APPENDIX K

MCWD Letter of September 29, 2011

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PRIVILEGED AND CONFIDENTIAL MEDIATION AND SETTLEMENT COMMUNICATION

September 29, 2011

BY EMAIL AND U.S. MAIL

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Re: Your "Termination of Agreements" Letter Dated September 28, 2011

Dear Mr. Moore and Mr. Cerasuolo:

On behalf of Marina Coast Water District ("MCWD"), I am responding to Mr. Moore's letter of September 28, 2011, served on behalf of California American Water Company ("CAW"), addressed to Jim Heitzman and Charles McKee, and purporting to terminate the Regional Desalination Project ("RDP") Water Purchase Agreement ("WPA") and unspecified related project agreements.

MCWD believes that CAW's purported termination of the WPA and unspecified related project agreements constitutes an anticipatory repudiation and, independently, a

breach of those agreements. As you know, MCWD has consistently and steadfastly taken the position that the WPA and other project agreements are valid and enforceable, and has repeatedly indicated its intention to perform those agreements. CAW's unilateral attempt to terminate the agreements seeks to destroy the RDP and to harm MCWD, which has invested significant time, money and resources in the project and is entitled to the benefit of the bargain it reached with CAW in entering into those agreements. MCWD also believes that CAW's purported termination of the agreements constitutes further evidence of CAW's breach of the implied covenant of good faith and fair dealing applicable to those agreements. MCWD notes that CAW undertook its purported termination of the agreements during the course of an ongoing mediation instituted under the WPA in which the Monterey County Water Resources Agency's ("MCWRA's") prior statements concerning the alleged invalidity of the WPA and related project agreements – the asserted basis of CAW's purported "termination" – were being discussed by the parties, and MCWD was seeking to persuade MCWRA that the agreements are neither void nor, perhaps more importantly, subject to invalidation in a court of law, and further, that MCWRA can and should eliminate the issue and confirm the validity of the agreements by reapproving them.

In addition, MCWD believes that CAW's attempt to terminate the WPA, without a final CPUC decision authorizing such termination, is a direct violation of CPUC Decision 10-12-016, the final and non-appealable CPUC decision that approved the RDP and ordered CAW expeditiously to implement the WPA, and is thus directly in violation of a CPUC decision or order enforceable under Public Utilities Code sections 1702, 2106, and 2102-2114.

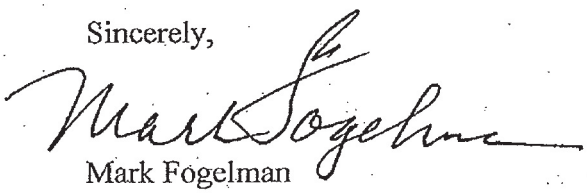
MCWD also wishes to give notice that if CAW's alleged termination of the agreements appears to bear a relationship to CAW's efforts to pursue mutually-exclusive alternative projects with other parties, MCWD will pursue claims of fraud, conspiracy, and intentional interference with contractual relations against, as appropriate, CAW and other parties participating in such efforts. MCWD notes that CAW's purported termination of the WPA deprives it of the benefit of the limitation of liability contained in the WPA, and entitles MCWD to seek all available damages against CAW, including punitive damages.

MCWD also notes that CAW's termination letter is marked "Privileged and Confidential Mediation and Settlement Communication," but appears to be a notice under the WPA, a public document, purporting to alter the rights and obligations of the parties to the WPA. Should the current mediation fail to result in a settlement agreement acceptable to MCWD resolving all issues in the mediation, MCWD reserves the right to treat Mr. Moore's letter of September 28, 2011, and this response, as public documents.

That said, MCWD is also hopeful that all issues between the parties may be resolved amicably in the current ongoing mediation.

Please bring this letter to the attention of Mr. Robert MacLean, CAW's President.

Sincerely,



Mark Fogelman

cc: Charles J. McKee
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Lloyd W. Lowrey, Jr.