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March 30, 2011

Mr. Darby Fuerst
General Manager
Monterey Peninsula Water Management District
5 Harris Court, Building G
Monterey, CA 93942

Re: Reimbursement Agreement for Mitigation and ASR Activity Expenses; Amended Notice of Intent to Terminate Reimbursement Agreement for Convenience.

Dear Mr. Fuerst:

As you know, the Commission issued a decision rejecting the proposed all-party settlement of Application 10-01-012. As you know, we must file a revised application by May 23, 2011 and on that date the current memorandum account for our payments to the District terminates. Based on this, it is appropriate that we have a clear path forward until the Commission issues a decision on our amended application.

California American Water and the Monterey Peninsula Water Management District ("Water Management District") entered into the Reimbursement Agreement on September 24, 2009, after the California Public Utilities Commission ("Commission") issued Decision 09-07-021, which terminated California American Water's authority to collect and remit the Water Management District's User Fee. The Reimbursement Agreement provides for California American Water to reimburse the Water Management District for the costs of the Mitigation and ASR Programs pending a decision by the Commission on our application to resume collecting and remitting the User Fee ("Application 10-01-012").

Section VII of the Reimbursement Agreement allows either party to terminate the Reimbursement Agreement for convenience. In light of the proposed decision issued by the Commission in December, California American Water invoked its right to terminate the agreement for convenience on January 6, 2011, effective April 6, 2011. Based on the events subsequent to December, and based on D.11-03-035, California American Water is hereby extending the termination date from April 6, 2011 to May 23, 2011.

We believe California American Water and the Water Management District have worked successfully as partners implementing these programs and we recognize the importance of their continuation. We look forward to our meeting on April 12th to further develop our path forward.

Sincerely,

Robert G. MacLean
President