richvale.

All told, Metropolitan figures it might get 20 percent of the water that it bargained for, said Roger Patterson, assistant

general manager with the Los Angeles agency. Metropolitan sells water wholesale to 26 agencies serving 19 million people throughout Southern California.

The deal would have provided about 3 percent to 5 percent of Metropolitan's annual delivery schedule and "it's not going to be a make-or-break situation," added General Manager Jeffrey Kightlinger. "It is going to make it tougher."

The agency delivers more than 1.7 million acre-feet of water to its customers annually. An acre-foot is 326,000 gallons, roughly a year's supply for two Southern California households.

Metropolitan's experience raises questions about one of the coping mechanisms California has traditionally used to deal with dry years. It's become increasingly common for urban agencies and some agricultural districts to buy water on the state's informal spot market to help ease shortages. Often the sellers are the rice farmers in the Sacramento Valley, where water is generally more plentiful and their legal rights to that water are comparatively strong.

The wheeling and dealing has generated criticism. With some Sacramento Valley farmers getting water for as little as \$12 an acre-foot, environmentalists and others accuse growers of selling out agriculture and their rural communities to make a huge profit. The farmers say they'd rather plant a crop, but are agreeing to water sales to help the state wrestle with shortages.

"These guys are reluctant sellers," Earley said. "They would just as soon farm."

In any event, water sales are proving difficult to close in 2015. "We're out talking to people," Kightlinger said. "But if there are any (deals), they're likely to be small. Water is really scarce this year."

Tim Quinn, a former Metropolitan official and current executive director of the Association of California Water Agencies, said the market isn't dead but it is suffering from an extreme supply shortage.

"There will probably be a market (this year), but it will be a constrained market at a high price," Quinn said. "You can expect lots of emotion and high prices. ... Water is really valuable in this economy."

One big deal is pending on the west side of the Central Valley.

Several agricultural districts led by Westlands Water District, which serves a vast area in the parched San Joaquin Valley, have a tentative deal to buy up to 200,000 acre-feet of water from Sacramento Valley growers who draw from the Sacramento River. For the second straight year, Westlands has been told it is not getting any water from the federal government's Central Valley Project.

The Central Valley Project, operated by the Bureau of Reclamation, is the federal system of dams, canals and pumps that moves water from Shasta and Folsom reservoirs, through the Sacramento-San Joaquin Delta, and on to farm and urban areas as far south as Mendota in Fresno County.

Westlands is paying \$665 an acre-foot for the Sacramento Valley water. That's substantially higher than the \$300 to \$400 an acre-foot Westlands paid when it made a spot market deal with many of the same growers last year.

But it's uncertain if this year's deal will go through. Tom Birmingham, general manager of Westlands, said the Sacramento River water users won't complete the sale if they don't get their scheduled allotment of water from the Central Valley Project.

The Sacramento River customers, who have unusually strong rights under the state's byzantine water rights system, are supposed to get 75 percent of their typical allocation, as they did last year. But that could change, and if the growers face a more severe cutback, they could back out of the sale. The U.S. Bureau of Reclamation is expected to make a determination in late April.

If the deal falls apart, Westland's situation will go from bad to worse, Birmingham said. As it is, he said, as much as

half the land in Westlands is likely to be idled this year, taking tens of thousands of acres out of production. The water from the Sacramento Valley wouldn't be transferred south until later this fall, in order to comply with a host of environmental concerns, and would be used in next year's planting.

"It's critically important to the people who live and work on the west side of the San Joaquin Valley," he said. "This water is going to provide jobs for people."

Closer to Sacramento, the Tehama-Colusa Canal Authority represents farmers in Yolo and three other counties who don't have particularly strong water rights and aren't getting any Central Valley Project water this year. Tehama-Colusa is in negotiations to buy water from some of the same Sacramento River growers who are dealing with Westlands, and also is hoping its business partners are able to complete the sale.

"We're obviously waiting with bated breath," said Jeff Sutton, general manager of Tehama-Colusa.

Sutton said Tehama-Colusa farmers bought 60,000 acre-feet of water on the open market last year for around \$425 an acre-foot.

Normally, water from the Central Valley Project costs the agency's farmers \$40 to \$75 an acre-foot. Paying \$425 an acre-foot "is not sustainable in the long term," Sutton said. "But for folks with permanent crops and nowhere to turn ... it was a lifeline for folks to live another day." The Tehama-Colusa district is known for almonds, walnuts, pistachios and other tree crops that can't be fallowed.

Some water agencies have entered into long-term purchase contracts. Metropolitan, for instance, is in the midst of a 35-year deal to buy water from the Palo Verde Irrigation District, which lies along the Colorado River in Riverside and Imperial counties. Under the contract, Metropolitan has the right to direct Palo Verde's farmers to fallow up to 28 percent of their land each year to make water available.

The Palo Verde arrangement is better than trying to make spot-market deals on relatively short notice, said Patterson, Metropolitan's assistant general manager.

"It's more predictable," he said.

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