CALIFORNIA WATER ASSOCIATION

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MESSAGE FROM THE PRESIDENT

As 2013 draws to a close, it's a perfect time to reflect on the accomplishments achieved throughout the year by the California Water Association member companies. In addition to providing high-quality, reliable water to Californians, the investor-owned water companies (IOWCs) also gave back to their communities in various ways, provided input on proposed regulatory changes, engaged in informative discussions to share ideas and continued efforts to educate the public on the value of water.

The following articles in this edition of On Tap highlight many of the areas in which IOWCs' accomplishments have made a difference in California:

- Operation Gobble Makes Thanksgiving a Reality for Families in Need
- Golden State Water Company Pushes Back on Claremont's Decision to Pursue Eminent Domain
- Seoul Metropolitan Waterworks Visits San Jose Water Company
- California Water Companies Join Others in Successful Passage of the Federal Community Fire Safety Act
- California American Water Selects CDM Constructors, Inc., to Design and Build Monterey Desalination Facility
- CWA Reports on Supplier Diversity Procurement at Annual CPUC Hearing
- CWA Joins Other Water Leaders in the Discussion Are We Running Dry?
- CPUC Thought Leaders Series Focuses on Effective Regulation
- American Water Appoints Female CEO, Susan Story; Current President and CEO Jeff Sterba to Retire in May

To view *On Tap* in PDF format, click here, or access the online version on CWA's website at www.calwaterassn.com.

Sincerely,

Pot W. Wilson

R.W. Nicholson San Gabriel Valley Water Company 2013-2014 CWA President

For instant California Water Association news:





OPERATION GOBBLE MAKES THANKSGIVING A REALITY FOR FAMILIES IN NEED



nce again, California's investor-owned water companies participated in Operation Gobble with local nonprofit organizations and policymakers to distribute turkeys and "fixings" to families during Thanksgiving. Operation Gobble, initiated in 1988 by the California Water Association, has fed hundreds of thousands of people in need.

Golden State Water Company (GSWC) partnered with the Los Angeles Dodgers, Ralphs/ Food 4 Less, local and state elected officials and community leaders at Dodger Stadium to distribute more than 2,250 turkeys and fixings to

nonprofit organizations in the Los Angeles area that benefit families in need. At the event, GSWC staff filled canvas bags with turkeys, mashed potatoes, pumpkin pie, candied yams, cranberry sauce, dressing and corn and loaded them into hundreds of vehicles lining the stadium. Statewide, GSWC distributed more than 9,000 turkeys this year and has proudly donated more than 200,000 turkeys during the 23 years the company has participated in Operation Gobble.

In a recent newsletter, State Senator Bob Huff expressed his gratitude for GSWC's and Suburban Water Systems' contributions to Operation Gobble, "I am grateful to the water companies and the local charities for their benevolence and their heart for service. These partnerships are invaluable to our community as a lifeline to the needy, and because of this, over 250 families will be able to gather this Thanksgiving and enjoy a turkey dinner with their loved ones."

For the 25th year, California Water Service Company (Cal Water) participated in Operation Gobble by distributing 8,500 gift certificates for the purchase of turkey or turkey products to more than 100 local charities in its service areas. Cal Water opted to provide gift certificates rather than frozen turkeys to provide flexibility to the charities and families participating in the program. Gift certificates also eliminated the need for delivery trucks, which is better for the environment.

For its 23rd annual Operation Gobble, California American Water (CAW) distributed turkeys to local nonprofit organizations throughout its service areas statewide, including those in Sacramento and Monterey Counties. Approximately 1,800 turkeys were given out in Sacramento. Special guests at these area events included State Senator and President pro Tem Darrell Steinberg, Assemblymember Roger Dickinson, State Senator Jim Nielsen and State Senator Kevin de León.

"Many of us are blessed this Thanksgiving to be surrounded by our family and friends to eat great food," said Senator Nielsen. "Unfortunately, not all Americans have the resources to have a hot meal,



but thanks to the generosity of California American Water and their employees, many more families will enjoy a hot meal this holiday."

OPERATION GOBBLE MAKES THANKSGIVING A REALITY FOR FAMILIES IN NEED

...CONTINUED

CAW's Operation Gobble in Sacramento





CAW's Operation Gobble in Monterey





CALIFORNIA AMERICAN WATER SELECTS CDM **CONSTRUCTORS, INC. TO DESIGN AND BUILD** MONTEREY DESALINATION FACILITY

fter a nine-month procurement process, California American Water (CAW) selected CDM Constructors, Inc. (CDM) to design and build the desalination facility, which is part of the \$320-million Monterey Peninsula Water Supply Project. CDM ranked highest of the four finalists on a business, technical and price evaluation. CDM's bid of \$86 million was the lowest of the four proposals ranging from \$90-\$110 million.

"All four firms had some great technical concepts and innovations, but CDM's proposal scored highest overall in our team's ranking criteria," said CAW Vice President of Engineering Rich Svindland.

CDM is a wholly-owned, design-build and general construction subsidiary of CDM Smith, which has completed more than 35 international desalination projects throughout the world and seven in California, including the Sand City desalination facility and the Pebble Beach Company's reclamation project.

In a CAW press release, CDM Smith Chairman and Chief Executive Officer Stephen Hickox stated, "The project provides a forward-thinking and environmentally sensitive approach to solving a very serious water supply shortage. We understand the time constraints and have the capability to deliver the desalination project the Monterey Peninsula community needs."

"This is a major step toward solving the Monterey Peninsula's water supply issue," said CAW President Rob MacLean. "This procurement has brought the most reputable desalination experts in the world to the table to compete in what has been a professional and thorough process. The residents of the Monterey Peninsula will have the opportunity to review our selection criteria via the Governance Committee's public examination."

The public Governance Committee charged with oversight of the project voted unanimously in favor of CAWs recommended choice of CDM From the CDM Drawings for the Design-Build as the lead contractor. Carmel Mayor Jason Contract Burnett, who represents the Monterey Peninsula



Regional Water Authority, called the approval an "incredibly important decision for the future of water on the Peninsula."

The committee stipulated three main conditions, including a requirement that CDM and CAW guarantee quality assurance oversight, commit to meeting the county's 50 percent local hiring policy on every aspect of the project and specify the actual savings of eliminating pre-filtration treatment if it is not needed. MacLean accepted the conditions on behalf of CAW.

The California Public Utilities Commission is currently reviewing CAW's application for the Monterey Peninsula Water Supply Project and is scheduled to make a ruling by August of 2014. Project updates can be found at www.watersupplyproject.org.

CWA REPORTS ON SUPPLIER DIVERSITY PROCUREMENT AT ANNUAL CPUC HEARING

alifornia American Water President Robert MacLean, representing the California Water Association (CWA) testified on November 7, 2013, at the California Public Utilities Commission's (CPUC) 11th annual public En Banc Hearing on General Order 156 (GO 156), the CPUC's Utility Supplier Diversity Program that promotes diversity in utility company procurement practices. MacLean told the five commissioners that the seven affected water companies that have voluntarily submitted supplier diversity reports since 2006 have steadily grown their eligible spending with women, minority and service disabled veteran-owned business enterprises (WMDVBEs), reaching nearly 17 percent in 2012.

The CPUC's En Banc Hearing was hosted by CPUC President Michael Peevey. He was joined on the dais by Commissioners Mark Ferron, Michel Florio, Carla Peterman and Catherine Sandoval as well as Assemblymember Steven Bradford (D-Gardena), chair of the Assembly Committee on Utilities and Commerce, and former Assemblymember Gwen Moore, who sponsored the original Public Utilities Code legislation in the mid-1980s establishing GO-156.

This year's theme was "General Order 156 – Supplier Diversity Growing to New Heights." The purpose of the hearing was to learn of the latest progress and activities from the chief executive officers and presidents of California's largest investor-owned utilities, including Pacific Gas and Electric Company, San Diego Gas & Electric Company, Southern California Edison, Southern California Gas Company, AT&T, Sprint, Verizon, Comcast Cable and Cox Communications. All of these leaders, including MacLean, explained how their respective companies encourage inclusion of diverse suppliers in contract opportunities.

MacLean said, "From 2011 to 2012, the water companies significantly increased their 'diverse spend' by 16 percent, reaching nearly \$75 million. Further, our number of paid certified diverse vendors increased 25 percent in 2012 to 372."

MacLean further noted that even though the eligible water companies only have been required to participate in the GO 156 program since 2011 (compared with the energy and communications utilities, which have been in the program since 1988), three of the seven companies – Suburban Water Systems, Park Water Company and California American Water –already are eclipsing the GO-156 goal of having 21.5 percent of all eligible procurement dollars expended with WMDVBEs.

In addition, the leaders shared their views on how supplier diversity programs are stimulating economic development and job creation in California. Other participants and speakers at the hearing included distinguished guests from the California Utilities Diversity Council; ethnic chambers of commerce; national organizations in support of supplier diversity; and a number of emerging WMDVBE firms with success stories as a result of GO 156.

CWA JOINS OTHER WATER LEADERS IN THE DISCUSSION – ARE WE RUNNING DRY?

he California Water Association joined the Metropolitan Water District of Southern California, Los Angeles Department of Water & Power (LADWP), West Basin Municipal Water District, National Water Research Institute and others in sponsoring a forum on November 12, 2013, titled "Are We Running Dry?" Hosted by The Chronicles Group, The Negri Foundation and the Southern California Association of Governments at the latter's office in Los Angeles, the Forum was open to the public and designed to investigate the growing water crisis in Southern California and promote discussion on long-term sustainable solutions to the supply problem.

Part of that discussion centered on the complexity and urgency of the evolving political and environmental water crisis in Southern California. Following a screening of the award-winning

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CWA JOINS OTHER WATER LEADERS IN THE DISCUSSION – ARE WE RUNNING DRY?

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documentary produced by the Chronicles Group, "The American Southwest: Are We Running Dry?," former LADWP Chief Executive Officer and General Manager David Nahai, now partner in the law firm of Lewis, Brisbois, Bisgaard & Smith, and President of David Nahai Consulting Services LLC, outlined the current supply situation in Southern California in his keynote address. Nahai summarized future options for the region and noted that an overriding objective was to reduce the region's reliance on imported water supplies, both from Northern California and the Colorado River.

Aseries of panel discussions and a question and answer session with leading water experts in Southern California explored a wide range of potential solutions to solve water reliability, quality and access challenges both now and in the future. The panel participants provided a comprehensive overview of the issues of water sustainability and potential solutions, which covered the spectrum of local/regional supply projects, including recycled water, desalination, conjunctive management of surface and groundwater, water-use efficiency, groundwater and surface water storage, storm-water capture and water transfers.

The Chronicles Group Chief Executive Officer and Executive Producer Jim Thebaut moderated the panels, which were comprised of leading water industry luminaries, including:

- Mike Feuer Current Los Angeles City Attorney and former Assemblymember who was instrumental in water legislation from 2006 to 2012
- Michael George Managing Director, Integrated Water Industry Services, Wedbush Securities, Inc., and former Chief Executive Officer of Western Water Company
- Jeff Kightlinger General Manager, Metropolitan Water District of Southern California
- Caryn Mandelbaum Freshwater Program Director, Environment Now
- Jim McDaniel Senior Assistant General Manager, LADWP
- Jeff Mosher Executive Director, National Water Research Institute
- Mark Pisano Senior Fellow, Price School of Policy Planning and Development, University of Southern California
- Ron Smith Member, Board of Directors, West Basin Municipal Water District
- Scott Slater Shareholder and Member of Water & Public Lands Group, Brownstein Hyatt Farber Schreck LLP
- Maureen Stapleton General Manager, San Diego County Water Authority
- Floyd Wicks Owner, H2Options, Inc. and Water Supply Consultant, Niagara Conservation



CPUC THOUGHT LEADERS SERIES FOCUSES ON EFFECTIVE REGULATION

As part of its ongoing "Thought Leaders Series," The California Public Utilities Commission (CPUC) hosted a forum on November 14, 2013, on "Effective Regulation." CPUC Commissioner Mark J. Ferron opened the forum with a brief summary of his views on effective utility regulation and sent a strong message to the 100-plus attendees: "The senior executives at our [the CPUC's] regulated utilities must be held accountable for their actions."

Former Governor Arnold Schwarzenegger's Chief of Staff, Susan Kennedy, a former CPUC Commissioner from 2003 through 2005 who now leads Alston & Birds LLP's public policy advisory services in California, moderated the panel, which, interestingly, did not include a regulated entity. Nonetheless, Kennedy made sure the perspectives of the CPUC and regulated utilities were well represented. The two panelists were Solar City Co-Founder, Chief Operating Officer and Chief Technology Officer Peter Rive, and Mark Toney, Executive Director of TURN-The Utility Reform Network, which, along with the Office of Ratepayer Advocates, represents residential and small commercial customers in utility proceedings at the CPUC.

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CPUC THOUGHT LEADERS SERIES FOCUSES ON EFFECTIVE REGULATION

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Kennedy, Rive and Toney had three different views on the role of regulation. Kennedy introduced the discussion by saying the primary purpose of regulation was to curtail the power of government. Rive said the primary role of (energy) regulation was to address market failure, while Toney said effective regulation is intended, principally, to promote equity among all types of customers regardless of age, race, income class or ethnic background. Toney also noted that, beyond equity, effective regulation must promote sustainability and affordability and none of these attributes are characteristic of deregulated or free markets.

The three participants conducted a very lively discussion, and Kennedy entertained the audience by continually playing the devil's advocate and provoking Rive and Toney into defending their positions with counter arguments and points to their primary themes. Marzia Zarfar, Director of the CPUC's Policy and Planning Division, offered the utility representatives in the audience an opportunity to comment. While most demurred, several other components of effective regulation were offered, including the addition of balance to the concept of equity such that the interests of utility customers, employees and owners are balanced in CPUC decisions. Other critical components of effective regulation offered were the need for the regulator to be a safety regulator first and foremost, plus the twin attributes of timeliness and transparency in CPUC proceedings and decisions.

Learn more about the CPUC's "Thought Leader Series" at: http://www.cpuc.ca.gov/PUC/hottopics/7other/081027_thoughtseries.htm or access a video archive at: http://www.californiaadmin.com/cpuc.shtml.

AMERICAN WATER APPOINTS SUSAN STORY AS CEO – CURRENT PRESIDENT AND CEO JEFF STERBA TO RETIRE IN MAY

resident and Chief Executive Officer Jeff Sterba will retire from American Water Works Company, Inc. (American Water) at the company's annual meeting in May and current Senior Vice President and Chief Financial Officer Susan N. Story will assume the roles. To ensure a smooth transition, Sterba will stay on as an advisor to Story until January 1, 2015.

"I am so proud of what the American Water employees have achieved in the past few years," said Sterba. "With a clear and well-established vision, we have and will continue to execute our strategy. The leadership team at American Water has created a company where continuous improvement is fully ingrained into our culture, customers are at the center of our actions and increasing shareholder value has and will be the



result. While I will miss the committed and dedicated people of American Water, I know I will leave the company in incredibly capable hands, ensuring a pathway for sustainable and profitable growth."

Sterba joined American Water in 2010. Under his leadership, the company delivered solid earnings per share growth more than doubling its equity share price and market capitalization, while strengthening its balance sheet with increases in revenues, net margin and cash flow. During Sterba's tenure, American Water became the first U.S. water utility named to the Dow Jones Sustainability North America Index. Sterba also is recognized as a thought leader in the

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AMERICAN WATER APPOINTS SUSAN STORY AS CEO – CURRENT PRESIDENT AND CEO JEFF STERBA TO RETIRE IN MAY

water industry, testifying before Congress numerous times as well as helping to launch the Value of Water Coalition made up of public and private members of the water industry working to educate the public on the importance of clean, safe and reliable water.

Story began her career at Southern Company, one of America's largest generators of electricity, as a nuclear power plant engineer and had increasing executive and leadership responsibilities in both power plant and transmission and distribution operations, marketing, customer service, human resources, corporate real estate and supply chain management.

Before joining American Water, Story served as Executive Vice President of Southern Company. She also served as President and Chief Executive Officer of Gulf Power Company, a Florida subsidiary of Southern Company, and as Southern Company's executive Vice President of Engineering and Construction Services.



"The Board is very pleased that Susan Story will become American Water's next leader," said George MacKenzie, Chairman of American Water's Board of Directors. "Susan has more than 30 years of utility experience and knowledge, and we are confident that under her direction, American Water will continue to deliver the solid performance its customers, employees and shareholders have come to expect."

Story is actively involved in community, industry, education and economic development efforts and currently serves on the Bipartisan Policy Center Board of Directors in Washington, D.C. and as a member of the Moffitt Cancer Center Board of Advisors in Tampa, Fla.

MEMBER SPOTLIGHT

GOLDEN STATE WATER COMPANY PUSHES BACK ON CLAREMONT'S DECISION TO PURSUE EMINENT DOMAIN

t a November 6 special meeting of the Claremont City Council, a unanimous vote approved the allocation of an additional \$350,000 for legal and other expenses to continue the process of taking over Golden State Water Company's (Golden State Water) Claremont water system. The city initially offered to purchase the Claremont system in November 2012 for \$54 million. The city made a second offer of \$55 million, representing only a fraction of the cost of the water system, in October 2013. Golden State Water rejected both offers.

In an article in the Inland Valley Daily Bulletin, Denise Kruger, Golden State Water's Senior Vice President of Regulated Utilities, commented that "over the last year, [Claremont] has approved spending at least \$800,000 to promote an unnecessary government expansion" and is exposing residents to "undue financial risk and harm" by understating the cost of an eminent-domain takeover.

California Water Association Executive Director Jack Hawks further outlined the risks and false promises of government takeovers of water utilities in a November 8 guest commentary in the Claremont Courier. Hawks noted that in every case of government takeovers of investor-owned water companies promises were made to lower rates and increase local control; however, the facts and history suggest otherwise. He outlined one glaring example where the local citizens in Felton, California, were led to believe the water system was worth \$5.3 million, that under a takeover their rates would be cut by enough to offset subsequent tax increases, and they would experience minimal rate increases moving forward. In actuality, the system was purchased for \$13.4 million. Only a few months after the takeover, residents learned of plans for substantial rate increases, and customers saw a 12 percent increase in 2009, an 8 percent increase in 2010 and a 15 percent increase in 2011 with significant increases proposed for the future as well as a hike in property taxes.

The city of Claremont says it won't create a water department, and they don't have any idea who will run the system or what level of water service will be provided. Hawks argued that Golden State Water already has the infrastructure and experts and managers in place and has effectively delivered high quality water and outstanding customer service 24 hours a day since 1928. He went on to assert that it's "misleading and a disservice to Claremont's citizens to suggest that the city could replicate the same quality services they receive today and pay to acquire the system without dramatic rate increases."

A February 2013 Orange County Register editorial supports Hawks' perspective citing "city utilities are notorious for neglecting upkeep," and although Golden State Water's water rates are higher than rates in surrounding areas, the company noted its rates "reflect the full cost to provide the service, maintain the infrastructure and make needed investments to improve the system." The editorial goes on to say, "Government-run utility systems, unlike private companies, can foist costs, such as unfunded pension liabilities, onto the general tax base."

On November 19, Golden State Water officials met with approximately 150 customers to share the facts and realities behind Claremont's takeover effort. According to Kruger, "It was important for us to share significant details with our customers as well as our perspective on the real results of the city's attempt to take over the water system."

During the meeting, company representatives outlined the more than \$20 million investment Golden State Water has made since 2000 and the \$3.1 million spent in 2012 to ensure a solid infrastructure for the water system. Golden State Water representatives also listened to customer concerns about the frustration of rising water rates in light of conservation efforts. While clarifying the facts behind the Water Rate Adjustment Mechanism surcharge, established to ensure water companies acquire the money necessary to cover fixed costs, Kruger explained Golden State Water has been and continues to be committed to providing dependable, quality water services to Claremont residents and stated, "We believe that the details behind the city's takeover attempt will never result in reduced costs."

THE QUALITY & SERVICE FOCUS

SEOUL METROPOLITAN WATERWORKS VISITS SAN JOSE WATER COMPANY

an Jose Water Company (SJWC) hosted a delegation from the Seoul Metropolitan Waterworks on November 15, 2013. Seoul Metropolitan Waterworks serves more than 10 million customers, and the delegation came to the United States to learn more about advanced water management techniques.

Senior level personnel from a variety of divisions within the Waterworks were represented, including, Kiok Sung, Facilities Management; Hosik Lee, Technical Diagnostics; Byungwook Song, Water Supply; Yeonhee Sohn, Advanced Water Treatment; Kyungyeon Choi, Water Management; and Jonghyuk Park, Facilities Management.



The tour included visits to SJWC's engineering, operations, water quality and distribution systems departments. Members of the delegation expressed their appreciation for the opportunity to visit SJWC and how impressed they were with SJWC's capabilities.

Below is a side-by-side comparison of Seoul Metropolitan Waterworks and SJWC, two of the world's most advanced and sophisticated water systems.

	Seoul Metropolitan Waterworks	SJWC
Incorporation	1908	1866
People Served	10,500,000	1,000,000
Average Monthly Bill	\$20	\$67
Per Capita Consumption	80 gallons/day	145 gallons/day
Unaccounted for Water	5%	7%
Rates	20 tiers with different tariffs for different uses	Two tiers





LEGISLATIVE AND REGULATORY UPDATE

CALIFORNIA WATER COMPANIES JOIN OTHERS IN SUCCESSFUL PASSAGE OF THE COMMUNITY FIRE SAFETY ACT

Earlier this month, California's investor-owned water companies (IOWCs) joined other public and private water utilities, water industry national organizations and associations nationwide in responding quickly and correcting a perceived misinterpretation of the Reduction of Lead in Drinking Water Act (Act) by the U.S. Environmental Protection Agency (EPA). With a compliance deadline of January 4, 2014, the nation's water purveyor community, including the California Water Association and its member companies, were successful in persuading national policymakers in the U.S. Senate to immediately pass the Community Fire Safety Act of 2013 (H.R. 3588), a bipartisan bill that was unanimously approved by the House on December 5.

The Act, which was enacted to reduce the amount of lead in pipes and plumbing fixtures that regularly deliver water for human consumption, was being interpreted by EPA, for the first time ever, to stipulate that "fire hydrants be subject to, and not otherwise exempt from, the lead-free requirements of the Act." Along with those in support of H.R. 3588, California water companies contended that the EPA's interpretation of the Act "overlooked the fact that the health concerns associated with lead are a matter of long-term exposure." They also asserted that "because hydrants typically only serve as emergency water sources for a matter of hours or days, applying the new lead standards would represent a massive investment of community time and resources for little, if any, discernible public health benefit."

According to San Jose Water Company Director of Government Relations John Tang, "California's IOWCs remain committed to protecting public health and maintaining a safe water supply; however, we don't believe this is what Congress intended, particularly because the federal law is modeled after the bellwether state laws for California and Vermont that were drafted and interpreted to exclude fire hydrants."

In their message to congressional leaders, the associations explained that hydrants supplying a neighborhood or apartment building have flow rates that keep water from sitting idle inside the hydrants for very long. Lead concentrates in water when the water is stationary inside a fixture.

H.R. 3588 provides an important clarification to P.L. 111-380, which became law in 2011 as the Reduction of Lead in Drinking Water Act. And, although there are more than 12 million fire hydrants in the U.S., without the enactment of H.R. 3588, hydrants could be taken out of service when they need maintenance or replacement rendering an insufficient stock of available, compliant hydrants.

Without the passage of H.R. 3588, fire hydrants would not have been exempted from the Act, and existing inventories across the country would have become obsolete if not installed before January 4. The EPA's new interpretation would have allowed only two months for manufacturers, distributors and public and private utilities to use or lose their hydrant inventories, resulting in cities, towns and counties having to leave broken or inoperable hydrants out of service until new compliant hydrants can be purchased and installed. This could have created significant public safety risks, while burdening communities with an unbudgeted cost of approximately \$2,000 to replace each non-compliant hydrant.

H.R. 3588 addresses this issue by adding fire hydrants to the list of devices, such as toilets, bidets and shower valves, that are exempt from the new lead content standards, and ensures that replacement and maintenance of fire hydrants can continue after January 4. California Water Association members were pleased to learn that their efforts with the U.S. Senate did not go unheeded. On December 17, the Senate adopted H.R. 3588 by unanimous consent. President Obama signed the bill into law on December 23, 2013.