

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA



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In the Matter of the Application of San Gabriel Valley Water Company (U337W) for authority to establish a conservation rate design, including a Water Revenue Adjustment Mechanism, modified cost balancing account, and Conservation Memorandum Account in compliance with Decision no. 08-06-022

Application No. 08-09-008
(Filed September 10, 2008)

**COMMENTS OF THE DIVISION OF RATEPAYER ADVOCATES
ON THE PROPOSED DECISION OF ADMINISTRATIVE
LAW JUDGE WEATHERFORD**

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I. INTRODUCTION

Pursuant to Rule 14.3 of the California Public Utilities Commission’s Rules of Practice and Procedure, the Division of Ratepayer Advocates (“DRA”) hereby files its comments on the December 22, 2009 Proposed Decision (“PD”) of Administrative Law Judge Weatherford, authorizing changes in rate design and ratesetting mechanisms, and denying a motion for establishment of a memorandum account, and the e-mail from ALJ Weatherford dated January 11, 2010 granting an extension until January 21 for Opening Comments.

DRA notes that under Rule 14.3 of the Commission’s Rule of Practice and Procedure comments on proposed decisions “shall focus on factual, legal or technical errors” in the proposed decision, making specific references to the record. With the modifications noted below, the Commission should adopt the Proposed Decision as a just and reasonable outcome for ratepayers.

II. DISCUSSION

DRA appreciates ALJ Weatherford's extensive and thoughtful review of this proceeding. While DRA generally supports the PD, slight modifications and corrections of errors, discussed below, will strengthen and clarify the PD.

A. **There is No Evidence That San Gabriel's Usage Reductions Meet the Commission's Conservation Goals: Finding of Fact 7**

On p. 7 of the PD, it states:

“Without increasing block rates, then, San Gabriel appears to have variously approached and exceeded the Commission's water conservation goals in terms of the rate of annual improvement in reduced residential water use.”

This same concept is echoed in Finding of Fact 7:

“Five years of residential customer water usage data in each of the divisions show reductions in average annual usage per customer in advance of the implementation of a conservation rate design, indicating a rate of annual improvement in reduced water use that is compatible with the Commission's goal.”

However, the existing record does not include sufficient evidence supporting a finding that the decline in consumption in San Gabriel's service territory complies with the Commission's goal. The Commission's goal ranges “at a minimum, from a 3% - 6% reduction in per customer or service connection consumption every three years once a full conservation program, with price and non-price components, is in place.”¹ The proposed decision cites to two pieces of information on the record to make this finding; however, the evidence cited does not illumine the question of whether San Gabriel has complied with or achieved the Commission's conservation goal.

¹D.08-02-036, p. 11.

The first citation uses San Gabriel's compilation of five years of residential customer water usage in each of its divisions (presented by San Gabriel first in Exhibit 2 and revised after the customer reclassification efforts in Exhibit 5). The information cited by the PD in footnote 14 (Exhibit 5, p. 5, line 13-line 14 and line 25-26) refers to a section of San Gabriel's testimony where it is describing the effects of reclassifying large-use customers from the residential class to the non-residential class, not an actual reduction in usage.

In particular, the reduction from 273 ccf per year to 235 ccf per year for average residential usage in LAC division, refers to the average San Gabriel presented in Exhibit 2 in attachment R-LAC-3 prior to the reclassification (see the bottom row, in the far right column) compared to the average San Gabriel presented in Exhibit 5 in Attachment R-LAC-3 after the reclassification. In other words, the reduction of 14% in the LAC division reflects San Gabriel's reclassification of its customers that removed many customers from the residential class. There is no evidence in the record as to whether there is any reduction in consumption by San Gabriel's residential customers. Additionally, the decline in consumption is to be expected since the reclassified customers were the larger use customers.

A similar reclassification effort occurred in the FWC division wherein large customers were removed from the residential class. This reclassification led to the reduction cited in the PD from 329 ccf to 311 ccf per year for average residential consumption. However, the reference for this information (Exhibit 5, p. 5, line 25-26) refers to average residential consumption per customer prior to the customer reclassification presented in Exhibit 2 (329 ccf), and after the reclassification, presented in Exhibit 5 Attachment 1, worksheet R-FWC-3 (311 ccf). Again, there is no evidence in the record as to whether there is any reduction in consumption by San Gabriel's residential class that is the result of water conservation.

The second citation in the PD to support Finding of Fact 7 is Attachment 3 to Exhibit SG-5, which presented customer water production information.

However, water production by its nature cannot provide information about one specific customer class. Only metered usage information can indicate the usage of the residential customer class. The title for Attachment 3 to Exhibit SG-5 is confusing because it states “Reductions in Customer Water Usage.” However, the title does not accurately portray the information actually in the table. Attachment 3 actually tracks water production data for all customer classes not usage information,² and is unrelated to San Gabriel’s annual residential per customer usage. Therefore, it cannot be relied upon to draw conclusions about whether San Gabriel has met the Commission’s conservation goals for residential per customer usage.

Proposed Changes to Finding of Fact 7 (Deletions in strikethrough, and additions in bold and italics):

~~“7. Five years of residential customer water usage data in each of the divisions show reductions in average annual usage per customer in advance of the implementation of a conservation rate design, indicating a rate of annual improvement in reduced water use that is compatible with the Commission’s goal. Two-tiered increasing block rates for residential customers can be expected to provide further support for the trend of reduced water use.”³~~

B. The Commission should provide direction to San Gabriel Regarding the Method for Updating Tiered Rates, Single Quantity Rate, and Low-Income Discount when the Authorized Revenue Requirement Changes: Findings of Fact 11, Additional Ordering Paragraph, Ordering Paragraph 1, and 3.

²The units on the table state “Acre Feet of Water Produced.” See Exhibit SG-5, Attachment 3.

³All proposed changes to Findings of Fact or Conclusions of Law can also be found in Appendix A.

1. Revenue Requirement Has Changed During this Proceeding

Table 1 of the PD shows Adopted and Proposed Residential Conservation Rates. As noted in Finding of Fact 11, the revenue requirements changed for the LAC and FWC divisions during this proceeding. For each column in the table the PD should note that different revenue requirements were used to determine the proposed rates listed in the table. Thus, the rates are not comparable across columns. The following information should be added as a new row in Table 1.

Additional Row to add to Table 1 in the PD:

Topic	Proposed Decision 12/22/09		San Gabriel		DRA	
	FWC	LAC	FWC	LAC	FWC	LAC
Revenue Requirement used to generate proposed rates	\$57,868,356 (AL 373)	\$51,948,700 (D.08-06-022)	\$55,500,784 (D.09-06-027)	\$56,817,927 (D.08-06-022 and AL 372)	\$50,690,713 (AL 368)	\$51,948,700 (D.08-06-022)

As the table above illustrates, and as noted in Finding of Fact 11 in the PD, the revenue requirement has changed for each division throughout this proceeding. Moreover, the revenue requirement may also change between when the Commission issues this decision and the effective date of conservation rate designs in July 2010, and it may change further while the conservation rates are in effect.⁴ Finding of Fact 11 should reflect this.

Proposed Change to Finding of Fact 11:

“11. During the course of these proceedings the revenue requirements changed for the company’s LAC and FWC Divisions. *The revenue requirements for the LAC and FWC Divisions may change further prior to the effective date of the increasing block rates contemplated in this decision and/or prior to the next GRC.*”

⁴ For example in the FWC Division, the Commission used the revenue requirement from AL 373 to prepare the rates in the PD, however, the Commission authorized AL 378, effective 1/1/2010, which increased the revenue requirement for the FWC Division. Also for example, in the LAC Division, the Commission used the revenue requirement from D.08-06-022, however since that decision, AL 372, effective 5/14/2009, increased the revenue requirement for the LAC division.

2. Updating the Single Quantity Rate and Tiered Rates When Authorized Revenue Requirement Changes: Finding of Fact 3, Conclusions of Law 4, and Ordering Paragraph 4

The PD establishes the single quantity rate to be used in the WRAM in Finding of Fact 3, Conclusions of Law 4 and Ordering Paragraph 4. The PD also determines the tiered rates to be implemented by San Gabriel in the increasing block rates in Ordering Paragraph 1. DRA concurs that it is important to have a clearly articulated single quantity rate and tiered rates to illustrate the calculation method selected by the Commission, as is done in the PD. The Commission should also provide direction to San Gabriel regarding the method that San Gabriel should use to incorporate changes in its Commission-authorized revenue requirement into the single quantity rate to be used for the WRAM, tiered rates, and the low-income discount.

This direction from the Commission will avoid any ambiguity that could arise. For example, if the Commission authorizes San Gabriel an increase in the revenue requirement, San Gabriel should maintain the 15% differential between the tiers, and alter the increasing block rates accordingly. In this situation, San Gabriel should also calculate the updated single quantity rate using the same method used in the PD.

The Commission can provide this direction to San Gabriel simply by including a description of the calculation methods adopted in the PD for San Gabriel to follow when it calculates any updates to the single quantity rate and tiered rates. This method would allow the Commission to clarify that San Gabriel should follow the calculation method adopted in the PD, and that San Gabriel should use the authorized revenue requirement that will be effective at the time that it implements the increasing block rates. The steps below describe the

calculation method used by the Commission in the PD.⁵ The Commission should adopt the method below by attaching it to the PD and referencing it in a new ordering paragraph:

⁵ The method described here is not DRA's proposed method, DRA proposed some differences from the PD's proposed method, however, because comments are limited to factual, legal, or technical errors in the proposed decision, DRA only articulates the method already presented in the PD.

Conservation Rate Design Procedure

This method describes the calculation method used by the Commission in this decision to develop numbers for illustrative purposes in the decision. San Gabriel shall follow this method whenever it implements increasing block rates for the first time, and/or implements a Commission-approved rate change under the increasing block rate design.

1. Design division-wide proposed rates using traditional rate design procedures.
2. Convert the resulting low-income discount (50% of the service charge) into a dollar amount to apply as the CARW discount.
3. Calculate the amount of any necessary revenue recovery shift from Service Charges to Quantity Rates, based on the Commission-adopted targets. This decision sets these targets as at least⁶ 64.6% of the adopted revenue requirement collected from the quantity revenues for the LA County division and at least 72.03% of the adopted revenue requirement collected from the quantity revenues for the FWC division.
4. Add the dollar amount of the revenue shift determined under Item No. 2 to adopted Quantity Rate Revenue Requirement for Residential customers.
5. Develop the Single (uniform) Quantity Rate to be used in the Water Revenue Adjustment Mechanism calculation for residential customers by dividing the dollar amount developed in Item No. 3 by the adopted residential Ccf sales.
6. Segregate the adopted Ccf sales into the two rate tiers using the adopted percentages. This decision finds that 55% of the adopted Ccf sales will be in the 1-13 Ccf/mo. first tier for the LA County division and that 57% of the adopted Ccf sales will be in the 0-16 Ccf/mo. first tier for the FWC division.
7. Use the adopted Tier 1/Tier 2 rate differential, (Tier 2 rate that is 15% greater than the Tier 1 rate), to develop Tier 1 and Tier 2 Quantity Rates for residential customers that are designed to produce the exact same revenues as those produced by the uniform quantity rate determined in Item No. 4.
8. Subtract the total amount of the revenue shift determined under Item No. 2 from the adopted revenue requirement collected from the service charge for Residential customers.
9. Develop monthly service charges for residential customers by dividing the service charge revenue calculated in Item No. 8 by the adopted number of residential services.

⁶ The PD cites these targets exactly, however for calculation efficiencies, and to meet the objectives of BMP 1.4, DRA recommends following the method of “at least” reaching the targets outlined by the Commission.

DRA’s proposed additional Ordering Paragraph between the current Ordering Paragraphs 1 and 2 should read:

New Ordering Paragraph

“1a. If the Commission authorizes a change in San Gabriel’s revenue requirement before the effective date of this decision or at any time before the next general rate case application, San Gabriel shall follow all of the steps in the method attached to this decision titled “Conservation Rate Design Procedure” to update the single quantity rate, tiered rates, and low-income discount rate presented in this decision.”

**3. Updating the Low-Income Discount When Authorized Revenue Requirement Changes:
Ordering Paragraph 3**

Regarding the low-income discount, pg. 39 of the PD states that the discount of \$8.43 in the FWC division and \$10.02 in the LAC division “avoids any loss of benefit that would result from applying the existing percentage discount.” However, this is only partially true. It is true at this point in time when 50% of the service charge is \$8.43 and \$10.02 for the FWC division and LAC division respectively. However, if the Commission authorizes a rate increase, CARW program participants previously would have received a discount equal to 50% of a larger service charge – which would equate to a larger discount. To avoid any loss of benefit that would result from applying the existing percentage discount, the Commission should require San Gabriel to recalculate the flat discount for residential CARW customers each time there is a rate increase using the same method in this decision.

Proposed Change to Ordering Paragraph 3:

“3. San Gabriel shall apply a flat rate “California Alternative Rates for Water” discount of \$8.425 in the Fontana Water Company division and a counterpart flat rate discount of \$10.02 in the Los Angeles County division. *If the Commission authorizes a change to*

San Gabriel’s revenue requirement, San Gabriel shall calculate the flat discount for CARW customers using the method used in this decision and described in the attachment titled “Conservation Rate Design Procedure.”

Additionally, regarding the low-income discount, the decision is inconsistent between its discussion of Ordering Paragraph 1 and Table 1 in the decision. Table 1 indicates that the Low Income service charge discount will be a flat rate of \$8.425 and \$10.02 for the FWC and LAC divisions respectively. However, the table in Ordering Paragraph 1 shows that the service charge itself will be \$8.425 and \$10.02. The table in Ordering Paragraph 1 should clarify that it is listing the Low-Income discount.

If San Gabriel exceeds the California Urban Water Conservation Council’s Best Management Practice 1.4 ratios adopted by the Commission in Ordering Paragraph 1, the Commission should not require San Gabriel to shift revenue back out of the quantity charge into the service charge. The PD adopts ratios of service-charge-to-quantity-charge for FWC of 27.97:72.03 and for LAC a ratio of 35.40:64.6. However, BMP 1.4 requires a ratio that is greater than or equal to 70% for the ratio of $V / (V+M)$, where V = total annual revenue for the volumetric rate(s) and M stands for total annual revenue from customer meter/service (fixed) charges.⁷ Thus, BMP requires a ratio of service-charge-to-quantity-charge of 30:70 or lower, rather than an absolute ratio of service-charge-to quantity charge of exactly 30:70. For this reason, the Commission should adopt maximum standards for the ratios of service-charge-to-quantity-charge in Ordering Paragraph 1, rather than absolute ratios. In other words, in LAC, the Commission should adopt 35.40:64.6 or lower, so that if the service-to-quantity-charge ratio were 30:70, it would also meet the Commission’s requirement.

⁷ See Exhibit SG-4, Attachment 1, pg. 3.

Proposed Changes to the table in Ordering Paragraph 1:⁸

Topic	Adopted	
	FWC	LAC
Service Charge 5/8-3/4" meter	\$15.67	\$18.04
Low-Income <i>Discount</i>	\$8.425	\$10.02
Quantity Charge Adopted		
Tiers #	2	2
Break ccf	0-16/≥17	0-13/≥14
Rates \$	\$2.0079/\$2.3500	\$1.5889/\$1.8300
Differ %	15%	15%
Ratio BMP 1.4		
Status (30/70)	<i>A maximum of</i> 27.97:72.03	<i>A maximum of</i> 35.40:64.60

C. DRA Supports the Effective Date of Conservation Rates: Ordering Paragraph 2

Section 3.8 of the PD states that both San Gabriel and DRA want the conservation rate design and associated features to become effective July 1, 2010. Conclusion of Law 9 states that this decision should be effective July 1, 2010. However, information regarding implementation of conservation rates by July 1, 2010 is omitted from Ordering Paragraph 2 and it should be included in Ordering Paragraph 2 to require San Gabriel to file the advice letter prior to July 1, 2010, with a requested effective date of July 1, 2010.

Proposed Change to Ordering Paragraph 2:

“2. San Gabriel Valley Water Company shall file an Advice Letter *prior to July 1, 2010 in order* to implement the adopted conservation rate design *with an effective date of July 1, 2010*. San Gabriel Valley Water Company shall apply this rate design only for the duration of the pilot, which is until *the effective date of the 2011 General Rate Case* in the Fontana Water Company division and the *effective date of*

⁸ Rate increases authorized by the Commission in Advice Letters 372 for the LAC Division and 378 for the FWC division are not included in these numbers.

the 2013 General Rate Case in the Los Angeles County division, unless extended by further order of the Commission. This rate design shall apply only to direct metered residential customers, excluding apartments, trailer parks, and any other facility in which residential customers receive service through a master meter.”

D. There is no evidence a small segment of customers would be unduly penalized under a 3-tier rate design: Finding of Fact 2

Finding of Fact 2 states:

“A pilot 2-tier increasing block residential conservation rate design is superior to a 3-tier design for the FWC division and the LAC division due to its comparative simplicity, ease of implementation and capacity to capture conservation potential without unduly penalizing a small segment of customers.”

However, this is an error of fact because there is no evidence to support the statement that a small segment of customers is comparatively and unduly penalized under a 3 tier rate design. The record is silent regarding who those customers are and why they would be unduly penalized. The Finding of Fact should be modified to exclude this statement as follows:

“2. A pilot 2-tier increasing block residential conservation rate design is superior to a 3-tier design for the FWC division and the LAC division due to its comparative simplicity, *and* ease of implementation ~~and capacity to capture conservation potential without unduly penalizing a small segment of customers.~~”

E. Typo in Finding of Fact 9

Finding of Fact 9 states: “During the course of these proceedings the DRA proposed a three-tiered increasing rate design. Later, at the request of the assigned ALJ, the company submitted an alternative two-tiered proposal.” However, this a typo because DRA is the party that submitted an alternative two-tiered proposal at the request of the assigned ALJ. The Commission should modify Finding of Fact 9 to reflect this fact:

“During the course of these proceedings the DRA proposed a three-tiered increasing rate design. Later, at the request of the

assigned ALJ, ~~DRA the company~~ submitted an alternative two-tiered proposal.”

F. Technical Discussion between DRA, San Gabriel and DWA

On January 13, DRA met with representatives from San Gabriel and the Division of Water and Audits. Among the topics of discussion were the rate increases authorized by the Commission in AL 378 in the FWC division and AL 372 in the LAC division that were approved subsequent to the revenue requirements used in the PD. San Gabriel’s need for a calculation methodology to determine rates when the Commission authorizes future changes to the revenue requirement was also discussed.

DRA incorporated the most recent revenue requirement changes from Advice Letter (“AL”) 378 for the FWC division, and AL 372 in the LAC division into the rate design spreadsheets the Commission used to develop the rates presented in the PD. This allows the rates to be double-checked against current tariff sheets. DRA also includes a descriptive method in these opening comments that it recommends the Commission adopt in the final decision in this proceeding for San Gabriel to follow when the Commission authorizes future changes to San Gabriel’s revenue requirement (see further discussion in section B.2) of these comments).

The table below shows the updated rates calculated by DRA using the calculation method used in the PD and described above under the heading “Conservation Rate Design Procedure.”

Topic	DRA calculated based on current revenue requirements	
	FWC (AL 378)	LAC (AL 372)
Service Charge		
5/8-3/4" meter	\$15.946	\$20.04
Low-Income discount	\$8.60	\$10.02
Quantity Charge		
Adopted		
Tiers #	2	2
Break ccf	0-16/≥17	0-13/≥14
Rates \$	\$2.0793/\$2.3859	\$1.6993/\$1.9535
Differ %	15%	15%
Ratio		
BMP 1.4		
Status		
(30/70)	At least 27.97:72.03	At least 35.40:64.60

This table provides a reference to illustrate how rates may change with revenue requirement increases. As reflected in the recent ALs 378 and 372, the revenue requirement changes from time to time in San Gabriel's Divisions, and this underscores the benefit of adopting a method for calculating conservation rates, a single quantity rate for use in the WRAM as well as a low income discount, rather than adopting particular rates in this decision.

III. CONCLUSION

For the reasons discussed above, DRA urges the Commission to adopt the Proposed Decision with the modifications proposed here. The Proposed Decision, with the modifications described herein, will effectively foster conservation, which is the main purpose of this proceeding.

Respectfully submitted,

/s/ ALLISON BROWN

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APPENDIX A

(Deletions in strikethrough, and additions in bold and italics):

Finding of Facts:

“2. A pilot 2-tier increasing block residential conservation rate design is superior to a 3-tier design for the FWC division and the LAC division due to its comparative simplicity, **and** ease of implementation ~~and capacity to capture conservation potential without unduly penalizing a small segment of customers.”~~

~~“7. Five years of residential customer water usage data in each of the divisions show reductions in average annual usage per customer in advance of the implementation of a conservation rate design, indicating a rate of annual improvement in reduced water use that is compatible with the Commission’s goal. Two-tiered increasing block rates for residential customers can be expected to provide further support for the trend of reduced water use.”~~

“9. During the course of these proceedings the DRA proposed a three-tiered increasing rate design. Later, at the request of the assigned ALJ, **DRA** the ~~company~~ submitted an alternative two-tiered proposal.”

“11. During the course of these proceedings the revenue requirements changed for the company’s LAC and FWC Divisions. ***The revenue requirements for the LAC and FWC Divisions may change further prior to the effective date of the increasing block rates contemplated in this decision and/or prior to the next GRC.***”

Ordering Paragraphs:

“1a. If the Commission authorizes a change in San Gabriel’s revenue requirement before the effective date of this decision or at any time before the next general rate case application, San Gabriel shall follow all of the steps in the method attached to this decision titled “Conservation Rate Design Procedure” to

update the single quantity rate, tiered rates, and low-income discount rate presented in this decision.”

“2. San Gabriel Valley Water Company shall file an Advice Letter ***prior to July 1, 2010 in order*** to implement the adopted conservation rate design ***with an effective date of July 1, 2010***. San Gabriel Valley Water Company shall apply this rate design only for the duration of the pilot, which is until ***the effective date of the 2011 General Rate Case*** in the Fontana Water Company division and the ***effective date of the 2013 General Rate Case*** in the Los Angeles County division, unless extended by further order of the Commission. This rate design shall apply only to direct metered residential customers, excluding apartments, trailer parks, and any other facility in which residential customers receive service through a master meter.”

“3. San Gabriel shall apply a flat rate “California Alternative Rates for Water” discount of \$8.425 in the Fontana Water Company division and a counterpart flat rate discount of \$10.02 in the Los Angeles County division. ***If the Commission authorizes a change to San Gabriel’s revenue requirement, San Gabriel shall calculate the flat discount for CARW customers using the method used in this decision and described in the attachment titled “Conservation Rate Design Procedure.***”

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of “**COMMENTS OF THE DIVISION OF RATEPAYER ADVOCATES ON THE PROPOSED DECISION OF ADMINISTRATIVE LAW JUDGE WEATHERFORD**” to each party of record on the official service list in **A. 08-09-008** via electronic mail.

Parties who did not provide an electronic mail address, were served by U.S. mail with postage prepaid listed on the official service list.

Executed on **January 21, 2010** at San Francisco, California.

/s/ HALINA MARCINKOWSKI

Halina Marcinkowski

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