

United Water

**Suez Environnement's
Poor Record in the
United States**

food&waterwatch





About Food & Water Watch

Food & Water Watch is a non-profit organization working with grassroots organizations around the world to create an economically and environmentally viable future. Through research, public and policymaker education, media and lobbying, we advocate policies that guarantee safe, wholesome food produced in a humane and sustainable manner and public, rather than private, control of water resources including oceans, rivers and groundwater. For more information, visit www.foodandwaterwatch.org.

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Executive Summary

Suez Environnement has a poor track record in the United States. From sewage overflows in Milwaukee, Wisconsin, to contaminated drinking water in Gloucester, Massachusetts, serious problems have afflicted municipalities across the country after they turned their water or sewer systems over to Suez-owned United Water.

Under the leadership of Suez, United Water has grown into the second-largest private operator of municipal water systems in the United States. However, because the company has had a large number of high-profile failures, in recent years, it has won few new contracts to operate city water systems. As a result, it has focused on taking over other water companies to eliminate its competition.

Poor performance has cost the company several of its largest contracts. Suez's flagship effort in the United States — a long-term contract with Atlanta, Georgia — ended 16 years early in 2003 after the city documented numerous problems from a large maintenance backlog to inadequate bill collection. After issuing 20 notices of noncompliance to United Water, the city of Milwaukee, Wisconsin, decided against keeping the company when its contract came up for renewal in 2007. Gloucester, Massachusetts, similarly ended its contract with the company after water quality violations in 2009.

Expensive service has cost United Water several other deals. From Gary, Indiana, to Fairfield-Suisun, California, cities across the country have ended contracts with the company, opting to run their water and sewer systems themselves. For these municipalities, public operation has saved money and improved services.

Reliable public operation with a renewed federal commitment to infrastructure funding will allow municipalities to responsibly address the growing infrastructure needs facing many of the nation's aging water systems. With access to a dedicated source of federal funding to improve water systems, cash-strapped municipalities can avoid the financial pressure that leads them into privatization schemes with companies like Suez in the first place. Public control and federal funding are the best ways for the United States to ensure that safe, clean and affordable water service is available for generations to come.



Residents in Milwaukee protest the privatization of their water system at a city council meeting in June 2009. Photo by Jon Keesecker/Food & Water Watch.

Introduction

Suez Environnement, the world's second-largest water company, has been active in the U.S. water industry for nearly three decades under various names. In 2000, Paris-based Suez expanded its presence in the United States by purchasing United Water, one of the country's largest water companies.

Under the leadership of Suez, United Water has become the second-largest private operator of municipal water systems in the country. From its founding in 1869 until the early 1990s, the company operated primarily as a New Jersey utility called Hackensack Water Company. Since then, through a number of acquisitions, United Water — still headquartered in Harrington Park, New Jersey — has grown into an industry giant that in 2009 served 7.2 million people in 26 states.¹

An Overview of Suez's History in the United States

Lyonnaise des Eaux — which after a series of mergers, spin offs and name-changes, would become Suez Environnement² — first got involved in the U.S. water industry in the early 1980s. From 1982 to 1985, Lyonnaise took over General Waterworks Corporation, which at the time was the nation's third-largest water company.³ Over the next 20 years, the company grew by buying out its competition and consolidating the market.

In 1994, a decade after being acquired by Lyonnaise, General Waterworks merged into United Water,⁴ creating the country's second-largest public water utility.⁵ After the merger, Lyonnaise des Eaux and United Water entered into a partnership to pursue privatization contracts and run municipal water systems.⁶ Three years later, this strategic partnership took over JMM Operational Services, a firm specializing in the operation and maintenance of municipal water systems.⁷ In 2000, after winning key deals in Milwaukee and Atlanta through the joint venture, Suez increased its stake in United Water, acquiring and bringing the entire company under its control.⁸

Since then, United Water's growth has plateaued. It served approximately 300,000 fewer people in 2008 than when Suez bought it eight years earlier.⁹ The company is persisting on smaller-scale deals and frequent rate increases¹⁰ and gets its biggest boost from the occasional takeover of a competitor. It bought Aquarion Operating Services in 2007 and Earth Tech's North American water operations business in 2008. Despite eliminating competition through acquisition, United Water's new contract growth has stagnated. It lost its largest

client, Milwaukee, Wisconsin, in 2007, signed no new contracts the following year and lost a net of six government clients in 2009.¹¹

A Saga of Poor Performance

Poor performance may have led to these stagnant waters. Service delays, inadequate upkeep and water quality violations cost United Water several of its largest water and sewer contracts and undermine its operations in many other cities. Its dramatic failure in Atlanta, Georgia — what was to be its showcase effort — dampened the water privatization market in the United States. Since then, few large cities have privatized their water or sewer systems.

The following case studies exemplify the problems that communities across the country experienced after turning their water systems over to Suez's United Water.

Atlanta, Georgia

New Year's Day 1999 marked the beginning of the largest water privatization in U.S. history — a \$428 million deal that United Water promised would cut Atlanta's water costs in half. "Atlanta for us will be a reference worldwide,"

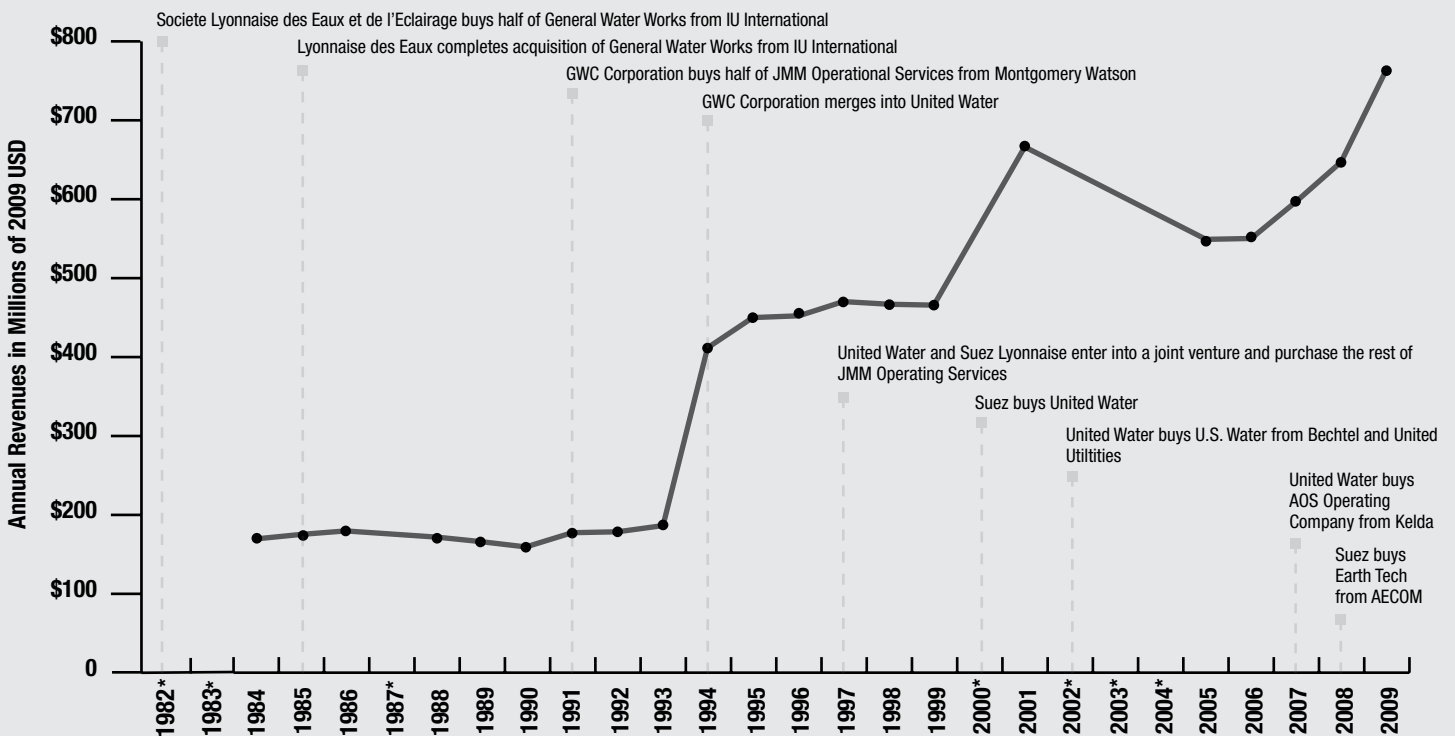
Suez's CEO Gérard Mestrallet told the *Atlanta Journal and Constitution* at the time, "a kind of showcase."²⁰

It was also Suez's debut as a lead water operator in the United States. Eight months later, Suez announced its purchase of United Water, elevating the strategic alliance to an all-out merger.²¹

Only 18 months into the contract, in August 2002, the city was so dissatisfied with United Water's poor performance that it threatened to terminate the contract if the company didn't make marked improvements within 90 days. Due in part to dramatic staff cuts, the city said that maintenance backlogs were "unacceptable," repairs were delayed and response times were "consistently and habitually inadequate." According to the city, the company wasn't reading, installing and maintaining enough water meters, and the city was losing millions of dollars because United Water wasn't collecting enough late bills.

The city accused United Water of submitting bills for work it didn't do — even having its Atlanta staff work on other contracts and try to win new contracts. The company also refused to release certain billing records.²²

Suez in the United States: Timeline of Major Events and Annual Revenue



*Revenue data not available.

Scandal broke two months later when former Mayor Bill Campbell, who had signed the original deal, announced he had never signed documents authorizing \$80 million in extra payments that United Water had requested.²³ After a lengthy probe, Campbell was charged in 2004 with multiple federal corruption charges, including accepting \$12,900 from United Water to pay for a trip to Paris with a friend, and taking United Water's \$6,900 campaign contribution at a time he was not eligible for re-election.²⁴ At Campbell's trial in early 2006, it was suggested that one of Campbell's top aides may have forged the letters.²⁵

Campbell was convicted of tax evasion in March 2006, but acquitted of racketeering and bribery. He was sentenced to 30 months in prison.²⁶ United Water was not charged.

It was not corruption, though, that doomed United Water, but the corporation's performance. United Water saved only half the amount of money it had anticipated²⁷ and amassed a backlog of 14,000 work orders.²⁸ Atlanta terminated its contract with United Water in March 2003, four years into the 20-year deal.²⁹

Camden, New Jersey

Camden, New Jersey, encountered similar problems after transferring control of its water and sewer systems to United Water (formerly U.S. Water).

In 2009, 10 years into the 20-year, \$178 million deal, the New Jersey State Comptroller's Office issued a scathing audit of company's Camden operations. It found that inadequate contract supervision and the company's poor performance cost the city millions of dollars and potentially jeopardized the health and safety of its residents.³⁰

The audit exposed several serious issues:

High unaccounted-for water loss. Between 2004 and 2008, the utility lost 45 percent of its water, likely through leaks, storage overflows and other errors. United Water's contract with the city required it to limit unaccounted-for water loss to 10 percent. By exceeding this contract standard, United Water cost Camden almost \$2 million in lost revenue.³¹

Poor maintenance. Inadequate upkeep of water wells, storage tanks, fire hydrants and other equipment posed potential health and safety risks. The company could not account for every utility asset and failed to complete required maintenance projects. Its failure to calibrate meters could

Suez: 2009 Financial Highlights

Revenues: € 12.3 billion (\$17.7 billion)

Profit: € 516 million (\$744 million)¹²

Population served with drinking water: 90 million people

Population served with sewer service: 58 million people¹³

United Water: 2009 Financial Highlights

Revenues: € 530 million (\$763 million)¹⁴

Population served: 7.2 million people¹⁵

Main divisions:

1. Regulated privately owned water and sewer systems

Locations: 20 utility operations in eight states

Population served: 2.1 million people¹⁶

Revenues: € 280 million (\$403 million)¹⁷

2. Contract operations and other non-regulated activities

Locations: 237 service contracts in 26 states

Population served: 5.1 million people¹⁸

Revenues: € 249 million (\$359 million)¹⁹



have caused over-billings. In 2008, the city had to write off more than \$1 million in unsubstantiated fees resulting from incorrect rates, inaccurate estimates and unreliable meter readings.³²

Unapproved payments. United Water received at least \$6 million in pass-through and other payments without the proper city approval.³³

Inadequate bill collection. United Water lacked an adequate information system to track account data properly. At the beginning of 2009, the utility had nearly \$5 million in unpaid customer bills that were at least 90 days old.³⁴

Although the company disputed many of the audit's findings, the city agreed with every recommendation. At the end of 2009, Camden requested \$29 million from United Water for poor performance, unauthorized payments and credits for capital projects conducted by the city.³⁵ In January 2010, the company responded by suing Camden alleging the city owed it \$6 million in back payments.³⁶ Camden faces a potentially lengthy court battle.



Milwaukee, Wisconsin

Billions of gallons of raw and partially treated sewage poured into Lake Michigan and local streams after United Water took over Milwaukee's sewers in 1998. Many of the spills were blamed on heavy rains, but others were the fault of employees and malfunctioning equipment.

In one incident alone, 1.5 billion gallons of raw sewage spilled in May 2004, marking the second-largest mishap in 10 years. The Milwaukee Metropolitan Sewerage District blamed the rain, but the accident led state legislators to call for an investigation.³⁷

The spill came one year after a district-appointed auditor raised questions about United Water's management, including whether the company cut staff too drastically (from 300 to 209) and whether it had a sufficient inventory of spare parts. A backlog of uncorrected problems had also accumulated, some dating back more than a year.³⁸

A year before this audit, a state review found that United Water likely violated its contract by shutting down pumps to cut costs — a practice that saved the company \$515,000, but also caused the dumping of more than 100 million gallons of sewage.³⁹

In 2002, the district blamed a dumping of toilet waste on United Water's poor maintenance of the sewer system, and warned the company that "persistent and repeated failures" could constitute a default that could void its contract.⁴⁰

The 10-year, \$300 million contract saved the district millions of dollars, mainly by stabilizing the district's energy prices,⁴¹ but at what environmental costs? And the company acknowledged it lost money on the deal⁴² — a half-million dollars in energy costs in May 2005 alone.⁴³

In February 2008, after receiving at least 20 notices of contract noncompliance for problems including sewage overflows, the sewerage district decided against renewing the deal, ending United Water's largest contract.⁴⁴

Gloucester, Massachusetts

United Water lost its contract in Gloucester, Massachusetts, in 2009, after bacterial contamination left residents and businesses boiling their drinking water, some for 20 days.

The Massachusetts Department of the Environment fined Gloucester \$15,000 for water quality violations that resulted in the 20-day boil-water order during the summer of 2009.



The city blamed much of the problem on United Water's failure to take remedial action.⁴⁵ State officials revealed that at the time of the water contamination crisis, United Water's primary water operator for the city's treatment plant lacked the proper certification. Gloucester's mayor indicated that this violated the terms of United Water's contract with the city.⁴⁶

In total, the city had to pay an extra \$814,000 in fines, consultant fees and other direct expenses because of the boil order. In addition, individual local businesses reported losses of as much as \$140,000.⁴⁷

When United Water's contract came up for renewal later that year, the city decided against keeping the company. Suez's United Water had operated Gloucester's water and sewer systems since 2007, when it acquired Earth Tech, a company that had received a five-year contract in 2004.⁴⁸

In 2010, the city demanded \$1.3 million from United Water claiming that the company performed poorly and violated its contract during the water crisis. The company denied any breach of contract and refused to compensate the city for costs and revenue losses associated with the boil order, setting the stage for a legal battle.⁴⁹

Gary, Indiana

Gary, Indiana, canceled its contract with United Water after 12 years of expensive and poor service.

During a 1998 meeting, the Gary Sanitary District board, without community input, voted to privatize its wastewater treatment plant.⁵⁰ The city council opposed the privatization, and within a month, various council members had filed three separate lawsuits challenging the proposal.⁵¹

Despite the lawsuits, which were unsuccessful,⁵² the sanitary board moved forward with the deal.⁵³ It awarded a 10-year, \$100 million contract to a partnership led by United Water,⁵⁴ which bought out the other partners five years later in 2003.⁵⁵ The sanitary district extended its contract with United Water for another five years in 2008.⁵⁶

Once the company took over the sewer system, it planned to eliminate 62 jobs, half of the workforce, through attrition.⁵⁷ It offered a lump sum buyout to every employee. "It's a standard business practice, one that we have done at other places," the company's communications manager explained to the *Post-Tribune*, the local newspaper.⁵⁸

With fewer workers to repair and maintain piping, it is no surprise that poor service followed. Broken sewer lines created sinkholes that went unaddressed for months.⁵⁹ Between 2003 and 2007, there were more than 80 cave-ins as the sewer lines fell apart.⁶⁰ In May 2008, a state inspection found

Examples of United Water's Operations Included in this Report

Location	Contract deals			Problems				
	System	Began	Ended	Lost contract	Poor Upkeep	Inadequate Service, Staffing	Water Quality Violations	High Costs
Atlanta, Georgia	Drinking Water	1999	2003	x	x	x		
Camden, New Jersey	Drinking Water, Sewer	1999	(2019)		x	x		x
Fairfield-Suisun Sewer District, California	Sewer	2004	2008	x		x		x
Gary, Indiana	Sewer	1998	2010	x	x	x	x	x
Gloucester, Massachusetts	Drinking Water, Sewer	2004	2009	x		x	x	x
Houston, Texas	Drinking Water	1996	2001	x				x
Laredo, Texas	Drinking Water	2002	2005	x				x
Milwaukee, Wisconsin	Sewer	1998	2008	x	x	x	x	
North Brunswick, New Jersey	Drinking Water, Sewer	1996	2006	x				x



that the district, under United Water's management, violated discharge limits 84 times from 2005 to 2007, had at least 25 pieces of broken equipment, filed inadequate monitoring reports and failed to meet mandated deadlines.⁶¹

Customers in towns surrounding Gary also experienced problems. In 2006, the sewer district nearly overcharged suburban residents by \$400,000. When lawyers for the outlying towns contested the bills, United Water officials admitted that meters at the plant had been malfunctioning for more than a year and agreed to reduce the bills. Two years later, the company still had not replaced the defective equipment.⁶²

In 2007, federal investigators began scrutinizing the Gary Sanitary District and United Water at the request of the Justice Department and the U.S. Environmental Protection Agency.⁶³ The next year, federal investigators raided the district's offices as part of their search for "evidence of environmental crime."⁶⁴ As of March 2010, the investigation was ongoing and focused on United Water, not the sanitary district.⁶⁵

It was not poor performance, however, that caused United Water to lose its contract in Gary, but finances. In 2010, the Gary Sanitary District terminated its contract with United Water to save millions of dollars a year. It expected public operation to cut annual operating costs in half from more than \$16 million to \$8 million.⁶⁶

Saving Money with Public Operation

In addition to Gary, Indiana, many other municipalities have found United Water's service to be too expensive. The following jurisdictions also terminated their contracts with the company, finding that public operation is a much better deal for ratepayers and taxpayers. They were able to realize cost savings not possible with United Water running their water systems.

North Brunswick, New Jersey

Expensive service caused North Brunswick, New Jersey, to cancel its water and sewer contracts with United Water.

In 1996, North Brunswick entered into a 20-year, \$200 million contract with U.S. Water, which was later acquired by United Water.⁶⁷ Over the term of the contract, the company agreed to pay the town a total of \$54 million,⁶⁸ which residents would end up paying for as the company recovered this fee through higher water bills.

Within three years, residents became inflamed and spoke out against increased water charges. "Our bills used to be \$90 each quarter," Debbie Calantoni, a resident of North Brunswick, told the *Star-Ledger*, the local newspaper. "Now,

we pay an average of \$230 each quarter. We paid about \$1,200 in 1998 for water and sewer. Our water isn't better and the service isn't better."⁶⁹

Because of meter changes, many households saw their bills double or even triple. "It's become a model for the way not to do such deals," David Spaulding, the mayor at the time, told the *Star-Ledger*, adding, "The people saw themselves getting screwed."⁷⁰

Amid town discussions about ending its contract, United Water made a last-ditch attempt to assuage the growing public anger by offering to reduce the town's rates by 22 percent. The ploy did not sway local officials.⁷¹ In 2002, the town exited the water portion of its contract by buying out the remaining 14-year term at a cost of \$30 million.⁷²

United Water retained the contract for the sewer system⁷³ until 2006, when the town council unanimously voted to terminate the deal. The town wanted to manage the system itself.⁷⁴ Public operation saved the township \$140,000 in 2007.⁷⁵

Houston, Texas

In 1996 United Water, formerly JMM Operational Services, won a five-year, \$16 million contract to operate and maintain



one of Houston's water treatment plants. At the end of the term in 2001, the city decided against renewing the deal.

For the next few years the city and the company were embroiled in a legal battle over unpaid bills and multimillion-dollar maintenance problems. The company sued the city, alleging that Houston owed it \$900,000 for services performed under the contract. The city responded with a countersuit claiming that United Water's poor maintenance of equipment caused \$2 million in damages.⁷⁶

In September 2007, after six years of entanglement in a series of appeals, the city and the company finally decided to drop the case.⁷⁷ Despite the inconclusive ending, the city spent at least \$370,000 on legal fees.⁷⁸

The same year, the city kicked out the new private operator of the treatment plant and brought the operation in-house. The city expected to save 17 percent, or \$2 million annually, operating the plant with public employees.⁷⁹

Fairfield-Suisun, California

The Fairfield-Suisun Sewer District in California ended its sewer contract with United Water in order to save money and improve service.

In January 2008, after nearly three decades of contracting out the operation and management of its sewer treatment plant, the Fairfield-Suisun Sewer District unanimously voted to bring its system in-house and cancel its contract with United Water.⁸⁰

Independent consultants hired by the district found that public operation would reduce operational costs by 10 to 15 percent⁸¹ while offering better benefit packages.⁸² The district would achieve these savings by removing overhead costs associated with the company's profits, which were expected to be as much as 20 percent of the value of the contract.⁸³

By investing in the workforce instead of profits, the district expected service to improve. Its more competitive compensation packages should better attract and retain staff from the increasingly limited pool of qualified applicants.⁸⁴ United Water and the previous contract operator, on the other hand, had failed to maintain a steady management team, which hurt their performance.⁸⁵ There were five different plant managers over the preceding five-year period,⁸⁶ and the maintenance manager position was vacant at the time of the consultants' assessment.⁸⁷



The company's inability to maintain adequate staffing potentially posed serious risks for the district. Because the district owned the sewer system, it was ultimately responsible for compliance and workplace safety even when it contracted out the operations.⁸⁸ Indeed, privatization failed to transfer risk to the private sector. Kathy Hopkins, the general manager of the district, noted this failure as a reason to resume public operation of the sewers. "We can't push off risk anymore," she told *Public Works Financing*, a trade publication, "so we might as well take back control."⁸⁹

Laredo, Texas

Laredo, Texas, turned over its water system to United Water in 2002 on the expectation that it would save enough money to help dig a well to supplement the drinking water it pumps from the over-tapped Rio Grande.⁹⁰

The company failed to deliver on its promises. After two years of operating Laredo's water system, United Water wanted to increase its annual payments, which would have made private operation \$1 million more expensive than public

operation had been.⁹¹ Blaming its underachievement on the city's aging infrastructure, United Water asked the city for \$5 million for previous unexpected expenses plus an additional \$3 million a year. City officials refused, one saying the company knew what it was getting itself into, and another calling the corporation's claims "bogus."⁹²

Halfway through its five-year, \$47 million contract, the company wanted out of the deal.

In March 2005, Suez paid the city \$3 million to exit the contract early.⁹³

City officials said they learned a lesson. "They tried to do what they could, but at the end of the day it wasn't going to work," Councilman Jose Valdez, Jr. said of United Water. "I'm just glad to see them go."⁹⁴

Conclusion

Failure mars Suez's endeavors in the United States. Suez's United Water has delivered a host of problems from contaminated drinking water in Gloucester, Massachusetts, to sewage spills in Milwaukee, Wisconsin. These disappointing results reflect not only on United Water, but also on the private water services industry as a whole. Private operation of municipal water and sewer systems often forces consumers to pay more for worse service.

Across the United States — from Fairfield, California, to Houston, Texas, to Gary, Indiana — cities have found that public operation is a better deal for residents. They have reclaimed their water systems, canceling contracts with United Water, to reduce costs and improve services.

Confronted with these failures, water corporations like Suez have sought new business by trying to capitalize on the growing infrastructure crisis besieging many of the nation's drinking water and clean water systems. The companies present themselves as solutions to repair and update aging and crumbling utilities, but privatization is not the answer. When private interests control water resources, water rates often skyrocket and services deteriorate.

Reliable public operation is a better option that allows municipalities to responsibly address water infrastructure needs. Because of the scale of improvements necessary to ensure safe and clean water, the United States should establish a dedicated source of public funding through a clean water trust fund to help rejuvenate water and sewer systems and protect public health. A federal trust fund for water resources would alleviate some of the financial pressure that compels cash-strapped municipalities to privatize their water systems to private companies like Suez. Public funding for public utilities will help ensure that safe, clean and affordable water service is available for generations to come.



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