7/25/2011 – Yakima Herald-Republic

Yakima River Basin -- A market solution

By David Lester
Yakima Herald-Republic
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Water drips from a line in a Corliss vineyard in Benton City, Wash. Thursday, June 23, 2011. The vineyard will produce its first vintage this year with water secured from a water right transferred from Union Gap.

BENTON CITY, Wash. -- Carved from the sagebrush-covered canyons that define the landscape in this corner of Red Mountain is the 55-acre Corliss Vineyard.

Sediment and rocks deposited here by the historic Missoula Floods at the end of the last ice age and a sweeping, south-facing slope are key features of the 4,000-acre Red Mountain American Viticultural Area, which produces wines with a worldwide reputation.

Michael Corliss, owner of Walla Walla-based Corliss Estates, will harvest his initial vintage of several red grape varieties this fall.

"Everyone is excited to see the fruit and the potential and the quality it will produce," said his viticulturalist, James Bukovinsky.

Corliss, a former land developer in Seattle, could not have invested in his entrepreneurial dream without buying water rights in the kind of transaction that will become more common as pressures grow on the current water supply in the Yakima River Basin. His transaction is evidence of an emerging marketplace for water as a valuable commodity.

No surface water was available on Red Mountain, and a 12-year state hold on all new well applications prevented Corliss from drilling. So he looked to the open market, where he found Steve Johnson, an official of Chateau Ste. Michelle in Paterson.

Johnson was in the process of spending $60,000 to buy water that, since 1873, had been irrigating land along Blue Slough, a Yakima River side channel east of Union Gap. Johnson sold 60 acre-feet to Corliss and is using the remaining 14 acre-feet at a Chateau Ste. Michelle vineyard, also in Red Mountain.

While small in number in recent years, sales of water rights are expected to accelerate as the pressure continues on a finite supply of water.

Farmers of high-value crops, developers and cities all are looking for water.

The state Department of Ecology is trying to encourage the water market by acting as a clearinghouse for information for both potential sellers and buyers. The agency has itself been a buyer to bolster instream flows.

"We have a firm belief in a market solution," said Ken Slattery, the just-retired head of Ecology's water resources program. "That is what we want to be focusing on a lot over the next decade."

Corliss is in the market to purchase and transfer additional water rights, planning eventually to irrigate about 130 acres of vineyards on Red Mountain.

The Blue Slough-to-Red Mountain transfer not only switched where the water is used -- from alfalfa fields more than 60 miles away -- but also how it is obtained. Corliss drilled a well to use the transferred water. The Blue Slough ground, about 19 acres, now lies fallow.

Corliss' purchase is a good example of a buyer and seller coming together to move water from a low-value, local crop -- in this case, alfalfa -- to higher-value production -- wine grapes that command an international market.

"Look at what is happening at Red Mountain, how much wine that water produces and how widely distributed the wine is throughout the world," said Corliss, 51. "There, it is hundreds of thousands of dollars more valuable. It is creating more jobs than what were being produced with that water right before the transfer."

> **Water rights attorneys and private firms that provide valuation and marketing services for transfers agree that sales of water rights will grow. For example, Harry Seely, a principal at Boise, Idaho-based WestWater Research, said the market will only get bigger because of the political hurdles associated with building new water storage.**
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> **"Transfer activity in my estimation will gain in importance as the water supply becomes more constrained and the ability to develop structural projects for new storage is limited due to budgetary or environmental constraints," Seely said.**
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> **WestWater, in business for 10 years, represents clients in the evaluation, appraisal and marketing of water rights.**

Right now, the numbers appear small. In the past decade in the Yakima River Basin, there have been only about 50 water-rights sales, representing a fraction of all the water used in the three-county basin. Put another way, less than 9,000 acre-feet of water changed hands over that period compared to the average annual water use of more than 2.5 million acre-feet.

Those figures don't include approval of mitigation water banks in Upper Kittitas County, where there is a moratorium on new domestic wells. By purchasing a share of senior water rights from a mitigation bank, homeowners can drill new wells and be assured they won't be shut off in a drought.

Since the moratorium, 1,300 individual building lots have been approved using water from upper county water banks.

Mitigation banks differ from outright purchases. In a purchase, the water is moved to a new use permanently. The land where the water came from is fallowed.

Purchasing water through mitigation means the water right is held in trust by the state, and the buyer purchases the ability to "use" a portion of the trust water to offset their new use.

Prices rising

Prices to purchase a water right and move the water are slowly rising.

Seely said the average price for an acre-foot of water -- about 325,000 gallons -- has nearly doubled over the last 10 years to an average maximum of $3,500.

Prices are expected to continue to rise, pushed upward by prices for mitigation water, which are higher on a per-acre-foot basis.

Judged against the average for outright sales, mitigation banks can realize a return approaching $40,000 or higher for what is basically a captive audience that has nowhere else to go for water.

An acre-foot of water for mitigation, depending on whether the homeowner wants lawn-watering included in domestic consumption, can serve about seven homes.

With each home paying more than $7,000 per hookup for a share of a senior water right, the size of the water market in dollars is quickly apparent.

There are limits, however, to how much water potentially could be transferred.

Those in the market for water rights focus on the oldest -- those that existed before the federal Bureau of Reclamation entered the basin in 1905. Because of their senior status, these rights are certain to avoid curtailment during a drought.

According to WestWater, the pace of permanent transfers has slowed in the last couple of years, likely a result of the recession. But it could also be that owners of senior water rights who might like to sell are hesitant because they don't know what their water is worth.

"There's no real ready market," observed Ellensburg attorney Jeff Slothower, who has represented clients in water rights sales and in establishing mitigation banks. "It's not like a piece of real estate that can be appraised. It's kind of what you are willing to pay and what the seller is willing to accept."

WestWater's Seely said some owners may be waiting, anticipating that water is only going to become more valuable.

"I think owners of water rights are somewhat reluctant to engage in transactions because they feel that water is only going to go up in value in the basin," he said. "They may feel they are better off hanging on to that asset because they can sell if for a lot more money."

Some local government leaders worry about the impact of rising prices for water on agriculture, arguing that farmers can't compete with thirsty developers and cities.

"Our agriculture entities will be put at economic risk," said Yakima County Commissioner Mike Leita. "When it gets down to it, people can pay more for water into their homes than to put it on the land."

And the current plans to address future water needs by adding storage at Bumping Lake and creating the Wymer reservoir near Lmuma Creek as part of an overall proposal that also improves fish habitat and passage won't assure farmers a full supply every year. A state-federal plan developed over 18 months seeks to provide a minimum 70 percent supply to farmers in a water-short year.

What's needed, according to Leita, is enough storage to tide the basin over during multiple drought years like those in the early 1990s.

Leita, who serves on an executive board trying to shepherd the plan to a request for federal funding next year, argues that an interbasin transfer of water from the Columbia River needs to be considered.

Storage wait

Until new storage becomes a reality, which could take a decade or longer, moving water through permanent sales or acquiring use of water through a mitigation bank will be the way to get new uses.

Most of the water that has been sold to date is being used to serve homes and cities.

A network of attorneys who specialize in water-rights issues may negotiate the sales, but more often than not local water conservancy boards handle the formal process to transfer water rights.

The Legislature created local conservancy boards in 1997 to deal with the backlog of applications to change the place and purpose of use of water rights. Ecology still must approve decisions by the local, all-volunteer boards.

While 20 counties have conservancy boards, including Yakima, four counties statewide account for the bulk of the transfer activity: Benton, Chelan, Walla Walla and Kittitas. Those four made up 142 of the 251 total board water-transfer decisions in the last three years.

Dan Phelps, chairman of the Chelan County Water Conservancy Board, said most transfers in his county have been from agriculture to residential use.

"These are people who want to get out of farming. They have pulled the trees out," he said. "The person buying the property wants it to get the water. They have a higher use for it or a more valuable use for it, especially when they are doing a subdivision."

More and more, cities across the state that agree to annex property are requiring the applicant to turn over their water rights.

"There's no more water coming out of the hills, and so if you want water, you have to find it from someone else," Phelps said.

Where the storage solutions stand

No discussion of the future of water in the Yakima Valley would be complete without identifying the elephant in the room.

Storage.

Floating around the debate over water is an ambitious plan to expand storage and allocate some of the stored water to serve new domestic and municipal growth.

A large group of stakeholders representing the Yakamas, farmers, fish managers, local, state and federal agencies and an environmental group has come up with a $5 billion, mostly taxpayer-financed plan that provides something for everyone.

The aggressive plan came in the wake of the rejected Black Rock reservoir east of Yakima, which would have pumped water from the Columbia River into a 1.7 million acre-foot reservoir. As proposed, the water would serve Lower Valley irrigators and leave more water in the Yakima River for fish.

But the Bureau of Reclamation, which spent five years and $18 million studying the idea, ultimately decided the $7 billion total cost far outstripped the potential benefit.

The citizens group that favored Black Rock, the Yakima Basin Storage Alliance, is back with a new plan that would make use of excess power from wind generation. Wind power would pump Columbia River water into a storage reservoir, reducing pumping costs. The water would generate power two ways: when released back into the Columbia River or when flowing into two Lower Valley irrigation systems.

YBSA is looking for private interests to fund some of the development costs.

Meanwhile, the other plan developed by the stakeholder groups seeks improvements far beyond storage. Elements include fish ladders at basin dams, a land conservation element, water conservation and water marketing, aquifer storage, and improvements to the water storage and delivery system.

From that investment, the basin would get an expanded Bumping Lake and a new reservoir at Wymer in the Yakima River Canyon to assure farmers of at least a 70 percent supply.

Derek Sandison, who heads the Office of the Columbia River for Ecology and is a leader of the stakeholder group, said the plan sets aside enough water for new domestic use for the next 50 years. Sandison's job is to develop new water supplies using storage, conservation and voluntary regional water management agreements.

"We are trying to come up with a comprehensive solution that does look at all those needs," he said. "In the past, part of the problem was you had a water use that's not been accounted for in the management of the system. This brings this water use into the fold in the overall way the bureau operates the system."

There are, however, storm clouds on the horizon for the integrated plan. Federal funding will be hard to come by with rising political pressure to reduce the federal deficit, and environmental groups are stepping up to challenge any new storage as unwarranted.

** David Lester can be reached at 509-577-7674 or* dlester@yakimaherald.com.