

AMENDED IN ASSEMBLY APRIL 27, 2004

AMENDED IN ASSEMBLY APRIL 15, 2004

AMENDED IN ASSEMBLY APRIL 12, 2004

CALIFORNIA LEGISLATURE—2003–04 REGULAR SESSION

**ASSEMBLY BILL**

**No. 2918**

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**Introduced by Assembly Member Laird**

February 20, 2004

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An act to add Section 747 to the Public Utilities Code, relating to desalination facilities.

LEGISLATIVE COUNSEL'S DIGEST

AB 2918, as amended, Laird. Desalination facilities: electricity rates.

Under existing law, the Public Utilities Commission has regulatory authority over public utilities, including electrical corporations, and authorizes the commission to fix just and reasonable rates and charges for all public utilities.

This bill would, for any electrical corporation serving more than 1,000,000 customers, require that by July 1, 2005, the commission initiate either a quasi-legislative or ratesetting proceeding to determine the feasibility of establishing a separate rate class for desalination plants operated by public agencies or by regulated utilities, which are placed in service after January 1, 2006.

Vote: majority. Appropriation: no. Fiscal committee: yes. State-mandated local program: no.

*The people of the State of California do enact as follows:*

1 SECTION 1. The Legislature finds and declares all of the  
2 following:

3 (a) The state has serious water supply problems which will be  
4 difficult to solve without additional supplies of clean fresh water.

5 (b) Some methods for addressing fresh water shortages raise  
6 very controversial issues, including the environmental effects of  
7 new dams used to store additional supplies, purchasing water from  
8 agricultural interests, and shipping water from one part of the state  
9 to another.

10 (c) Desalination has recently become more cost effective as a  
11 result of recent technological improvements, although  
12 desalination is not free of difficult policy and environmental  
13 issues.

14 (d) Fresh water provided by desalination will remain costly,  
15 partly because of the cost of electricity used in the desalination  
16 process.

17 ~~(e) As a result of the energy crisis of 2000–01, the Department  
18 of Water Resources began to purchase electricity for the customers  
19 of the investor-owned utilities in January 2001 to avoid electricity  
20 service disruptions and to minimize the adverse effect on  
21 California’s economy.~~

22 ~~(f) California issued revenue bonds to finance the Department  
23 of Water Resources electricity purchases and to repay funds  
24 borrowed from the state’s General Fund.~~

25 ~~(g) Electricity rates approved by the Public Utilities  
26 Commission for the customers of the state’s largest electrical  
27 corporations will, for 20 years, include charges to repay the bonds  
28 issued to finance the Department of Water Resources electricity  
29 purchases.~~

30 ~~(h) Because there were no major desalination plants in  
31 existence during the electricity crisis and because desalination was  
32 not expected to be a significant consumer of electricity at the time  
33 the Department of Water Resources entered into the electricity  
34 purchase agreements, it is questionable whether desalination  
35 plants should be charged in their electricity rates for the costs for  
36 electricity procured during the electricity crisis.~~



1 ~~(i) Predictable long-term negotiated electricity costs for~~  
2 ~~desalination facilities will aid local water agencies and regulated~~  
3 ~~water corporations in addressing critical water problems.~~

4 *(e) The Public Utilities Commission should not shift costs as a*  
5 *result of the enactment of this act.*

6 SEC. 2. Section 747 is added to the Public Utilities Code, to  
7 read:

8 747. The commission shall, by July 1, 2005, for any electrical  
9 corporation serving more than 1,000,000 customers, initiate either  
10 a quasi-legislative or ratesetting proceeding to determine the  
11 feasibility of establishing a separate rate class for desalination  
12 plants operated by public agencies or by regulated utilities, which  
13 are placed in service after January 1, 2006. The commission may  
14 make the determination in the utility's next general rate case. In the  
15 proceeding, the commission shall determine the costs and benefits  
16 associated with exempting public agencies or regulated utilities  
17 operating a desalination facility from costs of electricity procured  
18 through the Department of Water Resources pursuant to Division  
19 27 (commencing with Section 80000) of the Water Code, or  
20 through any historical procurement costs associated with  
21 restructuring of the electrical industry, including any utility  
22 undercollections or insolvency or bankruptcy related charges,  
23 both during and after the energy crises of 2000–01. In the  
24 proceeding, the commission shall additionally consider whether a  
25 desalination facility employs programs to shift electricity  
26 consumption to offpeak electricity demand periods, including  
27 interruptible or curtailable service programs, and use of real time  
28 metering.

