



**APPENDIX F**  
August 12, 2011 Letter

**FILED**  
03-01-12  
04:59 PM



Robert G. MacLean  
1033 B Avenue  
Suite 200  
Coronado, CA 92118  
robert.macleam@amwater.com

P 619.435.7401  
F 619.435.7434

**VIA UPS OVERNIGHT DELIVERY and ELECTRONIC MAIL**

August 12, 2011

Jim Heitzman, General Manager  
Marina Coast Water District  
11 Reservation Road  
Marina, CA 93933

Curtis Weeks, General Manager  
Monterey County Water Resources Agency  
893 Blanco Circle  
Salinas, CA 93901

**RE: Notice of Event of Default by MCWD and MCWRA under Water Purchase Agreement**

Dear Jim and Curtis:

Reference is made to that certain Water Purchase Agreement dated April 6, 2010, by and among, Marina Coast Water District ("MCWD"), Monterey County Water Resources Agency ("MCWRA"), and California-American Water Company ("CAW") (collectively, the "Parties") and updated by the Parties on August 31, 2010 pursuant to a filing by MCWD with the California Public Utilities Commission ("CPUC") entitled "Marina Coast Water District's Notice Of Filing Of Conformed Copy Of Water Purchase Agreement Containing Previously-Announced Revisions Acceptable To The Signatories" (collectively, the "WPA"). Terms not otherwise defined herein have the meaning given in the WPA.

CAW is a water utility regulated by the CPUC and has a duty to its ratepayers to ensure all expenses incurred are prudent business expenses. As a result, it is critically important that we achieve resolution on the disposition of the Regional Desalination Project ("Project") as quickly as possible so that no unnecessary expenses are passed onto our ratepayers. At this time, you are both well aware of MCWRA's position that the WPA, the Settlement Agreement dated April 6, 2010 by and among the Parties, and the ancillary agreements executed in

connection with the WPA are void pursuant to applicable law as a result of the alleged conduct of former MCWRA director Stephen Collins.

As CAW reminded MCWD and MCWRA (collectively, the "Agencies") in CAW's letters of July 6, 2011, the WPA requires the Agencies to obtain, subject to market conditions, all or a portion of the financing for the Project costs within 120 days following the Effective Date. The Effective Date occurred on January 11, 2011 and, therefore, the date on which the Agencies were to have obtained at least partial financing for the Project was May 11, 2011. In addition to the contractual 120 day requirement, it was always the intent and understanding of the Parties that the Agencies would go out to market and obtain the financing immediately following the Effective Date. This has not happened.

CAW recognizes that the Agencies have been developing a "Conceptual Level Financing Plan", and CAW has provided comments to such plan, but the contractual requirement is that financing be obtained by the Agencies. Indeed, MCWD's consultant represented to the CPUC in written testimony, submitted on May 27, 2010 in Application ("A.") 04-09-019, that bond financing could be made available to the Agencies for the project at 4.75%.

In May 2010, the Agencies represented to the CPUC that they were developing the Financing Plan. The continued development of a plan to obtain financing is not enough to satisfy the Agencies' obligations under the WPA. To meet the 2016 deadline in the Cease and Desist Order, the Agencies need to obtain the financing immediately and move this Project forward.

The Parties have been meeting for several months to discuss the issues affecting the ability of the Project to move forward as originally contemplated in the WPA. CAW has been extremely cooperative in attempting to resolve all such issues in an effort to reduce costs of potential litigation that would ultimately impact its ratepayers. Unfortunately, due to the lack of progress in resolving these issues, CAW has reached a point where it must take this action to formalize its concern over the current status of the Project. Accordingly, for the reasons set forth above, this letter constitutes written notice under WPA Section 20.1(b)(ii) that the Agencies have defaulted in the performance of their material covenants, agreements, or obligations required under the WPA, as follows:

Under Section 7.1(a), the Agencies have failed, by May 11, 2011 (such date being 120 days after the Effective Date of the WPA), to obtain all or a portion of the financing for the Pre-Effective Date Costs and Expenses and all other projected costs and expenses related to the development, environmental and engineering evaluations, design, permitting, construction, testing and start-up of the Project Facilities and administration and supervision of the

Jim Heitzman, MCWD  
Curtis Weeks, MCWRA  
August 12, 2011  
Page 2 of 3

foregoing, including all of the MCWD Initial Capital Costs and all of the MCWRA Initial Capital Costs.

It is CAW's sincere desire that the Agencies cure the default as soon as possible to allow the Project to move forward in an expeditious manner. CAW is ready, willing and able to meet with the Agencies and hereby invokes the dispute resolution procedures described in Article 19 of the WPA. CAW requests the Parties begin the dispute resolution process and enter into good faith negotiations immediately pursuant to Section 19.2.

Sincerely,



Robert G. MacLean  
President  
California American Water

cc: Lloyd Lowrey, Jr., District Counsel, MCWD  
Charles McKee, County Counsel, MCWRA  
Kevin O'Brien, Downey Brand  
Mark Fogelman, Friedman Dumas & Springwater  
Anthony Cerasuolo, VP Legal – Operations, CAW