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EXHIBIT A

SETTLEMENT AGREEMENT AND MUTUAL RELEASE

This Settlement Agreement and Mutual Release ("the Agreement") is made and entered into this 4th day of December, 2012 ("Execution Date") by and between the California-American Water Company, a California corporation and regulated public utility ("CAW"), the County of Monterey, a political subdivision of the State of California ("County"), and the Monterey County Water Resources Agency ("Agency"), a duly constituted water resources agency created pursuant to the Monterey County Water Resources Agency Act (the "Agency Act"), each of whom may be referred to hereinafter as a "Party" and all of whom are at times collectively referred to hereinafter as the "Parties," with reference to the following facts:

RECITALS

A. CAW is a Class A water utility regulated by the California Public Utilities Commission ("CPUC"). CAW's Monterey district serves most of the Monterey Peninsula, including Carmel-by-the-Sea, Del Rey Oaks, Monterey, Pacific Grove, Sand City, and Seaside, as well as the unincorporated areas of Carmel Highlands, Carmel Valley, Pebble Beach, and the Del Monte Forest.

B. The water supply in CAW's Monterey district has long been constrained as a result of frequent drought conditions on the semi-arid Monterey Peninsula, where the water supply is highly dependent upon rainfall. In addition, the Salinas Basin is impacted by seawater intrusion.

C. The Agency's boundaries are coextensive with the boundaries of the County of Monterey and, within those boundaries, the Agency is responsible under the Agency Act to, among other things, prevent the waste or diminution of the water supply and control groundwater extractions to prevent or deter the loss of usable groundwater as a result of seawater intrusion, replace groundwater through the development and distribution of a substitute surface supply for irrigation purposes and prevent groundwater exportation from the Salinas Basin.

D. In 1995, the State Water Resources Control Board ("Water Board") issued Order No. WR 95-10 in which the Water Board found, in part, that, although CAW had been diverting 14,106 acre feet per year from the Carmel River, it had the right to divert only 3,376 acre feet per year. The Water Board ordered CAW to find replacement sources and adopt conservation measures sufficient to replace 10,730 acre feet per year.

E. On September 20, 2004, CAW filed with the CPUC Application No. 04-09-019 in which CAW sought approval from the CPUC for a project that would provide a long-term water supply for CAW's Monterey district and issuance of a certificate of public convenience and necessity to authorize construction and operation of the project.

F. In Decision No. 06-12-040, the CPUC approved CAW's Special Request 1 Surcharge to allow recovery of already incurred preconstruction costs related to a long-term water supply solution for CAW's Monterey district. Under this decision, reasonable pre-construction costs are transferred to the Special Request 1 Surcharge Balancing Account ("the Balancing Account") for recovery from customers through a customer bill surcharge. In Decision No. 11-09-039, the CPUC increased the monthly Special Request 1 Surcharge from 10% to 15% and adopted a 4% interest rate for costs tracked in the Balancing Account.

G. The Water Board issued a final Cease-and-Desist Order on October 20, 2009 (the "CDO"), which requires CAW to undertake additional measures to reduce its unpermitted diversions from the Carmel River no later than December 31, 2016.

H. On December 17, 2009, in Decision No. 09-12-017, the CPUC certified the Final Environmental Impact Report for a project that would provide a long-term water supply for CAW's Monterey District.

I. The Agency, CAW and the Marina Coast Water District ("District") negotiated a Water Purchase Agreement ("Water Purchase Agreement") and, with other parties to Application No. 04-09-019, a Settlement Agreement ("Settlement Agreement"), which were both approved by the CPUC on December 2, 2010 in CPUC Decision No. 10-12-016, as modified in CPUC Decision No. 11-04-035 and which, along with other agreements, provided for development, financing and construction of the Regional Desalination Project ("RDP").

J. Before the CPUC approved the Water Purchase Agreement, the Agency, CAW and the District entered into a Reimbursement Agreement, dated February 26, 2010, which was approved by the CPUC on August 12, 2010 in CPUC Decision No. 10-08-008. Effective January 11, 2011, the Agency, CAW and the District entered into the CAW Credit Line Agreement and, with the engineering and consulting company RMC Water and Environment, a Regional Desalination Project Management Agreement.

K. The Water Purchase Agreement, the Settlement Agreement, the Reimbursement Agreement, the CAW Credit Line Agreement, and the Regional Desalination Project Management Agreement are hereinafter collectively referred to as the "RDP Agreements."

L. The Parties and others undertook performance of the RDP Agreements in furtherance of the RDP.

M. In or about April, 2011, conflict of interest allegations arose concerning Stephen P. Collins, a former member of the Agency's Board of Directors.

N. On August 12, 2011, the California Coastal Commission deferred a vote on test wells for the RDP. Additionally, the Monterey County Superior Court ruling in *Ag Land Trust v. Marina Coast Water District*, Case No. M105019 and the District's multiple subsequent unsuccessful attempts at appellate review inhibited the viability of the RDP.

O. Application No. 04-09-019 was amended on July 14, 2005 and was closed by the CPUC in Decision No. 12-07-088 issued on July 18, 2012. In closing the application, the CPUC found that, given the uncertainty surrounding California Environmental Quality Act, financing, and the ability to obtain permits for the RDP, it was not reasonable to force CAW to pursue the RDP.

P. CAW and the Agency were active parties in Application No. 04-09-019 and remain interested in resolving the issues identified herein that arose from that application. The Parties acknowledge the Agency's authority under the Agency Act, as it applies to the development of a long-term water supply for Monterey County and compliance with the CDO.

Q. Disagreements have arisen between CAW, the Agency, the County and the District with respect to the RDP Agreements. CAW, the Agency, the County and the District have met and have been unable to resolve their disagreements.

R. On April 23, 2012, CAW filed at the CPUC Application No. 12-04-019 entitled "Application of the California-American Water Company (U210W) for Approval of the Monterey Peninsula Water Supply Project and Authorization to Recover All Present and Future Costs in Rates" ("CAW Application").

S. On June 26, 2012, the County commenced a civil proceeding against CAW, entitled *County of Monterey v. California-American Water Company*, San Francisco Superior Court Case No. CGC-12-521875, to obtain a judicial determination regarding application of Chapter 10.72 of the Monterey County Code ("the Ordinance") to CAW and the CAW Application.

T. On October 4, 2012, CAW commenced a civil proceeding against the District and the Agency, entitled *California-American Water Company v. Marina Coast Water District, et al.*, Monterey County Superior Court Case No. M 120053, to obtain a judicial determination regarding the validity and termination of the RDP Agreements.

U. CAW, the County and the Agency believe it is in their mutual best interest and in the best interests of their customers, taxpayers and constituents to settle, without admitting liability, all claims the Parties have against each other and jointly move forward towards an alternate project that will lead to the successful development of a long-term water supply, compliance with the CDO and avoidance of litigation, while preserving their respective claims and defenses against the District and others.

V. The Parties desire to enter into this Agreement as set forth below.

NOW, THEREFORE, for valuable consideration, the sufficiency of which is hereby acknowledged, and in consideration of the mutual covenants and agreements hereinafter expressed, the Parties agree as follows:

TERMS

1. Purpose of Agreement. The purpose of this Agreement is to settle and resolve claims and issues between the Parties and promote the development, construction and operation of a successful water project to provide a long-term, stable source of potable water for Monterey County. In recognition of the substantial benefits of the settlement memorialized in this Agreement, including but not limited to the parties' meaningful progress towards development of a long-term water supply for Monterey County, compliance with the CDO and avoidance of time-consuming and expensive litigation and, in acknowledgement of the reasonable and prudent nature of the Agency expenditures to be reimbursed under this Agreement, the payments and debt forgiveness described in paragraphs 4A, 4B and 4C of this Agreement (collectively "Settlement Costs") are deemed reasonable and prudent costs that should be collected through CAW's Special Request 1 Surcharge.

2. The Project.

A. CAW seeks to implement a new water supply project that may include various components, including but not limited to, Aquifer Storage and Recovery in the Seaside Basin and storage and recovery of recycled purified water in the Seaside Basin, source wells, a desalination facility located in Monterey County, and the construction of related conveyance and storage facilities (all of which is more particularly described in the CAW Application and, especially, Appendix D thereto, and collectively referred to hereinafter as the "Monterey Peninsula Water Supply Project" ("MPWSP")) to comply with the requirements of Water Board Order WR 95-10 and the CDO, as they have been, and may be, amended.

B. As set forth below, the County and the Agency shall cooperate with CAW in the processing of CAW's applications to the County of Monterey, the Agency and other regulatory agencies for the MPWSP.

3. Approval Date. As used herein, "Approval Date" shall refer to the date when the payment and recovery provisions in Paragraphs 4 and 11 are approved by final decision of the CPUC in a manner acceptable to the Parties, as provided in Paragraph 19.

4. **Obligations of CAW.**

A. On the Approval Date, sums owed by the Agency to CAW pursuant to the Reimbursement Agreement and the CAW Credit Line Agreement, together with any and all interest or charges accrued thereon, shall be forgiven. On the Execution Date, the total amount owed by the Agency under the Reimbursement Agreement and CAW Credit Line Agreement, excluding accrued interest, is $1,918,033.58. That sum, which is a component of Settlement Costs as defined in Paragraph 1, will continue to accrue interest, as provided in Paragraph 11, from the Execution Date until the Settlement Costs are transferred to the Balancing Account, as provided in Paragraph 11.

B. Within 30 days after the Approval Date, CAW shall pay the Agency the sum of $779,967.47.

C. Within 30 days after the Approval Date, CAW shall deposit the sum of $718,315.44 into a special trust account maintained by the Monterey County Auditor-Controller ("Trust Account"), which shall function as an escrow account. Subject to Paragraph 4E, below, all funds not withdrawn shall remain on deposit in the Trust Account until the Parties agree to the withdrawal of funds from the Trust Account or until such time as the CPUC approves CAW's request to recover any funds designated to be withdrawn from the Trust Account, as set forth in Paragraph 4D, below. Any interest accruing on the funds in the Trust Account shall be paid to CAW at the close of escrow. The Agency may not withdraw funds from the Trust Account in excess of the sum deposited by CAW.

D. If the Agency designates funds from the Trust Account to pay the claims of any of the Agency's contractors or consultants arising under the RDP or the RDP Agreements, and unless the Parties agree otherwise, CAW shall promptly request approval from the CPUC to recover any such designated funds. The designated funds shall be released to the Agency from the Trust Account within 5 business days following CPUC approval of the CAW request for use in accordance with the CPUC approval. Subject to Paragraph 4E, below, any funds remaining in the Trust Account at the close of escrow shall be refunded to CAW.

E. Escrow shall close when all the funds in the Trust Account have been disbursed or three years after the Approval Date, whichever occurs first, provided that, if litigation is pending between the Agency and any of the Agency's contractors or consultants concerning the RDP or the RDP Agreements on either of those dates, escrow shall remain open until the litigation is resolved. If the litigation is resolved by judgment that obligates the Agency to pay any funds, the requisite funds shall be released to the Agency from the Trust Account to the extent they are available in the Trust Account. If the litigation is resolved by settlement that obligates the Agency to pay any funds, the requisite funds shall be withdrawn from the Trust Account by agreement of the Parties or when the CPUC approves CAW's request to recover any

funds designated to be withdrawn from the Trust Account to the extent they are available in the Trust Account.

F. The sums paid to the Agency and forgiven by CAW as described in Paragraphs 4A, 4B and 4C include costs incurred by the Agency in relation to the RDP but do not include Agency costs incurred before January 1, 2009 or legal costs incurred addressing the conflict of interest issue concerning former Agency director Stephen P. Collins, neither of which shall be recovered from CAW by the Agency or by CAW from its customers.

G. From and after the Execution Date, CAW shall cooperate with and support the County and the Agency in the performance of this Agreement and shall take such reasonable actions as may be requested by the County or the Agency to carry out the purpose of this Agreement.

H. A non-exclusive list of permits and approvals that may be required for the MPWSP is set forth in Appendix D of the CAW Application.

I. CAW shall prepare and submit complete applications for each and every project approval described in Paragraph 5, below.

J. CAW shall support the Governance Committee of the Monterey Peninsula Regional Water Authority consistent with CAW's October 26, 2012 filing with the CPUC.

5. Obligations of the County or the Agency.

A. Following CAW's submission of completed applications and their acceptance by the appropriate regulatory agency, County and Agency staff shall expeditiously and in good faith process or assist in the processing of the following:

(i) Any and all reviews or assessments required by CEQA for the MPWSP. To the extent allowed by law, existing environmental impact reports, addenda or supplements thereto, and other existing environmental declarations, reports and studies, shall be used if they adequately address the environmental impacts of the MPWSP, without requiring new or supplemental environmental documentation.

(ii) Any application for a General Plan amendment necessary for development of the MPWSP.

(iii) Any application for amendments to the Zoning Ordinance necessary for development of the MPWSP, including applications for approval of any applicable planned district requirements.

(iv) All applications by CAW for a Coastal Development Permit for any component of the MPWSP that is within the Monterey County Local Coastal Development Plan.

(v) Any application or request for an approval or determination required by the Agency Act, including any applications or requests for approvals to construct source water wells as described in the CAW Application for use as a source of water for the desalination component of the MPWSP.

B. The County and the Agency shall cooperate in the expeditious processing of all applications for permits and requests for approvals needed for the MPWSP, including, but not limited to: Construction or Building Permits, Conditional Use Permits, Stormwater Permits, Well Permits or Permits Related to Flood Zones. CAW acknowledges some of the permits necessary for the MPWSP are under the jurisdiction of entities other than the County and the Agency.

C. County and Agency staff, after reasonable notice and request from CAW, shall meet with CAW prior to CAW's submission of applications for these project approvals, provided that nothing in this Agreement shall require County or Agency staff to attend unreasonably repetitive or duplicative meetings.

D. The County and the Agency shall act expeditiously and in good faith and offer reasonable support to CAW for timely completion of the MPWSP. This support shall include cooperating with CAW in processing applications, not necessarily limited to the following:

(i) Coastal Development Permit from the California Coastal Commission.

(ii) NPDES Permit(s) from the Regional Water Quality Control Board.

(iii) State Lands Commission review and approval.

(iv) Outfall Capacity Agreement with Monterey County Water Pollution Control Agency.

(v) California Public Utilities Commission approval.

(vi) Water Board grant of State Revolving Funds for the MPWSP.

(vii) Determination of CAW compliance with Water Board Order 95-10 and the CDO.

E. Nothing in this Agreement shall prevent the County or the Agency from imposing customary indemnity and defense conditions on the approval of any permit or discretionary entitlement.

F. The County and the Agency shall decide between themselves which entity will assume primary responsibility for tasks associated with these approvals and inform CAW of their decision.

G. The rights and obligations created by subparagraphs A, B, C, D, E and F of this Paragraph 5 shall arise from and after the Execution Date and not the Approval Date.

6. Other Cooperation. Following submission and acceptance of completed applications by CAW and CAW's satisfaction of any procedural requirements imposed by other agencies or regulatory entities, the County and Agency will support CAW in connection with the processing of CAW applications as follows:

A. Prompt responses to inquiries from other agencies regarding the MPWSP;

B. Attendance by senior-level planning staff at proceedings before other agencies;

C. Sharing with CAW any written Agency responses to other agencies before submission of the responses to those agencies;

D. Collaboration between CAW, appropriate CPUC staff and the Water Board in connection with the CAW Application;

E. Not take action to oppose the MPWSP, subject to the provisions in Paragraph 14, below.

The rights and obligations created by this Paragraph 6 shall arise from and after the Execution Date and not on the Approval Date.

7. County Ordinance Preemption. The October 25, 2012, "Decision Declaring Preemption of County Ordinance and the Exercise of Paramount Jurisdiction," issued in CPUC Application 12-04-019 ("the CPUC Decision"), finds the Ordinance is preempted by the CPUC. Although the CPUC Decision is final and binding upon CAW, the Agency and all parties to Application 12-04-019, nothing in this Agreement shall be construed as preventing the Agency or the County from seeking to preserve local control over water issues in Monterey County by seeking rehearing or appellate review of the CPUC Decision. However, regardless of the outcome of any such challenge, the CPUC Decision shall remain final and binding on the Parties with regard to this Agreement and the MPWSP. The Ordinance shall not apply to CAW or the MPWSP. The County shall dismiss with prejudice the complaint in *County of Monterey v.*

California-American Water Company, San Francisco Superior Court Case No. CGC-12-521875 within 10 days following the Execution Date.

8. **Slant Test Well and Source Water Determination**. CAW intends to design and construct a full-scale slant test well to gather information on the feasibility of the well technology at the proposed well location and collect data for design purposes. The test well will include screened sections in both the shallow aquifer and the 180-foot aquifer. This design will allow data to be gathered in both the shallow and 180-foot aquifers. The CAW Application contemplated that source water would be drawn from the 180-foot aquifer. Since CAW filed that application, interested parties have met with the Agency, the County and CAW and have expressed a preference that water be sourced from the shallow aquifer only. Assuming data gathered from the test well establishes the shallow aquifer is a suitable source of water for the MPWSP, CAW will attempt to draw source water from the shallow aquifer. The Agency and the County support this concept. If data gathered from the test well establishes the shallow aquifer is not a suitable source but the 180-foot aquifer is a suitable source, CAW will likely continue to draw source water from the 180-foot aquifer, as proposed in the CAW Application. The Agency and the County do not support use of the 180-foot aquifer as a source of water for the MPWSP.

9. **Groundwater Monitoring**. To properly discharge its responsibilities under the Agency Act to protect water in the Salinas River Groundwater Basin and prevent its export, the Agency will develop a Groundwater Monitoring Plan ("Plan"). The Plan will be developed with appropriate public input and is expected to address various matters related to those responsibilities, including but not limited to the need for monitoring wells, the design and construction of any such wells, and a procedure for the testing and analysis of water from any such wells. CAW will promptly pay the costs of developing and implementing the Plan throughout the life of the MPWSP upon submission of invoices from the Agency or its successor. Should the Agency determine a monitoring well agreement is appropriate, the Parties shall negotiate in good faith to develop and sign such an agreement.

10. **Groundwater Extraction.** The Parties shall consult on such other approvals or findings as may be required or appropriate for the MPWSP, such as selecting the methodology to be used for determining the amount, if any, of Salinas Basin water to be extracted by the source water wells; the amount, if any, to be returned to or for use in the Salinas Basin; the manner, cost, timing and location of such return; and the method to be used to measure the amount of Salinas Basin water withdrawn by the source wells.

11. **Recovery of Settlement Costs**. Upon CPUC approval of this Agreement and performance of the CAW obligations with respect to the Settlement Costs, the Settlement Costs will be transferred to the Balancing Account for recovery from customers through the 15% monthly surcharge approved by the CPUC in Decision No.11-09-039 or through such other recovery mechanism as may be approved by the CPUC. The principal amount due to CAW

under the CAW Credit Line Agreement will continue to accrue interest after the Execution Date at the rate authorized under the CAW Credit Line Agreement and the principal amount due to CAW under the Reimbursement Agreement will continue to accrue interest after the Execution Date at the rate authorized for the Reimbursement Agreement, pursuant to CPUC Decisions Nos. 10-08-008 and 11-09-039. On and after the date the Settlement Costs are transferred to the Balancing Account they will earn allowance for Funds Used During Construction at the rate of 4%, pursuant to CPUC Decision No.11-09-039 or at such other rate as may be approved by the CPUC.

12. **Integrated Agreement**. This Agreement is a negotiated compromise of disputed issues. It is an integrated agreement, each provision of which is material bargained-for consideration and indispensable to the parties' intent and agreement. The Parties intend that this Agreement be unaffected by subsequent proceedings, including any judicial proceeding that adjudicates the validity of the RDP Agreements. In that regard, the Parties' rights and responsibilities as set forth herein shall survive and be unaffected by a judicial declaration that the RDP Agreements or any of them are void. All parties were represented by counsel in the negotiation and drafting of this Agreement and no single party is the author. The rule that ambiguities in a written instrument are to be resolved against the drafting party shall have no application to the interpretation or enforcement of this Agreement.

13. **Meaning of Obligation**. As used in this Agreement, the obligation to "act expeditiously and in good faith" shall mean an obligation to act as required by the covenant of good faith and fair dealing as that covenant has been interpreted under California law, which requires that each party to a contract not do anything to unfairly interfere with the right of any other party to the contract to receive the benefits of the contract.

14. **Right to Exercise Discretion**. The obligation to "act expeditiously and in good faith" shall not restrict the rights of County and Agency officials to exercise their rights of free expression and exercise their independent judgment under the California Environmental Quality Act or other statute nor shall the obligation restrict the authority and discretion of the Agency or Agency officials under the Agency Act. It shall not constitute a breach of this Agreement nor shall it constitute a breach of the obligation to "act expeditiously and in good faith," if County or Agency officers, holding office or ex-officio office in the County, the Agency or an agency with regulatory or review jurisdiction over the MPWSP, exercise their independence and discretion in voting or taking action with regard to the MPWSP, including dissenting from approvals or expressing dissenting opinions with regard to the MPWSP or any component or aspect thereof.

15. **Mutual Releases.**

A. Release by CAW as to County and Agency. On the Approval Date, except for breaches of this Agreement, CAW shall release and forever discharge the County and the Agency and its agents, employees, and attorneys from any and all claims, demands, damages,

liabilities, obligations, agreements, expenses (including attorneys' fees), actions and causes of action, of whatever description or nature, arising out of or relating to the RDP Agreements. Notwithstanding the foregoing, CAW reserves the right to maintain, commence or defend a civil action or proceeding for equitable or declaratory relief, to interplead funds in the Trust Account or for other non-monetary relief regarding the RDP Agreements and to join the County and the Agency as parties. In addition, CAW shall retain the right to raise any and all factual issues, legal issues and claims it may have against the County or the Agency as a defense to claims made by the District or any other person or entity not a Party to this Agreement in any litigation over the RDP, the RDP Agreements or any other CAW water supply project for CAW's Monterey district.

B. Release by County as to CAW. On the Approval Date, except for breaches of this Agreement, County shall release and forever discharge CAW and its agents, employees, and attorneys from any and all claims, demands, damages, liabilities, obligations, agreements, expenses (including attorneys' fees), actions and causes of action, of whatever description or nature, arising out of or relating to the RDP Agreements. Notwithstanding the foregoing, the County reserves the right to maintain, commence or defend a civil action or proceeding for equitable or declaratory relief, to interplead funds in the Trust Account or for other non-monetary relief regarding the RDP Agreements and to join CAW as a party. In addition, the County shall retain the right to raise any and all factual issues, legal issues and claims it may have against CAW as a defense to claims made by the District or any other person or entity not a Party to this Agreement in any litigation over the RDP, the RDP Agreements or any other CAW water supply project for CAW's Monterey district.

C. Release by Agency as to CAW. On the Approval Date, except for breaches of this Agreement, the Agency shall release and forever discharge CAW and its agents, employees, and attorneys from any and all claims, demands, damages, liabilities, obligations, agreements, expenses (including attorneys' fees), actions and causes of action, of whatever description or nature, arising out of or relating to the RDP Agreements. Notwithstanding the foregoing, the Agency reserves the right to maintain, commence or defend a civil action or proceeding for equitable or declaratory relief, to interplead funds in the Trust Account or for other non-monetary relief regarding the RDP Agreements and to join CAW as a party. In addition, the Agency shall retain the right to raise any and all factual issues, legal issues and claims it may have against CAW as a defense to claims made by the District or any other person or entity not a Party to this Agreement in any litigation over the RDP, the RDP Agreements or any other CAW water supply project for CAW's Monterey district.

D. Section 1542 Waiver. By executing this Agreement, each Party hereto expressly waives the provisions of California Civil Code Section 1542, which, as applicable to this Agreement, provides in substance that a general release does not extend to claims which the releasor does not know or suspect to exist in his or her favor at the time of executing the release,

which if known by him or her must have materially affected his or her settlement with the releasee.

16. Governing Law. This Agreement shall be governed by the laws of the State of California. Venue for any civil action or proceeding regarding this Agreement or its interpretation, performance or breach shall be the Superior Court of the County of Monterey.

17. Advocacy for Approval. In accordance with CPUC Decision No. 12-07-008, promptly after the Execution Date, CAW shall file an application at the CPUC addressing the costs to be reimbursed and the indebtedness to be forgiven as described in this Agreement. The Parties shall cooperate in the preparation and filing of a joint pleading for approval of this Agreement by the CPUC and shall all support the joint pleading, including advocating this Agreement's approval, without modification, before the CPUC. The rights and obligations created by this Paragraph 17 shall arise from and after the Execution Date and not on the Approval Date.

18. Attorneys' Fees. If an action is instituted for breach of this Agreement, the prevailing party shall be entitled to recover from the non-prevailing party its reasonable attorneys' fees and costs, including an award of reasonable attorneys' fees and costs on appeal, in addition to any other relief. Such attorney's fees shall include the fees of attorneys who are employees of the prevailing party.

19. Failure of CPUC Approval. If this Agreement is not approved by the CPUC in a manner acceptable to the Parties within 18 months after the Execution Date, either party may at any time thereafter give written notice to the other that the Agreement will terminate 60 days after the receipt of such notice. If the CPUC approves the Agreement in a manner acceptable to the Parties after notice of termination has been given but before expiration of the 60-day notice period, the notice of termination shall be deemed rescinded. If the CPUC does not approve the Agreement in a manner acceptable to the Parties within the 60-day notice period, the Agreement shall terminate at the expiration of the 60-day notice period and those acts and obligations that are to be performed on or after the Approval Date shall be discharged and no Party shall thereafter be obligated to continue to perform this Agreement or any provision hereof. Whether this Agreement is approved by the CPUC in a manner acceptable to the Parties or not, those acts and obligations performed before the date of termination shall be final and no party shall have any claim to be restored to its pre-Execution Date status with regard to any of those acts or obligations.

20. No Third Party Beneficiary. The Agency, the County and CAW are the only parties with beneficial interests in this Agreement and no other party has any beneficial interest. There are no third party beneficiaries to this Agreement.

21. **Duplicate Originals**. This Agreement may be executed in one or more duplicate counterparts, any one or all of which shall constitute but one agreement.

CALIFORNIA-AMERICAN WATER COMPANY

By: _____
Robert MacLean, President

APPROVED AS TO FORM & LEGALITY:

COUNTY OF MONTEREY

By: _____
Charles McKee, County Counsel

COUNTY OF MONTEREY

By: _____
Dave Potter, Chair of the Board of Supervisors

MONTEREY COUNTY WATER RESOURCES AGENCY

By: _____
Dave Potter, Chair of the Board of Supervisors

MONTEREY COUNTY WATER RESOURCES AGENCY

By: _____
Kenneth O. Ekelund, Vice-Chair, Board of Directors

MONTEREY COUNTY WATER RESOURCES AGENCY

By: _____
David E. Chardavoyne, Interim General Manager

FIRST AMENDMENT TO SETTLEMENT AGREEMENT AND MUTUAL RELEASE

This First Amendment to Settlement Agreement and Mutual Release ("First Amendment") is entered into by and among the California-American Water Company, a corporation and regulated public utility ("CAW"), the County of Monterey, a political subdivision of the State of California ("County"), and the Monterey County Water Resources Agency ("Agency"), a duly constituted water resources agency created pursuant to the Monterey County Water Resources Agency Act, each of whom may be referred to herein as a "Party" and all of whom are at times collectively referred to herein as the "Parties." Capitalized terms used herein but not otherwise defined shall have the meaning as set forth in the Agreement (defined below).

WHEREAS, on December 4, 2012, the Parties entered into a Settlement Agreement and Mutual Release ("Agreement") wherein the Parties believed it to be in their mutual best interest and in the best interests of their customers, taxpayers and constituents to settle, without admitting liability, certain claims the Parties had against each other arising out certain agreements relating to the Monterey Peninsula Regional Desalination Project ("RDP");

WHEREAS, as part of the Agreement, and in acknowledgment of the reasonable and prudent nature of the Agency expenditures relating to its pursuit of the RDP, CAW agreed to reimbursement and debt forgiveness of certain amounts of money expended by the Agency as specified in the Agreement; and

WHEREAS, the Parties desire to amend the Agreement to reduce the reimbursement amount CAW will pay the Agency pursuant to the Agreement.

NOW, THEREFORE, for valuable consideration, the sufficiency of which is hereby acknowledged, the Parties agree as follows:

1. Paragraph 4.B. of the Agreement is hereby deleted in its entirety and replaced with the following:

   B. Within 30 days after the Approval Date, CAW shall pay the Agency the sum of $764,557.

2. This First Amendment may be executed in one or more duplicate counterparts, any one or all of which shall constitute but one agreement.

SIGNATURE PAGE FOLLOWS

IN WITNESS WHEREOF, the Parties have caused this First Amendment to be duly authorized, executed, delivered and effective as of the last date entered below.

May 23, 2013

CALIFORNIA-AMERICAN WATER COMPANY

By: _____
Robert Maclean, President

APPROVED AS TO FORM & LEGAL

COUNTY OF MONTEREY

May 23, 2013

By: _____
Charles McKee, County Counsel

May 24, 2013

COUNTY OF MONTEREY

By: _____
Fernando Armenta, Chair of the Board of Supervisors

May 24, 2013

MONTEREY COUNTY WATER RESOURCES AGENCY

By: _____
Fernando Armenta, Chair of the Board of Supervisors

May 23, 2013

MONTEREY COUNTY WATER RESOURCES AGENCY

By: K O Ekelund

Kenneth O. Ekelund, Chair, Board of Directors

May 23, 2013

MONTEREY COUNTY WATER RESOURCES AGENCY

By: David E. Chardavoyne

David E. Chardavoyne, General Manager