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THE FOLLY OF WATER PRIVATIZATION- CORPORATE CONTROL IS THE PROBLEM NOT THE SOLUTION

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Water-intensive industries, water-intensive agriculture, population growth, pollution, breakneck development and other ecological threats are depleting the globe's freshwater supplies. At the same time, demand is on the rise.

Dwindling supply, growing demand — little wonder that corporations see water not as a human necessity and a human right, but a growth industry. Transnational corporations, often abetted by international financial institutions and capitalizing on a rampant pro-privatization political ideology, have gouged citizens and depleted or damaged natural resources in some of the world's poorest nations. And now the privateers are moving into the United States — where 85 percent of the citizenry obtains water from publicly owned and operated systems.

"Gosh," corporate executives blurt, executive palms slapped to executive foreheads. "Everybody needs water. Let's see if we can get control of it, charge people for it and make a lot of money."

People are fighting back. From West Virginia to the West Coast, citizens are exploring how to get their water systems back from consolidating corporate behemoths that have managed to get control of the water. In New Hampshire communities, voters are overwhelmingly choosing to pursue public ownership, rather than stand by and let a huge impersonal corporation acquire the water through a merger deal designed to enhance shareholder value. In the other corner of the country, in San Diego, municipal employees cooperated with management to devise and implement reform plans that stave off privateers, and keep savings in the community. And in cities and towns nationwide — New Orleans, Lexington, Peoria, Stockton — community groups, environmental organizations, labor, business organizations, and citizens are banding together to engage the water corporations and protect the community's most basic and valued resource, water.

One of the issues of increasing concern to communities is local control and accountability and the role that international trade agreements might play when a transnational corporation gets control of a city's water system. If a city wants to challenge a company's rate hike request, adopt more stringent environmental

standards, implement an aggressive conservation program or otherwise pursue a policy that might eat into a company's profits, can that company invoke a trade treaty and assert that a community or state regulators don't have any jurisdiction? Citizens and public officials have been asking these questions from coast to coast, and getting vague assurances that are more frightening than reassuring.

Meantime, as people examine the record of privatization, they learn that private companies fail to deliver on lofty promises, delivering instead rate hikes, inferior service, and an erosion of accountability.

United Water and the Atlanta 'model'

In 1998, the city of Atlanta signed a 20-year, \$428 million contract with United Water, a subsidiary of the French corporate conglomerate Suez, to operate Atlanta's water system. It was the biggest privatization contract in the United States, and its signing was celebrated by victory-declaring water corporations. Atlanta would be the "model" for other communities, gushed privatization's promoters and apologists. Taxpayers and customers would save money and systems would be improved, as privatization proved itself the win-win situation for the 21st century. Atlanta was going to show the way.

Or so the story went.

But even before United Water took over the system in 1999, there were suspicions that the company had vastly overstated the amount of money it could save, and vastly underestimated — at least publicly — the amount of work required to operate the system. When the company assumed the system's operation, suspicion turned to remorse as Atlanta discovered the ugly realities of the "model" for privatization:

- United Water more than halved the number of employees, and slashed the amount of training provided to remaining employees to levels far below training requirements called for in the contract.

- A backlog of work orders and maintenance ballooned for virtually every portion of the system, from main breaks and facility maintenance to meter installation, hydrant repairs and fleet maintenance. Not only was the company failing to address the growing backlog of work orders, it couldn't even keep competent records of the backlog. A broken water line could take as much as two months to fix; maintenance projects hovered at a 50 percent completion rate.

- Almost immediately, United Water started hitting up the city for more money, and tried to add \$80 million to the contract.

- The city found that United Water was improperly billing the city. For instance, routine maintenance was billed to the city as "capital repairs." And the city discovered that United Water personnel, on Atlanta's dime, were working on United Water projects outside of Atlanta, including efforts by the company to land contracts in other cities.

- The city repeatedly complained that United Water was uncooperative and less than forthcoming when the city requested information from the company. Trust in the company eroded to the point that the city spent \$1 million to hire inspectors to verify United Water's reports.

- Even after slashing the workforce to dangerously low levels, failing to fulfill maintenance and repair duties called for in the contract and successfully billing the city for millions more than the annual contract fee, the much-vaunted savings from privatization didn't materialize. The promise that a rate hike could be averted through savings turned out to be empty.

The promoters of privatization were absolutely right when they claimed the Atlanta contract would be a model for the privatization of water services. In that model, as so powerfully illustrated in Atlanta, the company makes promises it knows it can't keep, with the expectation that the city can simply be billed for additional charges later. While the extra charges are designed to boost the revenue side of the equation, the company attempts to dramatically cut its own costs by reducing the workforce to inadequate levels and failing to perform maintenance and repairs. The company is emboldened to pursue such an anti-consumer strategy because it has secured a long-term contract designed to hold consumers captive to the company's monopoly for decades.

Atlanta managed to get out, and now faces the daunting task of taking back its water system and performing needed upgrades that were neglected during United Water's tenure. Supporters of privatization, meanwhile, in a desperate if audacious stab at spin control, claim that the Atlanta lesson is still a model for other communities considering privatization.

"Just do everything completely the opposite of what Atlanta did," suggested one privatization promoter.

He's absolutely right. Whereas Atlanta signed its public water system over to a private company, other cities should do completely the opposite and keep public resources under public control.

Meantime, United Water's mismanagement and customer-gouging are not confined to Atlanta. Hired to operate the Milwaukee Metropolitan Sewerage District's system of tunnels and treatment plants, the company's cost cutting has been blamed for system failure that allowed 107 million gallons of raw sewage into area waterways from 1999 to 2001.

And in Houston, United Water was hired to operate the city's Southeast Water Purification Plant in 1996 under a five-year contract. When the contract expired in 2001, the city gave another company the bid. In an effort to get one more bite at the public funding apple on its way out of town, United Water sued the city in November 2001 seeking \$900,000 for services. The city countersued for \$2 million, claiming United Water failed to maintain the plant, and necessary repairs will cost \$2 million. Doing business with United Water also cost the city an additional \$370,000 — the amount the city approved to pay for legal support in the case.

Stench, debt and RWE/Thames

Thames Water is a giant British company, and is a subsidiary of an even larger German company, RWE AG. RWE is in the process of finalizing its acquisition of American Water Works, the erstwhile largest public water utility corporation headquartered in the U.S. On an acquisition binge in recent years, RWE has racked up nearly \$27 billion of debt. The company has all but admitted that it spent too much for some of its acquisitions, including its purchase of the British energy company Innogy last year. Now the financial community is wondering if RWE's \$7.6 billion deal for American Water Works, a deal which includes water systems in 29 states and three Canadian provinces, isn't similarly overpriced, and if the debt-loaded company isn't spread too thin.

RWE acknowledges that it is paying a "premium" for American Water Works, which is to say RWE is shelling out more than the utilities' book value. And in state after state where RWE had to win regulatory approval,

the company promised that customers would not be stuck with the tab. The company would cover the cost of the premium and grow future company revenues through expansion, not rate hikes to former American Water Works customers, RWE officials explained. In other words, the company tells everybody that somebody else is going to pick up the tab.

Thames, as RWE's water management arm in the United States, is going to be under tremendous pressure to fatten a bottom line for its debt-choked corporate parent. That could be recipe for corner-cutting and customer-gouging in those communities where Thames is taking control.

But then, Thames is already exceedingly familiar with cutting corners, gouging customers and neglecting its responsibilities to the communities it serves

Late in 2002, Thames was taken to task by regulators for "failing to control leakage." The UK Environment Agency reported in December that Thames' leakage accounts for one-quarter of the total in England and Wales. The company's "unacceptably high" leakage put Thames customers at "greater risk of water shortages in times of drought than customers in the rest of England and Wales."

Even accounting for Thames' gigantic presence in England, the company's leakage looks bad. A recent report from the Office of Water Services, the economic regulator of the nation's water and wastewater companies, found that Thames fared very poorly when compared to other companies, with leakage estimated at 250 liters per property per day, compared to an industry average of 145.

In the U.S., RWE/Thames will have little incentive to assure that water isn't leaking from the system. On the contrary, the corporation's whole point is to make money by holding down costs, not spend it on system upgrades and maintenance that won't immediately enhance profits.

Thames doesn't operate its wastewater infrastructure any more efficiently than its water infrastructure, with results that stink — literally. Thames ranked as the worst polluter in England and Wales for two of the past four years, according to the Environment Agency in England.

A Public Citizen profile of Thames' recent environmental performance found that dating back to 1999, Thames has been convicted of environmental and public health violations 24 times and fined approximately \$700,000. In case after case, regulators found that the company was aware of conditions that led to raw sewage discharges and could have prevented the pollution. It appears, however, that Thames' corporate strategy is based on the notion that paying fines is less expensive than paying to maintain and operate water and sewer systems cleanly and safely.

In 1999, Thames was successfully prosecuted by the British government for pollution eight times. No company was prosecuted more often. In 2000, Thames was fined nearly \$450,000 for pollution—more than any other company in England and Wales. The company was repeatedly criticized for ignoring warnings, failing to respond appropriately and unnecessarily endangering public health and the environment. Some examples:

- In Dartford, England, in 1998, Thames was fined roughly \$70,000 for failing to promptly and competently stop sewage that was discharging into the River Cray. Officials later characterized the violation as "unique" in that the company admitted to "knowingly permitting the discharge to the Cray."

- In 2000, a pumping station failure in southeast London resulted in raw sewage and toxic industrial waste overflowing into a street and flooding nearby homes. Residents suffered headaches, nausea and vomiting, and many were treated in hospitals. Ten houses were rendered uninhabitable. An estimated 22.5 million liters of raw sewage and waste was pumped into the River Thames. Thames was fined \$400,000, the largest fine ever under the waste management law Thames had violated, and the court harshly criticized the company for its “complete disregard for human health and the environment.”
- In 2001, a blocked sewer in Hampshire caused sewage to flow into the River Wey and lakes in the area. While Thames’ contractors arrived on the scene quickly, their shift ended before they fixed the problem, and they did not clear the source of the discharge until the following day. Hundreds of fish died as a result, and Thames was fined more than \$30,000. Magistrates said they were stunned at Thames’ “exceptional levels of incompetence.”

Thames’ failure to adequately maintain water and wastewater infrastructure in the UK is all the more alarming in that Thames has inflicted enormous rate hikes on its customers — in the name of infrastructure investment. Water bills levied by the company rose by 99 percent in actual pounds during the decade following the 1989 privatization of England’s water systems. And in 1995, Thames slashed investment in infrastructure by £350 million, but that reduction in expenditures did not translate into lower rates during that period of time.

Thames’ rate hike strategy is already being imposed in the U.S. In Felton, California, one of the communities where RWE’s consolidation and acquisitions have placed a community’s water and sewer service under Thames management, the company is trying to immediately increase revenues by 57 percent, and follow with 9 percent and 2 percent rate hikes over the ensuing two years.

Wherever it goes, Thames seems to take its general business philosophy with it – profits above all, regardless of the cost to communities and the environment.

Vivendi Environnement/ USFilter

From bribery convictions in France to bungling incompetence in Puerto Rico, the dismal record of USFilter is profound, as financial shenanigans place even further doubt on the company’s ability to run a water and sewer system safely, effectively and in the public interest. USFilter is a subsidiary of Vivendi Environnement, which in turn was very recently a wholly owned subsidiary of Vivendi Universal. Jean-Marie Messier, the former chairman of Vivendi Universal, took the corporation on an extravagant spending spree — publishing, cable TV, telecommunications, the Internet, a Hollywood movie studio — as far as Messier was concerned, it was all good. Vivendi started out as a water company, and throughout the parent corporation’s ill-fated quest to become a global media giant, Vivendi Universal used water operations as a “cash cow,” loading debt onto Vivendi Environnement.

Vivendi Universal is floundering around in desperate attempts to survive. Securities fraud litigation has been filed against the company on behalf of shareholders contending that Vivendi Universal repeatedly and deliberately overstated the company’s financial health while falsely understating the severity of the company’s debt obligations — an all too familiar charge in connection with contemporary corporate culture. French regulatory officials have even raided corporate offices in connection with allegations of improper business practices. The stock price has tanked, bonds are in junk territory, and Vivendi has been putting

everything and anything up for sale. As a result, Vivendi Universal has shed all but about 20 percent of the ownership in Vivendi Environnement, and the water business, including USFilter. This subsidiary now argues that it's a separate entity altogether from the corporate parent so mired in chaos. But some of the same people continue to hold key leadership positions in both corporations — Vivendi Universal CEO Jean-Rene Fourtou is also the chairman of the supervisory board for Vivendi Environnement; Henri Proglio, executive senior vice president at Universal, is also chairman of the management board at Environnement. The debt-choked parent still appears to wield effective control over the water business, and communities would be wise to give Vivendi a wide berth.

If keeping track of who owns Vivendi Environnement and USFilter isn't enough to give municipal officials a headache, the water company's past performance is:

- •In 1997, executives of U.S. Filter's parent company, Vivendi Environnement of France, were convicted of bribing the mayor of St-Denis to obtain a water concession.
- •A 1999 report on Vivendi's operations in Puerto Rico by the territory's Office of the Comptroller criticized the company for deficiencies in maintenance, repair, and operation of Puerto Rico's water and wastewater system. The comptroller charged the company with failing to provide running water in many areas and with providing customers with bills but no water. All the while, the water supply to U.S. military bases and tourist resorts was never interrupted.
- •In 2000, an electrical fire at one of the sewage treatment plants that U.S. Filter operates in New Orleans caused raw sewage to be dumped into the Mississippi River for two hours. A City Council member was told that the company was aware of the problems that led to the fire but didn't address them.

And Vivendi, like its counterpart United Water, has its own "model" privatization plan in Indianapolis that it likes to tout to other U.S. cities. And like United Water's model, Vivendi's is coming under fire.

In 2001, Indianapolis purchased their water utility from Nisource, a small water company based in Northern Indiana that had been running the city's system for the last 120 years. Soon after the purchase, the city issued requests for proposals to operate and manage the city's water company. After a very brief (less than 1 month) consideration of the submitted proposals, the city awarded a 20-year, approximately \$1 billion contract to USFilter to operate and manage their water system.

Prior to bidding out the operations and management of the system, employees received assurances that "the new management structure will honor all employee benefit agreements." Likewise, shortly before the city selected a bid, USFilter representatives went before the Indianapolis City Council and promised that they would not alter the employee benefits package if they were awarded the contract. Unfortunately for the employees, US Filter's actions speak louder than their words:

Since taking over the Indianapolis water system, USFilter has:

- eliminated the pension program;
- cut 25% of the matching funds 401K retirement plan;
- raised the cost of health insurance premiums for employees and retirees;

- switched health insurance to a company so riddled with problems, that most area doctors, dentists and optometrists won't even accept it;
- cut life insurance payout for most employees by 66 percent;
- stripped vacation days, sick days, holidays, personal days, premium pay and a scholarship program.

Perhaps USFilter is anxious to cut costs so it can help its corporate parent out from under all that debt. In any case, in an effort to protect their families' livelihoods, the employees have filed a class-action lawsuit to demand that USFilter keep its promises. If USFilter tries to weasel out of its deal, the employees intend to move forward with a lawsuit demanding that the city's contract with USFilter be canceled.

The sparkling alternative

Fortunately, a better alternative is out there. A number of cities across the country have successfully reorganized the operation and management of their water and/or wastewater systems under continued local, public control. Those reformed systems have saved money, rewarded employees and enhanced services while maintaining or improving water quality and protecting the environment. In some cases, public system reforms have saved even more money than promised. But instead of those additional savings getting drained from the community in the form of company profits, as would be the case if the system were privatized, the extra savings are re-invested back into the community.

Those stories truly sparkle compared to the trail of complaints and controversy that typically follow privatization experiments.

In their powerful book *Blue Gold: The Fight to Stop the Corporate Theft of the World's Water*, Maude Barlow and Tony Clarke explain that equity, fairness, preservation and stewardship are the principles that must form the "ethical framework" for managing water not as a commodity but as a human right and a shared public resource. In the United States, and around the world, people are awakening to the threat that corporations pose to the most basic of human needs. People are reaffirming that, contrary to what corporate ideology would have us believe, everything is not, in point of fact, for sale. Or it shouldn't be.

Privatization by gargantuan global conglomerates is not the answer. Rather, to quote Barlow and Clarke, "Ordinary people can and will save the global water supply."



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