



CHINO BASIN WATERMASTER

WATER AUCTION LEGAL SUMMARY



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Chino Basin Watermaster is pleased to announce that on Wednesday November 4th, 2009 it will sell 36,000 acre feet of water by electronic auction. The water will be auctioned as 4 blocks of 9,000 acre feet. It is currently in underground storage and will be accompanied by rights to continue its storage or replenishment for up to 30 years.

## AUCTION DETAILS

The Auction will commence on Wednesday, November 4, 2009 at 9:00 a.m. PST. The auction will be administered by FTI Consulting and will involve confidential bidding during timed rounds. The auction is expected to be completed within one business day.

The four (4) lots of 9,000 acre-feet of water (AFW) and 10,000 acre-feet of storage capacity (AFS) will be bid as a unit. The reserve price of \$600 per AFW will be established. Upon the acquisition of the Storage and Recovery Agreement (SRA), the owner of the SRA will also be assessed an annual charge of \$25 per AFS capacity, escalated annually by CPI. There is no assessment on the actual AFW held in storage.

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***No new environmental review under the California Environmental Quality Act is required.***

***There is no nexus to any federal agency and no federal approvals required for a party to store or produce stored water from the Basin.***

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## WATER SUPPLY, WATER RIGHTS AND ENVIRONMENTAL SUMMARY

Water and storage rights are interests in real property under California law. The specific AFW and the AFS rights that are subject of the auction arise under California law and are further defined and confirmed by judicial decree.

A final judgment was entered in 1978, determining all water and storage rights within the Basin. Watermaster was established with supervisory authority over the Basin, its water and storage. Pursuant to the Judgment and the ongoing review of the San Bernardino Superior Court, Watermaster administers the Court decree and carries out supplemental orders of the Court.

The Basin lies at the base of the San Bernardino Mountains and adjacent to the Santa Ana River. It is in the heart of Southern California's Inland Empire. Its boundaries are largely within the Metropolitan Water District of Southern California (MWD) and is overlain by three MWD member agencies: the Inland Empire Utilities Agency (IEUA), Three Valleys Municipal Water District (TVMWD) and the Western Municipal Water District (Western). The area boasts a billion dollar economy, and it is the home for more than a million people.

A cumulative 500,000 AFS has been identified within the Basin that is available to store water. More than 300,000 acre-feet of this available storage capacity is presently in use. The 36,000 AFW and the 40,000 AFS represent a portion of these existing totals. That is, no new storage capacity is being created, and no new water is being imported for storage pursuant to the auction.

No new environmental review under the California Environmental Quality Act is required to establish the right to the 40,000 AFS or the right to withdraw the 36,000 AFW. A Programmatic Environmental Impact Report was prepared in 2000, and it evaluated and addressed potential impacts that might be attributable to storage activities. There is no nexus to any federal agency and no federal approvals required for a party to store or produce stored water from the Basin.

## SUMMARY OF AUCTION TERMS

The court-approved SRA will be made available to each successful bidder with the rights in the existing storage capacity and stored water being assigned. The SRA provides the precise terms and conditions under which the successful bidder may recover water without further approvals and store new water with the assistance of Watermaster.

The term of each SRA is 30 years. Annual losses will be assessed against the actual quantity of water held in storage on a basis equivalent to all other stored water within the Basin. Present losses are 2%. For example, if a party had 10,000 AFW in their storage account, an annual 200 AFW loss will be deducted from the account. This accounts for the actual volume of water that is estimated to be lost to the Santa Ana River. As previously approved management programs are implemented by Watermaster, these losses are expected to be reduced to zero.

There are no restrictions on the export of any portion of the initial 36,000 AFW acquired in the auction. Accordingly, the water may be used on lands overlying the Basin or at any location that the acquiring party may desire, provided that they must secure their own arrangements to transfer, lease, assign, exchange or produce the water.

## OPTIONS FOR NEW WATER

New water (that in excess of the 36,000 AFW made available through the auction) may be acquired in the discretion of the successful bidder and stored at the 40,000 AFS. The successful bidder may acquire water by lease, transfer or exchange through market based transactions with the existing parties to the Basin Judgment as provided in the Judgment and the associated Rules and Regulations. It may also elect to acquire Supplemental Water from outside the Basin and request Watermaster to deposit the supply in its designated storage capacity. Watermaster has agreed to cooperate with the successful bidder and to make its facilities available for its incremental cost, subject to its primary replenishment responsibilities to sustain long-term yields and off-set any over-production in the preceding year(s).

The successful bidder will be required to comply with the terms of the Judgment, the Optimum Basin Management Program and the Peace Agreement(s). Collectively, these instruments establish reciprocal stewardship obligations on the parties to the Judgment and prevent material physical injury to the Basin and the surrounding environment.

Watermaster routinely approves transfers, leases and the recovery of stored water. A review of the historic transactions is compiled by Watermaster and is contained within the Annual Reports filed with the Superior Court.

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## FOR MORE INFORMATION

Watermaster has devoted its website to providing information regarding the auction, [www.cbwm.org](http://www.cbwm.org). It has created a due diligence room at 9641 San Bernardino Road, Rancho Cucamonga CA, 91730, and it will be conducting regular briefings to educate bidders on the process and the attributes of the asset. For further information regarding the auction, please feel free to contact the following people:

**Ken Manning: 909 484-3888 (CEO)**

**Sheri Rojo: 909 484-3888 (financial)**

**Scott Slater: 805 882-1420 (legal)**

**Michael Fife: 805 882-1453 (legal)**

**Mark Wildermuth: 940 420-3030 (engineering)**

**Harold Lea: 415-283-4200 (auction rules and procedures)**

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