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TO: Chair Anderson, Members of the Board and General Manager Stoldt
FROM: David C. Laredo, Counsel
RE: General Report of Pending Litigation effective December 16, 2024

This memo presents a public summary of litigation matters that are deemed to be open and active. This is a recurring memo; the newly updated data is shown in **highlighted text**.

1 – Monterey Peninsula Taxpayers Association (MPTA) cases:

Cases brought by MPTA are part of a series of six (6) separate lawsuits. These six cases collectively challenge various aspects of the District's collection of the Water Supply Charge.

1.a MPTA I – MPTA v. MPWMD; M123512

The initial challenge brought by MPTA regarding District collection of the Water Supply Charge was resolved by order of Superior Court Judge Thomas Wills in favor of the District, and against the challenge brought by MPTA.

**1.b MPTA II – MPTA v. MPWMD; Monterey County Superior Court 21CV003066
6th Dist. Court of Appeal H0-51128**

1.c MPTA III – MPTA v. MPWMD; Monterey County Superior Court 22CV002113

1.d MPTA IV - MPTA v. MPWMD; Monterey County Superior Court 23CV002453

1.e MPTA V - MPTA v. MPWMD; Monterey County Superior Court 24CV002642

1.f MPTA VI - MPTA v. MPWMD; Monterey County Superior Court 24CV003408

Five separate challenges - noted above – are pending by MPTA against District collection of the Water Supply Charge. The second challenge, MPTA II, was resolved by Superior Court Judge Panetta against the District and in favor of MPTA. The Sixth District Court of Appeal affirmed the trial decision, and the matter has been remanded to the trial court for further action.

Judge Panetta approved an agreement of the parties to postpone active litigation in all five matters to allow negotiation of a comprehensive settlement; the order extended time for the District to file a responsive pleading in MPTA VI.

District Litigation counsel, Michael Colantuono and Matthew Slentz are leading the negotiation effort under direction of General Manager Stoldt and with support of Counsel Dave Laredo. MPTA is represented in these discussions by Eric Benik and Prescott Littlefield.

2 – *MPWMD v. Cal-Am*; 23CV004102

This pending lawsuit embodies District efforts to fulfill the electoral mandate of Measure J to acquire ownership and operation of Cal-Am's Monterey Division water supply facilities.

Judge Vanessa Vallarta remains as the presiding judge for this case.

Judge Vallarta held a Case Management Conference (CMC) on November 19, 2024. She confirmed Cal-Am is required to either file an Answer or otherwise appeal the demurrer ruling by Dec, 16, 2024, (30 days from the date Notice of the Order Denying the Demurrer was served). The Judge encouraged the parties to meet & confer to move the matter along, commenting that this is a complex case and will take quite some time before it is ready for hearing. The next Case Management Case was set in her court (Dept. 13A) for March 4, 2025 at 9:30 a.m. This answers the inquiry as to whether or not Judge Vallarta would continue to preside over the case despite any other changes to her judicial assignments.

3 – *MPWMD v. Local Agency Formation Commission (LAFCO); Cal-Am*; 22CV000925 6th Dist. Court of Appeal H051849

The District brought this lawsuit to challenge LAFCO's conduct and administrative decisions regarding exercise of District powers to acquire Cal-Am water system facilities in accord with the voter mandate in Measure J. On December 7, 2023 Judge Thomas Wills ruled in favor of the District, and against LAFCO. The matter is now on appeal before the Sixth District Court of Appeal.

The Court granted Cal-Am and LAFCO's joint request for a 45-day extension to file Appellant's opening briefs (now due on 01/20/2025).

4 – *City of Marina; MPWMD, et al, v. California Coastal Commission (CCC); Cal-Am*; 22CV004063

This pending lawsuit incorporates multiple actions by Petitioners City of Marina, the Marina Coast Water District (MCWD), the MCWD Groundwater Sustainability Agency and MPWMD that collectively challenge CCC issuance of a Coastal Development Permit to Cal-Am to grant conditioned approval of Cal-Am's proposed Desalination Project. Cal-Am is a direct party as a real party in interest to this proceeding.

A trial on the merits is scheduled for Monday, December 9, 2024, before Judge Wills in Department 15 of the Superior Court.

5 – Matters Pending before the California Public Utilities Commission (CPUC) Actions pertaining to the Cal-Am Water System

The following actions are separate pending proceedings in which MPWMD is involved due to their impact on the Monterey area or upon the Cal-Am water system.

5.a A.21-11-024 Cal-Am Amended Water Purchase Agreement

This action deals with Cal-Am’s request to purchase water from the Pure Water Replenishment Project and its expansion.

Earlier phases of this case dealt primarily with Cal-Am’s request that the CPUC authorize the Company to enter into the Amended and Restated Water Purchase Agreement for Pure Water Expansion. The most recent phase has addressed the need to update water supply and water demand calculations related to the Cal-Am system.

Phase 2 briefs have been filed by all parties. It is not clear when a Proposed Decision will be issued by the assigned ALJ or when the matter may be submitted for action by the full Commission. An Order Extending Statutory Deadline to 12/31/2024 was published 7/16/2024.

5.b A.22-07-001 Cal-Am 2022 General Rate Case (GRC)

This action deals with Cal-Am triennial request that the CPUC approve both rates and charges, and changes to the Cal-Am operating system for a three-year rate cycle. The Commission previously ordered an extension to the Statutory Deadline in this matter to March 30, 2025.

Cal-Am filed its General Rate Case (GRC) application on July 1, 2022, seeking statewide revenue recovery¹ for a three-year period (2024, 2025 and 2026). MPWMD participated in the proceeding with full party status. On August 27, 2024, the Administrative Law Judge (ALJ) Jacob Rambo issued a Proposed Decision (PD). Once the PD was released parties supporting Cal-Am began lobbying the Commissioners via many ex parte meetings and a vigorous letter-writing campaign. MPWMD set a single ex parte meeting with Commissioners Karen Douglas and Darcie Houck. Two revisions were made to the PD before the matter was voted on at the Commission’s December 5, 2024 meeting.

I. Background

GRCs are massive filings. Cal-Am alone filed 40 exhibits and sponsored 25 witnesses; other parties included the Public Advocates Office (Cal Advocates), MPWMD, Public Water Now, City of Thousand Oaks, California Water Efficiency Partnership (Cal WEP), California Water Association (CWA), and the National Association of Water Companies (NAWC).

A. Settlement between Cal-Am and Cal Advocates

A Partial Settlement² was reached on November 17, 2023 between Cal-Am and Cal Advocates. MPWMD supported many of the revenue expenses but objected to several. These included a ten percent (10%) reduction in conservation funding, various statewide subsidies, and certain plant issues such as the delay with the New Carmel Valley Well and elimination of the Advanced Metering Infrastructure (AMI) leak detection project. The settlement did secure substantial reduction of \$25.5 million in Cal-Am’s original statewide revenue increase request.

¹ California-American Water Company (Cal-Am) has three divisions within California. They include Northern, Central and Southern Divisions and the Monterey Wastewater District. Monterey Main is part of the Central Division.

² A Partial Settlement does not resolve all issues although it can resolve many issues. In the current proceeding, the settlement resolved all revenue requirement issues and many of the special requests. The ALJ accepted the settlement as presented, without any modifications.

The Settlement estimates Central Division Operating Revenues for 2022 of \$94,653,007 will rise to \$100,720,049 for 2024, \$103,959,979 for 2025 and \$107,076,900 for 2026. Cal-Am will earn a 7.68% rate of return on a current Central Division rate base of \$290,946,200. This will rise to \$319,431,400 by 2026.³

II. The Decision

A. Water Revenue Adjustment Mechanism Issue

A significant portion of the proceeding was spent on whether a “decoupling mechanism” known as a Water Revenue Adjustment Mechanism (WRAM) should be continued or if an alternate should be authorized. Cal-Am’s sought WRAM to recover all authorized revenue it alleged to have “lost” due to conservation. Decision 24-12-025 denies Cal-Am’s request and authorizes a version that originated in Monterey in 1996⁴. Cal-Am asked to retain an Annual Consumption Adjustment Mechanism (ACAM) but to increase it twice each year. The PD allows the ACAM but restricts it to only once a year.

B. Statewide Subsidies

MPWMD continued to argue against statewide subsidies in the form of customer assistance programs, spreading acquisition costs, and failure to recognize the disparity in the unit cost of water to meet basic human needs.

C. Conservation Budget

Cal-Am proposed a 10.9% reduction in the conservation budget for the Central Division to \$1,566,318. While MPWMD was unsuccessful in its opposition to this reduction, the ALJ did require that all approved conservation funding must be spent in the Monterey Service Area.

D. Monterey Plant Issues

The settlement agrees to capital projects and investments to provide safe, reliable, high-quality service to customers and continue to meet regulatory requirements for the Central Division of \$71,701,027 for the years 2023 – 2025. MPWMD supported several plant expenditures in the settlement, including \$3.8 million for the Monterey Well Rehabilitation Program, \$3 million for the Well Installation and Replacement Program for the Carmel Valley Well field and the Seaside Basin wells, and \$2.4 million for Los Padres Dam Projects. MPWMD also successfully argued against Cal-Am’s proposed “Water Loss Performance Standards” cost exceeding \$943,000 as a duplicative and unnecessary expenditure.

E. Transmission and Distribution Consolidation Denied

Cal-Am proposed to consolidate all water transmission and distribution net plant assets across all tariff areas into one central pool to be allocated back to each tariff area based on the number of customers in that area. MPWMD and Cal Advocates successfully argued against this.

³ It should be noted that any GRC increases authorized by the Commission do not reflect the true rate increase. Surcharges as well as capital projects approved in separate filings add to the cost of water.

⁴ To avoid confusion going forward, a new name for the Monterey WRAM or M-WRAM is the Conservation Adjustments for Rate Tier Designs (CART Designs).

F. Other Issues

The Decision agrees with MPWMD's position on other issues such as Cal-Am's request for earthquake insurance (an unreasonable expense costing \$3.3 million annually that would pay up to \$10 million after a \$25 million deductible), and a chemical cost balancing account (a routine expense already forecast).

III. Conclusion

The GRC affords MPWMD an opportunity to obtain information that Cal-Am does not voluntarily provide and to present independent arguments that reflect Monterey customer concerns. MPWMD is also able to work with Cal Advocates on many issues that often result in better outcomes for Cal-Am's Monterey customers.

Cal-Am will file its 2025 GRC application on July 1, 2025, when the process begins again.

5.c R.22-04-003 CPUC Acquisition Rulemaking

This action deals with CPUC Rulemaking. It impacts statewide public utility systems and has particular impact on the Cal-Am system. The scope of the proceeding is to propose rules to provide a framework for Public Water System Investment and Consolidation. The effect of these rules may promote or discourage transfer of local costs which would impose subsidies of local costs to non-local systems. The scope of these regulations may affect purchase prices for distressed assets and impose subsidies on local ratepayers.

It is not clear when a Proposed Decision will be issued by the assigned ALJ or when the matter may be submitted for consideration by the full Commission. On Sept 12, 2024 an Order extended the Statutory Deadline to March 30, 2025.

In addition to pending matters of active litigation referenced above, two matters of threatened litigation exist. as referenced below.

6 – *Cal-Am v. MPWMD and Monterey One Water (action threatened by not yet filed)*

By letter, Cal-Am threatened to file a breach of contract action relating to the Aquifer Storage & Recovery (ASR) Agreement among the parties. The dispute relates to the status of ASR Well.

The parties continue to cooperatively resolve their concerns and have entered into seven consecutive agreements to toll (extend) filing deadlines and facilitate their ability to reach a mutually acceptable settlement.

Cal-Am's most recent comment states it "has been working diligently to address both extraction and injection concerns relating to ASR-04. Due to a variety of technical and several DDW-related procedural issues we now believe that this will not be fully resolved for several months and perhaps up to a year."

7 – *MPWMD v. SWRCB. Case No. 1-10-CV-163328* (Santa Clara County Superior Court) 10/27/2009.

On July 24, 2024, Sierra Club attorney, Larry Silver, advised by email they will reactivate a claim for attorney's fees in this lawsuit. This Report revises and amends prior characterizations of the attorney's claim submitted by Mr. Silver, based clarifications he sent on an October email.

This case (1-10-CV-163328) asserted four causes of action against the SWRCB related to the Cease & Desist Order. The case was originally filed in Monterey County but was transferred from Monterey to Santa Clara County. A stay of the SWRCB CDO was issued on November 6, 2009 and remained in effect only until November 4, 2010. The matter was appealed to the Sixth District Court of Appeal and in 2014 was remanded to the Superior Court. Sierra Club filed a Motion for Attorneys' Fees in 2012, and the Appellate Court held in 2014 that the Sierra Club was not precluded from filing a Motion for Fees once there was a final judgement in the case.

The case, although dormant, remains pending in the Santa Clara County Superior Court and has not been dismissed. The Sierra Club is an intervenor in this case.

The 2012 Sierra Club Attorney's Fees demand sought \$256,934 for time spent during the 2008 administrative hearing 2008 (efforts related to the 2009 CDO), for time opposing stay of the CDO, and other efforts associated with this matter. The Sierra Club alleged time to be paid by Cal-Am total 209.35 hours; time to be paid by MPWMD total 45.40 hours; and additional time to be shared by both Cal-Am and MPWMD total 167.5 hours. The District timely filed Opposition to the Sierra Club Motion for Attorneys' Fees.

The extent the Sierra Club may change or increase to its 2012 demand is not known.