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California drought: High-bidding farmers battle in water auctions

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PUBLISHED: July 19, 2014 at 10:52 a.m. | UPDATED: August 12, 2016 at 6:35 a.m.

NEWMAN — Rumors drifted across the parched Central Valley that a bidding war for water might push auction prices as high as \$3,000 an acre-foot, up from \$60 in a normal year.

Yet, Ray Flanders needed water to keep his orchards alive. So this spring he sealed his bid in an envelope, climbed into his truck and drove 70 miles to hand-deliver it to the Madera Irrigation District, which had water saved from 2013.

And he waited, along with 71 neighboring drought-damaged farmers, to learn his fate in a year that has made water a precious crop for those whose supplies have been cut off and the lucky few who have some to spare.

“If I didn’t buy that water, we’d have 800 acres of dead trees,” said Flanders, who manages the generations-old Nunes Farms outside Modesto.

One of the worst droughts in state history is pushing water prices to record levels — fraying nerves, eroding bank accounts and stress-testing the state’s “water market,” an informal and largely hidden network of buyers and sellers.



Water is essential to life. But it's also a commodity, like oil or gold, and its prices swing in response to supply and demand, geography and decisions out of Sacramento.

Market-driven "water trading" is helpful in a drought, say experts, because it is an agile way to move water from the haves to have-nots, and from lower-value to high-value uses. For those with water, it may be more profitable to sell it than grow crops; in fact, it may be their only way of paying their bills.

"The market helps California's overall water use become more economically efficient ... People are looking for creative ways to meet their needs," said Ellen Hanak, a water policy expert at the Public Policy Institute of California. It also spurs conservation, she said: As water prices rise, demand will fall.

But the contentious water market can pit neighbor against neighbor, favoring those with the oldest rights to water, the most underground water or the deepest pockets.

The suddenly volatile water market is spurring new trends:

Pumping groundwater for profit. Stanislaus County farmers want to pay Merced farmers Steve Sloan and Stephen Smith \$1,000 per acre-foot for their well water. The \$11.5 million to \$14 million offer has divided the agricultural community. Some fear that selling groundwater will accelerate depletion of the wells all depend on; others say the pumping, which will be monitored, is essential to their survival.

Big Ag's deep pockets driving up prices. Harris Ranch Beef Co., one of the nation's largest family-owned agribusinesses, paid \$1,350 an acre-foot at auction for Kern River water from the Buena Vista Water Storage District, near Bakersfield. Paramount Farming bought a stunning \$11 million worth of water at the same auction.

Rice farm water for Silicon Valley. Santa Clara Valley Water District paid \$582 to \$862 per acre-foot to "North of Delta" contractors, such as rice farmers in Glenn and Colusa counties who had too little water for their crop but enough to sell.

Price swings. The East Bay Municipal Utility District paid \$75 an acre-foot for Placer County Water Authority surplus water from the American River. Only months later, the Placer agency sold water to the San Joaquin Valley's Westlands Water District for \$325 — more than four times the East Bay rate. The East Bay benefitted from a long-term contract, lower delivery cost and shared regulatory expenses.



Amid the bidding wars, some farmers choose to help others. San Joaquin Valley east-side growers, who have San Joaquin River water rights that date back to the 1800s, this month sold water for \$250 an acre-foot, only \$25 above cost, to growers on the east side to help fellow farmers, they said.

The water market is “a survival thing, but not sustainable,” said Jim Jasper of Stewart & Jasper Orchards, near Modesto, who bid \$1,750 an acre-foot for the Madera water to supplement his farm’s fragile groundwater supplies. He and Flanders, a friend and neighbor, submitted competing bids.

Due to lack of water, Jasper had already decided to leave trees on 360 of his 2,000 acres to die. “We were hoping to get something, but had no idea,” he said.

Such “traded water” represents a relatively small part of all water used by Californians, but it has grown significantly over the past three decades. (Most water is bought and delivered under long-term contracts through an intricate network of state and federal aqueducts.) Annual trades in the early 1980s averaged just over 100,000 acre-feet. By 2011, the annual volume of water sold was 1.3 million acre-feet. One acre-foot is about 326,000 gallons, or a 12- to 18-month supply for an average California family.

Much of the new need has come from cities, which represent 40 percent of market demand, with more than three times as many purchases in 2011 than in the 1990s, according to Hanak’s analysis. Typically, cities buy rural water through long-term contracts to support development, not just to get through a drought.

This year’s continuing severe drought has triggered the statewide rush to secure water, wherever it can be found.

Last year, Flanders paid \$275 an acre-foot; by January, the cost was \$510. Bids at the February auction started at \$750.

“It’s supply and demand — and there’s very short supply,” said Ara Azhderian, of the San Luis & Delta Mendota Water Authority. “In years where water is abundant, like 2011, it is the buyers who drive the market more. But in years like this, the sellers drive the market.”

Particularly desperate are growers who depend entirely on government water delivered through the canals and aqueducts that turned California’s deserts into lush farmland. The state has allocated only 5 percent of what users requested; the federal government released nothing.

“We live and die off our ability to bring water in,” said Jeff Cattaneo of San Benito County Water District, which was part of a negotiation that paid rice farmers \$500 an acre-foot, up from the usual \$170.



Sellers say such prices help farmers survive by selling water they can't use. It's like subletting your rental office; you lose business, but you're getting paid for the space.

The state regulates the market's environmental impacts — usually, after a deal has been negotiated. In May, Gov. Jerry Brown issued an executive order to streamline approvals for water transfers.

"It is a very haphazard, very fragmented system," said UC Davis water economist Richard Howitt. "This is very little information about what is going on, and what the prices are. It is completely nontransparent."

Unlike the electric power grid, he said, there's no Independent System Operator that matches buyers and sellers, preapproves transactions and aids negotiations to prevent water's equivalent of power "brownouts."

"It's old school, driven on relationships," said Azhderian. "Farmer to farmer. Irrigation manager to irrigation manager. In coffee shops or over the phone. Someone might call and say, 'Hey, I've got this need. How are you doing over there?'"

On the fateful Monday when Madera's auction results were announced, Jasper learned his \$1,750 bid was too low to qualify. He has a backup plan: He'll use more of his existing supply, and he's bidding to buy elsewhere. For Flanders, the auction news was welcome. Their bid — one of 12 winning ones between \$2,000 and \$2,200 per acre-foot — was accepted.

There will be no profit this year, but the farm will survive.

"It was a relief," he said. "We got the water. We have a chance to produce a crop."

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