CALIFORNIA WATER ASSOCIATION

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MESSAGE FROM THE PRESIDENT

Today, stakeholders of California's regulated water utilities are facing a number of challenges, including the protracted drought, increasingly stringent water quality standards, and compliance with water conservation targets. By far, the most compelling challenge is the severity of the drought. As such, on August 14, the California Public Utilities Commission (CPUC) ordered all CPUC-regulated water utilities and their customers to comply with the State Water Resources Control Board's July 15th adoption of new emergency urban water conservation regulations involving outdoor water use.

The California Water Association's (CWA) member companies continue to expand their conservation programs, which so far have resulted in consumption declines that are responsive to Governor Jerry Brown's call for voluntary water conservation by California citizens. Indeed, CWA members realized declines well in excess of the state's average through July. CWA's members collaborate closely with industry partners and their customers to implement creative and sustainable solutions, as seen in Park Water Company's new sustainability report.

Additionally, CWA hosted a business opportunity fair to directly link water company prime suppliers with diverse businesses, and San Jose Water Company participated in the Golden State Water Summit. Perhaps most significantly, a new state audit has once again confirmed the thoroughness of the CPUC rate-setting process and the reasonableness of an investor-owned water utility's (water IOU) rates, given the differences between a water IOU's costs and revenue sources and those of a government-owned water utility.

The July-August edition of On Tap includes the following articles:

- CPUC Requires Compliance with State Water Board Emergency Conservation Regulation
- CWA Endorses CPUC Action and Reports on Conservation Successes
- CWA and San Jose Water Company Respond to San Jose Mercury News Editorial as "Missing the Mark"
- State Audit Confirms California Water Service Company's Compliance with CPUC's Rate-setting Process
- Park Water Company's Sustainability Report Outlines Actions for Long-Term Sustainable Success
- CWA Comments on Bay Delta Conservation Plan
- · State Water Board Completes Drinking Water Program Transfer
- California Water Service Company Launches Grant Program for Customers Experiencing Hardship
- CWA Hosts Business Opportunity Fair
- CWA Executive Director Presents at National Association of Regulatory Utility Commissioners Meeting
- · Just the Facts on Water Use in California
- Register Now for CWA's Annual Conference

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

Sincerely,

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R.W. Nicholson San Gabriel Valley Water Company 2013-2014 CWA President For instant California Water Association news:





THE QUALITY & SERVICE FOCUS

CPUC REQUIRES COMPLIANCE WITH STATE WATER BOARD EMERGENCY CONSERVATION REGULATION



n August 14, 2014, the California Public Utilities Commission (CPUC) ordered the investor-owned water utilities under its jurisdiction to provide notice to their customers of mandatory water use restrictions and potential fines outlined in the State Water Resources Control Board's (State Water Board) "Emergency Regulation for Statewide Urban Water Conservation," which went into effect on July 29, 2014. The water utilities were directed to publish the emergency regulation in their local newspapers and on their websites and follow up with a direct notice via a bill insert or other means.

The State Water Board's emergency regulation prohibits four activities for customers of all public water systems:

- The use of drinking water for outdoor landscapes in a manner that causes runoff onto adjacent property, non-irrigated areas, private and public walkways, roadways, parking lots or structures;
- The use of a hose without a shut-off nozzle to dispense drinking water to wash a motor vehicle;
- The application of drinking water to driveways and sidewalks; and
- The use of drinking water in a fountain or other decorative water feature, except where The water is part of a recirculating system.

Violation of these prohibited actions is punishable by a fine of up to \$500 for each day during which the violation occurs. However, because the CPUC-regulated water companies are not authorized to issue citations under the State Water Board's regulation, they will not be able to impose fines on customers. Rather, the CPUC instructed water companies to assist in assuring compliance by working with law enforcement or local public agencies authorized to enforce the mandatory restrictions.

"This Resolution orders the CPUC-regulated water utilities to implement water conservation measures consistent with the State Water Board's mandate, and the CPUC will closely monitor the water utilities' progress in encouraging water conservation and consider further action if warranted," said CPUC Commissioner Catherine J.K. Sandoval. "As part of their conservation efforts, CPUC-regulated water utilities can take steps to monitor and promptly inform customers about leaks and to work with customers to stop leaks and water waste, consistent with best practices being implemented by other California water utilities. Californians should take all feasible steps to reduce water use, including curbing outdoor water use, during the drought crisis."

THE QUALITY & SERVICE FOCUS

CWA ENDORSES CPUC'S ACTION AND REPORTS ON CONSERVATION PROGRESS

n a statement, the California Water Association (CWA) applauded the California Public Utilities Commission (CPUC or Commission) for clarifying the actions required of regulated investor-owned water utilities under the State Water Resources Control Board's (State Water Board) emergency regulations, including the four mandatory restrictions on outdoor water use.

"With the state experiencing one of its worst droughts in decades, California's regulated water companies fully support the Commission, as the governing agency for investor-owned utilities, as well as the State Water Board and the governor in their collective endeavor to increase water conservation by water providers and their customers," CWA Executive Director Jack Hawks said.

In its statement, CWA noted that California's largest regulated water utilities already have been complying with the governor's emergency drought proclamation and his call for a voluntary 20 percent water use reduction statewide since February, following the Commission's direction.

"We are pleased that customers already have responded so well to the call to conserve," Hawks said. "Nearly all of the largest water utilities have reported decreases in water use from January to July this year compared to the same period in 2013. These reductions come on top of the substantial progress made toward meeting the state's mandate to reduce urban water use by 20 percent by 2020. Many CPUC-regulated water companies were well on their way to meeting the state mandate before the drought."

"The regulated water companies are committed to partnering with their customers to conserve water, and many offer free programs and rebates to help residents reduce water use. For more information, as well as tips for conserving water at home or at work, contact your local water utility," Hawks concluded.

The chart below shows the change in utility water production (in acre-feet) in representative regions served by CPUC-regulated water utilities between the three-month period in 2014 after drought management plans were activated compared to the same period in 2013. While these declines cannot all be attributed to the drought plans, because of the multitude of price and non-price factors affecting customer consumption (including those factors not under the utilities' control such as weather), evidence suggests that the state's conservation pleas are not going unheeded. Declines in water use are evident in all regions of the state, and some, including the Sacramento, Monterey and San Jose-South San Francisco regions, are well along with their conservation goals.

Regulated Water Utility Production Declines (Acre-Feet)

Region	May-July 2014	May-July 2013	% Change
Sacramento Area	15,829	19,618	-19.3%
Central Valley	32,871	35,183	-6.6%
San Jose – South San Francisco	46,835	51,684	-9.4%
Monterey	3,083	3,454	-10.7%
Central Coast	3,704	4,115	-10.0%
Los Angeles	27,989	28,595	-2.1%
East Los Angeles Corridor	45,639	46,247	-1.3%
Mountain/Desert	7,087	7,669	-7.6%
San Diego Area	3,298	3,370	-2.1%

THE QUALITY & SERVICE FOCUS

CWA AND SAN JOSE WATER COMPANY RESPOND TO SAN JOSE MERCURY NEWS EDITORIAL AS "MISSING THE MARK"

he San Jose Mercury News' July 10 editorial, "Water Limits Should Apply to All Users," missed the mark in assuming private water companies are not actively engaged in water conservation, particularly in light of California's current drought. The editorial took the State Water Resources Control Board (State Water Board) to task on its delay in imposing mandatory limits and fines on urban water users, while raising a question concerning the focus, or lack thereof, on agricultural water users. The editorial also erroneously stated that private water providers, such as investor-owned water utilities (IOWUs) regulated by the California Public Utilities Commission (CPUC), would not be required to participate in the State Water Board's regulation, not realizing that the CPUC coordinates closely with the State Water Board to ensure that its regulatory authority over its jurisdictional utilities would be consistent with (if not identical to) that of the State Water Board (see previous two articles).

Also, the editorial made the supercilious assertion that if IOWUs "don't get on board," their role in distributing the "ultimate public resource" could be "called into question." The editorial then made a third misstatement, saying that the water IOWUs' "need for profit can conflict with the public interest," again not realizing that regulated public utilities do not make a "profit" on the sale of water, rather the opportunity to earn a rate of return on the amount of capital invested in the infrastructure necessary to provide safe and reliable service to customers (thereby negating the assumption that IOWUs aren't "on board" with conservation). California Water Association Executive Director Jack Hawks and San Jose Water Company (SJWC) Director of Government Relations and Communications John Tang responded to the editorial to set the facts straight.

In his letter to the editor published on July 18, Hawks emphasized that IOWUs are responding to the governor's call for 20 percent voluntary conservation this year in addition to complying with the 2009 California law requiring a 20 percent reduction per capita by 2020. Hawks also highlighted that every large water IOWU (more than 2,000 customers) is actively partnering with its customers to save sizable volumes of water and that they have activated their drought management plans. Hawks concluded by stating, "Not only are the CPUC-regulated water providers 'on board,' but they are as fully engaged as their government-owned utility counterparts."

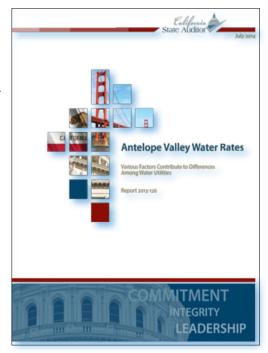
Tang's letter demonstrated that SJWC has been a conservation leader for decades and has maintained a tradition of promoting conservation. He underscored the fact that the IOWU was the first utility "to develop a comprehensive water conservation program during the drought of the 1990, which was effective then and continues to be effective today." Tang indicated that SJWC is "petitioning the CPUC to expand its conservation programs, implement conservation-based rates and increase the use of recycled water." He concluded his comments by noting that Santa Clara County residents surpassed the 15 percent conservation target in 2009 and SJWC customers have done a sterling job in conserving.

MEMBER SPOTLIGHT

STATE AUDIT CONFIRMS CALIFORNIA WATER SERVICE COMPANY'S COMPLIANCE WITH CPUC'S RATE-SETTING PROCESS

n July 8, California State Auditor Elaine M. Howle released an audit report, at the request of the Joint Legislative Audit Committee, on rates charged by four water utilities in the Antelope Valley. Titled Antelope Valley Water Rates: Various Factors Contribute to Differences Among Water Utilities, the audit compared California Water Service Company's (Cal Water) Antelope Valley District rates and operations with three local municipal utilities: Los Angeles County Waterworks District 40, Palmdale Water District and Quartz Hill Water District.

The audit confirmed Cal Water complied with all state regulations requiring rates to be justified and warranted through the comprehensive general rate case (GRC) process managed and approved by the California Public Utilities Commission (CPUC). These GRCs are required by state statute to be filed every three years, and they are designed to determine whether the costs proposed by an investor-owned utility (IOU) to be recovered in its rates are necessary, reasonable and fair.



The report pointed out that rates for all four utilities had risen during the three-year audit period of 2011-2013; however, Cal Water's and the municipal utilities' rates differed for several reasons. One reason is that municipal utilities, unlike Cal Water, have other sources of revenue outside of rates that allow them to keep water rates lower than they otherwise would be. And as a CPUC-regulated water utility, Cal Water is required to pay fees and taxes to the cities and counties in which it operates, which is not the case with municipal utilities.

According to the audit report, municipal utilities "receive revenues from monthly water rates and from additional sources, primarily taxes based on the assessed value of properties in their service area. These additional revenue sources help...cover their costs and, therefore, can contribute to lower monthly water rates for their customers."

Another reason for the rate differences is the size of Cal Water's Antelope Valley District, which serves only 1,400 customers, making it the smallest utility of the four. The report explained that, "service areas with a dense population of service connections allow water utilities to disperse their fixed costs over a larger number of water customers, resulting in lower overall monthly bills, whereas service areas with fewer service connections result in higher monthly bills because the water utilities must spread their fixed costs across fewer water customers."

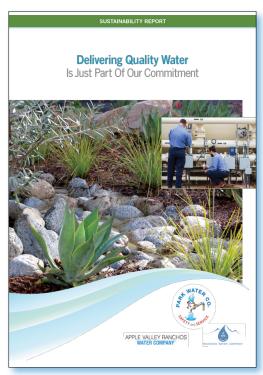
The report also noted that "Cal Water is authorized by the CPUC to offer rate assistance programs and currently offers two different types of assistance to certain demographics of valley water customers." The three municipal utilities do not offer rate assistance and are not required to do so. In addition, Cal Water is reducing costs to customers by pumping more groundwater to decrease expenditures on imported water and by continually identifying and implementing operating efficiencies.

"Our priority is to provide our customers with reliable, high-quality and affordable water service," said Martin A. Kropelnicki, Cal Water President and Chief Executive Officer, in a press release issued in response to the audit. "In maintaining reliable water infrastructure and ensuring that we always meet or exceed all state and federal water quality standards, we are constantly also working to operate as efficiently as possible to minimize the cost impacts to our customers."

Kropelnicki concluded, "We are committed to being a good partner by operating transparently and always providing excellent service to our customers."

MEMBER SPOTLIGHT

PARK WATER COMPANY'S SUSTAINABILITY REPORT OUTLINES ACTIONS FOR LONG-TERM, SUSTAINABLE SUCCESS



ith the recent publication of its sustainability report, Park Water Company (Park Water) formally outlined key initiatives and activities implemented to ensure the company's longterm, sustainable success in delivering safe, quality water to its customers. Titled *Delivering* Quality Water is Just Part of Our Commitment, the report summarizes Park Water's efforts to effectively manage and ensure quality water resources, operate reliably and responsibly, optimize energy use and leverage the experience and knowledge of more than 160 employees.

Faced with the challenges of climate change and environmental issues, limited water resources coupled with increased demand and soaring investment costs due to aging infrastructure, Park Water continues to identify

and execute the best possible solutions to address those challenges. This strategy is substantiated in the report's detailed account of the company's performance in five key areas of water, energy, greenhouse gases, waste and citizenship.

President and Chief Executive Officer Christopher Schilling summed up the intent of the report in his introductory message, "With this Sustainability Report and the ones that will follow, we hope to demonstrate the depth of our commitment to continue to be a trusted provider of an essential service that enhances the quality of life of our customers."

LEGISLATIVE AND REGULATORY UPDATE

CWA COMMENTS ON BAY DELTA CONSERVATION PLAN

BAY DELTA CONSERVATION PLAN

n July 29, 2014, the California Water Association (CWA) submitted comments to the National Marine Fisheries Service on the Bay Delta Conservation Plan (BDCP) and the associated Draft Environmental Impact

Report/Environmental Impact Statement (DEIR/EIS). The comments centered on three areas: coequal goals, funding and water rights.

Relative to co-equal goals, CWA highlighted the Legislature's declaration in 2009, which coincides with the purpose of the BDCP as "a means to establish a comprehensive solution achieving the co-equal goals of improving water supply reliability and enhancing the Delta ecosystem." CWA expressed its support of these efforts, particularly in light of the ongoing water supply constraints, drought and challenges to maintain quality drinking water. CWA further commented on a portion of the BDCP and the DEIR/EIS and the delineation of 22 conservation measures designed to effectively work together in achieving the co-equal goals while offering a "path to regulatory stability for California and its water users." CWA stated that it believes the implementation of the BDCP will increase water supply reliability and concluded its comments on co-equal goals by stating, "CWA appreciates that the BDCP allows for enough operational flexibility such that increased storage will be facilitated in wet years, thereby compensating for a lack of water in dry years."

With respect to funding, CWA stated that it agreed with the Legislative Analyst's Office (LAO) regarding the reasonableness of the costs and assumptions for "design and construction of the dual conveyance system, habitat restoration, fisheries enhancement, tidal and other national communities restoration, wetlands restoration and other conservation measures, as well as the discount rates used to compare benefits and costs of alternatives." However, CWA also noted its agreement with the LAO that it would have been useful for the BDCP to include financing costs as part of the overall \$24.8 billion cost.

CWA commented that although it has been supportive of the "beneficiary pays" principle for financing and allocating the costs of the BDCP, the question of practicality looms large. CWA stressed the importance of keeping in mind that even if the average residential customer's bill were to "increase by \$15-\$20 per month," that increase would come on top of increases from all public water suppliers, which customers have been dealing with throughout the last decade, and which have met resistance. CWA emphasized that BDCP "cost increases absorbed by water utility customers must not 'crowd out' the essential, local infrastructure investments that are comparable in importance for customer service." CWA summarized its comments on funding by stating it hoped the BDCP "sponsors will accommodate the need for these other investments by evaluating beneficiary pays in the context of all needed infrastructure investments."

Last, CWA commented specifically about water rights. Emphasizing the State Water Project and Central Valley Project both operate under water rights and permits and decisions issued by the State Water Board, which requires both projects to meet specific water quality, quantity and operational criteria upstream within the Delta, CWA said that implementation of the BDCP will require a change in the points of diversion as specified in the California Department of Water Resources and Reclamation's water right permits. This issue is not clearly addressed in the BDCP. Additionally, CWA said the BDCP "does not include any regulatory actions that would affect any water rights holders. Therefore, deliveries to senior water rights holders are not discussed...although they have the utmost priority in receiving surface water supplies." CWA requested that the "BDCP and DEIR/EIS be revised to clarify that implementation of the BDCP will preserve senior water rights," and the BDCP will not impact water rights of existing senior water rights holders as supported under national and state laws.

CWA concluded its comments by expressing its support for the BDCP's efforts and is encouraged by the progress made in the BDCP and DEIR/EIS.

LEGISLATIVE AND REGULATORY UPDATE

STATE WATER BOARD COMPLETES DRINKING WATER PROGRAM TRANSFER



ffective July 1, 2014, California's Drinking Water Program (DWP) transferred to the State Water Resources Control Board (SWRCB) from the Department of Public Health. The intent of the transfer is to align California's drinking water and water quality programs "in an integrated organizational structure" to enhance the state's ability to protect public health and water quality as well as meet future water supply demands.

The transfer was described in a 2013 white paper. Upon receiving input from a public meeting held on January 15, 2014, by the California Environmental Protection Agency and the California Health and Human Services Agency, along with input from the Drinking Water Reorganization Task Force, a transition plan was released in March. Subsequently, Senate Bills 851 and 861, describing how the DWP would be statutorily and fiscally transferred, were signed into law.

Additional information on the transfer, as well as a fact sheet on the trailer bill language, can be found at www.waterboards.ca.gov/drinkingwater.

An additional change to the SWRCB was the naming of Cindy Forbes, a veteran of the California Department of Public Health's former Drinking Water Program, as Deputy Director of the Division of Drinking Water on July 1. Forbes has worked in the Drinking Water Program for more than 30 years.

According to a SWRCB announcement issued by Executive Director Thomas Howard, Forbes "comes highly recommended by a wide variety of stakeholders, including Water Board staff, with whom she has worked for many years. We are fortunate to have been able to hire a leader with Cindy's knowledge, energy, and capability."

CALIFORNIA WATER SERVICE COMPANY LAUNCHES GRANT PROGRAM FOR CUSTOMERS EXPERIENCING HARDSHIP

n July 21, California Water Service Company (Cal Water) launched the Cal Water Cares Grant Program to assist customers who have experienced some hardship. Partnering with local community-based organizations, such as the Salvation Army, Cal Water customers will receive assistance in applying for the grants and meeting the eligibility criteria, which includes a total gross household income at or below 200 percent of the Federal Poverty Income Guidelines. Additionally, decisions will be made on a case-by-case basis for customers who face economic hardships, such as unemployment, but do not meet the income guidelines.



The grant program is limited to residential customers at risk of having their service terminated or who have their service terminated and have a balance of at least \$100 on their water utility bill. Prior to receiving a grant of up to \$200, customers will need to have demonstrated they made a concerted effort to pay at least \$75 toward their bill in the last 90 days. For customers 62 years of age or older, the payment is reduced to \$50 in the last 90 days.

The program will be administered by Dollar Energy Fund, Inc., a non-profit organization and one of the largest hardship funds in the U.S.

CWA HOSTS BUSINESS OPPORTUNITY FAIR



(L-R) Palle Jensen, Sr. VP of Regulatory Affairs, San Jose Water Company; Larry Johnson, HDR; Charmaine Jackson, Manager Supplier Diversity San Jose Water Company

n June 18, 2014, the California Water Association (CWA) Utility Supplier Diversity Program Committee (the Committee) held its fourth annual Business Opportunity Fair, a biannual event designed to link water company prime suppliers with diverse businesses. Palle Jensen, Senior Vice President of San Jose Water Company, delivered the opening remarks on the importance of water companies working with diverse and local businesses to deliver quality water.

Participating prime suppliers included West Valley Construction, HDR, Inc, and CDM Smith, which have large-scale construction contracts with San Jose Water Company and California American Water.

This year, the Committee hosted an event that offered diverse businesses insight into two specific water projects, the California American Water Supply project and the San Jose Company Water Treatment Plant project. More than 70 diverse businesses, as well as representatives from the CWA member companies and Douglas Phason, California Public Utilities Commission Utility Supplier Diversity Officer, attended the event.

At the conclusion of each fair, CWA sends the attendees an evaluation survey, which includes a section for open-ended opinions. One respondent's comment was very complimentary, "I appreciated learning about upcoming projects and the contracting opportunities specifically geared toward those projects. And having the opportunity to meet prime contractors was very advantageous. It would be great if more outreach events were organized the way CWA does them."

The next business opportunity fair is scheduled for September 18 in Ontario, California. These events continue the Committee's momentum in meeting and exceeding the goals of General Order 156 to increase utilities' procurement of goods, services and fuel from women-, minority- and disabled veteran-owned business enterprises.



(Center) Emma Maxey, Manager Supplier Diversity, Golden State Water Company



Douglas Phason, California Public Utilities Commission, Utility Supplier Diversity Officer



(L-R) CWA Utility Supplier Diversity Program Committee:
Jose Espinoza, California Water Service Company
Jackie Glover, San Gabriel Valley Water Company
Charmaine Jackson, San Jose Water Company
Danny Rodriguez, Park Water Company
Emma Maxey, Golden State Water Company
Holley Joy, California American Water Company
(Not pictured): Stephanie Swenseid, Suburban Water Systems

CWA EXECUTIVE DIRECTOR PRESENTS AT NATIONAL ASSOCIATION OF REGULATORY UTILITY COMMISSIONERS MEETING

n July 15, California Water Association Executive Director Jack Hawks provided a factual and colorful presentation titled *The Wild Wild West – Taking on Mother Nature and More* to the National Association of Regulatory Utility Commissioners' (NARUC) Committee on Water at NARUC's annual Summer Committee Meetings in Dallas, Texas. Hawks was joined by the Aqua Texas President Bob Laughman in reviewing the challenges facing water companies in the West from Texas to California.

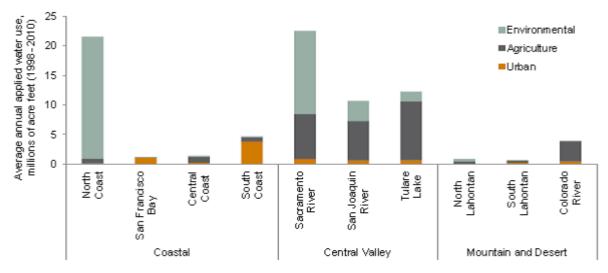
Beginning with an overview of the new hexavalent chromium maximum contaminant level (Cr-6 MCL) standard, effective July 1, and the unrelenting pressures of the drought, Hawks outlined the history behind Cr-6 MCL and the impact on investor-owned water utilities and their customers. He explained how this state regulatory standard emanated from the 2000 movie, Erin Brockovich, starring Julia Roberts. Hawks also reviewed the evolution of the current drought in California, providing facts and figures on contributing factors, in addition to the actions taken by Governor Jerry Brown, the California State Water Resources Control Board and the California Public Utilities Commission. Hawks concluded with the water utilities' responses to the new emergency drought regulations.



JUST THE FACTS ON WATER USE IN CALIFORNIA

n July, the Public Policy Institute of California published *Just the Facts – Water Use in California*. The report indicated average water use statewide breaks down at roughly 50 percent environmental, 40 percent agricultural and 10 percent urban. Those percentages vary, however, across regions and between wet and dry years.

Water uses vary dramatically by region



Source: Department of Water Resources.

According to the report, agricultural and urban water use is holding steady despite the growth of both the economic value of farm production and the state's population.

Major water use challenges have been exposed by California's current drought, including the failure to sustainably manage groundwater in some regions. In urban areas, the report points to reducing landscape irrigation as a top water-saving solution, which will require behavioral changes on the part of consumers.

In conclusion, the report emphasizes it's up to state and federal regulators to make "tough decisions about how and when to allocate water to the environment during a drought." They must balance "short-term economic impacts on urban and agricultural water users against long-term harm—even risk of extinction—of fish and wildlife."

REGISTER NOW FOR CWA'S ANNUAL CONFERENCE

SIGN UP TODAY!

Register now for California Water Association's annual conference on November 13 at the Monterey Plaza Hotel in Monterey. With the theme "Baking Bad ... Sustaining Good," the conference will explore the challenges facing all water providers in managing the drought as well as other issues. Register online at www.calwaterassn.com/2014-annual-conference.