



APPENDIX D

MCWRA letters dated July 7 and July 20, 2011

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July 7, 2011

**CONFIDENTIAL SETTLEMENT COMMUNICATION (CAL. EVIDENCE
CODE § 1152, CAL. GOVERNMENT CODE § 6254(k); RULE 26 OF
CPUC RULES OF PRACTICE AND PROCEDURE)**

VIA FEDERAL EXPRESS AND E-MAIL

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**Re: Notice of Initiation of Dispute Resolution Procedures Pursuant to Article 19 of
Water Purchase Agreement dated as of April 6, 2010 by and among Marina Coast
Water District, Monterey County Water Resources Agency and California-American
Water Company**

Gentlemen and Ms. Driscoll:

On behalf of the Monterey County Water Resources Agency (“MCWRA”), this letter constitutes formal notice to Marina Coast Water District (“MCWD”) and California-American Water Company (“Cal-Am”) that MCWRA is initiating the dispute resolution procedures set forth in Article 19 of the above-referenced Water Purchase Agreement (“WPA”).

It is the position of MCWRA that the WPA, the Settlement Agreement dated April 6, 2010 by and among Cal-Am, MCWD and MCWRA and the ancillary agreements executed in connection

with the WPA (including but not limited to the “Regional Desalination Project Management Agreement” dated January 11, 2011) are void pursuant to California Government Code § 1090 *et seq.* and other applicable law as the result of the conduct of former MCWRA director Stephen Collins. The relevant factual and legal background pertaining to Mr. Collins’ conduct is set forth in the “Summary of Preliminary Findings Regarding Director Stephen Collins’ Business Relationship with RMC Water and Environment and Marina Coast Water District” dated June 21, 2011 issued by the law firm Remcho, Johansen & Purcell, LLP (“Remcho Report”). It is my understanding that you have received and reviewed the Remcho Report; if this is not the case please advise and I will arrange to have it sent to you.

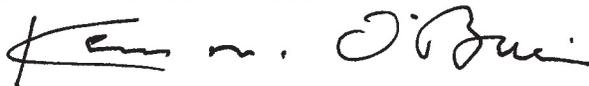
Notwithstanding anything in this letter to the contrary, MCWRA reserves all rights to assert, for all purposes, that because the WPA is void, MCWRA is under no obligation to engage in dispute resolution under Article 19 of the WPA or otherwise prior to commencing a judicial action seeking appropriate remedies in relation to Mr. Collins’ conduct. Nonetheless, MCWRA is willing to participate in a dispute resolution process utilizing the procedures described in Article 19 of the WPA in a good faith effort to resolve the current dispute. MCWRA reserves all rights to pursue all available judicial remedies at any time.

Because the parties have already met on June 22, 2011, and June 29, 2011, but were unable to resolve this dispute, MCWRA requests that MCWD and Cal-Am waive the provisions of Section 19.2 of the WPA (Good Faith Negotiations) and proceed directly to mediation in accordance with Section 19.3. Please let me know by close of business on July 8, 2011, whether MCWD and Cal-Am are willing to waive the provisions of Section 19.2 and proceed immediately to mediation.

Please contact me if you have any questions or comments.

Very truly yours,

DOWNEY BRAND LLP



Kevin M. O’Brien

KMO/bc

cc: Charles McKee
County Counsel, County of Monterey

Curtis Weeks
General Manager, MCWRA

July 20, 2011

**CONFIDENTIAL SETTLEMENT COMMUNICATION (CAL. EVIDENCE
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Water District, Monterey County Water Resources Agency and California-American
Water Company**

Gentlemen and Ms. Driscoll:

On July 7, 2011, the Monterey County Water Resources Agency ("MCWRA") gave notice that it was in good faith initiating the dispute resolution procedures set forth in Article 19 of the Water Purchase Agreement ("WPA"), even though MCWRA asserts the WPA is void. Pursuant to Section 19.2 of the WPA, the representatives of the parties to the WPA were to meet and confer

by July 14, 2011, to attempt in good faith to resolve the dispute. That meeting occurred on July 13, 2011. No resolution was reached at that meeting.

Under Section 19.2 of the WPA , within 10 business days of the July 7, 2011, notice, which is July 21, 2011, the matter is to be referred to senior management of the parties for resolution. Senior management then has until 15 business days from the July 7, 2011, notice, which is July 28, 2011, to resolve the dispute. MCWRA senior management stands ready to meet, personally or by telephone, by July 28, 2011, to resolve the dispute. MCWRA is willing to meet without a formal confidentiality agreement but notes the meeting may be considered confidential under applicable law. Please let me know immediately a date before July 28, 2011, when your senior management can meet.

If resolution cannot be reached, after July 28, 2011, MCWRA may determine whether to avail itself of the provisions of Section 19.3 of the WPA, which call for nonbinding mediation under the rules of JAMS, and reserves its right to make such a determination. MCWRA reserves all rights to pursue all available judicial remedies at any time.

Very truly yours,

DOWNEY BRAND LLP



Kevin M. O'Brien

KMO/bc

cc: Charles McKee
County Counsel, County of Monterey

Curtis Weeks
General Manager, MCWRA