Veolia Water North America is the largest private operator of municipal water and sewer systems in the United States,¹ serving an estimated 10.5 million people in 32 states (see map).² Veolia Water North America is a fully owned subsidiary of Veolia Environnement,³ the world’s largest water corporation, which provides drinking water to more than 101 million people and sewer service to 71 million people worldwide.⁴

**Background**

Veolia Environnement, based in Paris, has been in the water business since 1853, originally under the name Compagnie Générale des Eaux and later as Vivendi Environnement.⁵ In 1999, after expanding in the U.S. water sector over the previous two decades,⁶ Vivendi greatly bolstered its presence in the United States with the multibillion-dollar purchase of U.S. Filter (or USFilter); at the time, it was the largest French acquisition of a U.S. company in history.⁷ Vivendi Environnement adopted the name Veolia Environnement in 2003 as it was being spun off by former parent company and media conglomerate Vivendi Universal.⁸ The following year, it rebranded its U.S. water operations as Veolia Water North America.⁹ Vivendi completed its divestment of Veolia in 2006.¹⁰

**Strategy**

In the United States, the company began the 21st century targeting large cities, but within a couple of years, after several high-profile failures, it shifted focus in part to avoid having to make strong performance guarantees and capital commitments.¹¹ During the mid-2000s, Veolia targeted smaller communities and smaller contracts, which involved less legal and technical evaluation by local governments and less competition.¹² Following the recent recession, the company expected a groundswell of privatization activity because of cities’ daunting fiscal troubles,¹³ so it adopted a more aggressive approach that confronted public interest groups and consulting firms.¹⁴ In 2009, Veolia Water Americas CEO Laurent Auguste told Public Works Financing, “Now is a time of opportunity.”¹⁵

This sanguine prediction fell flat. In 2011, still struggling to grow and unable to convince big cities to privatize,¹⁶ Veolia switched to pursuing consulting deals through a business model that it branded “Peer Performance Solutions.” In these contracts, the company recommends ways for a city to cut costs or increase revenue. The model differs from a traditional consulting contract in that instead of just receiving a fixed fee for its work, Veolia also gets a share of the money generated from its recommendations.¹⁷ Although this revenue-sharing model is touted as new and pioneering,¹⁸ United Water — owned by Veolia’s competitor and fellow Parisian company Suez Environnement¹⁹ — attempted a very similar structure a decade ago.²⁰
While the ultimate outcome of these consulting contracts remains unknown, it seems likely that Veolia intends to use them to gain a foothold in major cities. As a former company executive told Global Water Intelligence more than a decade ago, “Once you’ve put a team in to run a municipal operation, the trick for the project manager is to expand the scope of the contract.”

Assessment

Over the last decade, Veolia Water has failed to grow in the United States (see figure). From 2003 to 2012, the company lost a net of 15 government clients — 9 percent of its total. While some localities switched to another private company, others have returned water systems to public operation to save money or improve service (see map). These include Coxsackie, N.Y.; Overton, Texas; Tama, Iowa; and Petaluma, Calif. In 2012 alone, six other local governments took back operation of their water or sewer services from Veolia.

Indianapolis, Ind.: Sinking of the Flagship

Veolia lost its largest water contract in the United States when the city of Indianapolis decided to exit the deal more than a decade early.

In 2002, the company (then USFilter) received a 20-year, $1.5 billion deal to operate and manage Indianapolis’s water system. In 2004, following the sale of segments of U.S. Filter, revenue from industrial contracts fell substantially. In 2012, Veolia Water North America’s revenue from just government contracts was not reported.

States, used to promote its interests around the world. “We have a lot at stake here,” Tim Hewitt, the former president of Veolia Water Indianapolis, told the Los Angeles Times in 2006. “When our senior managers go to Beijing, they talk about Indianapolis. When they go to India, they talk about Indianapolis.”36

But from the beginning, workers, consumers, the city and even the company suffered under the contract. It was a no-win deal.

Consumers: Within a year, thousands of residents experienced billing problems,37 and consumer complaints more than doubled.38 In 2005, because the company lacked proper safeguards, an error caused a boil-water alert for more than a million people, closing local businesses and canceling school for 40,000 students.39 Three years later, numerous consumer complaints prompted a state agency to begin an informal probe into the company’s meter reading, and residents sued the company for allegedly using unfair billing practices and overcharging them.40 In 2011, a resident filed another lawsuit accusing the company of improper service shut-offs.41 (Judges dismissed both lawsuits telling residents to first pursue their claims through the Indiana Utility Regulatory Commission.42)

Workers: Non-union employees immediately lost their pensions and saw other benefit cuts, which they said would cost them more than $50 million over 25 years.43 Two years later, the company slashed the nonunion workforce by about 15 percent, prompting worries about lost expertise.44 Meanwhile, the labor union sued the company for refusing to arbitrate several grievances,45 and unionized employees nearly went on strike when the company tried to take away their pensions and cut their medical benefits.46 In total, from 2001 to 2008, 92 water jobs — 19 percent of the workforce — were lost.47 The state also fined Veolia for a serious occupational safety and health violation in 2010.48

City: By 2005, several city officials were calling for a performance audit of the company. One city councilmember accused the company of cutting back on staffing, water testing, treatment and maintenance, and other council members questioned whether the company had a financial incentive to fudge quality tests. That year, a federal grand jury even subpoenaed four Veolia managers as part of an investigation into allegations that the utility falsified water quality reports,49 although this investigation resulted in no charges.50

Company: The company, too, suffered initially. It apparently lowballed its bid to win the deal,51 and in the first year alone, it lost $8 million.52 “We did lose money, more than we anticipated,” Tim Hewitt, then-president of Veolia Water Indianapolis, told the Indianapolis Star in 2005. Yet, he blamed the company’s bad publicity on people who opposed privatization rather than on the company’s poor performance: “At the end of the day, we’ll get through this but have a black eye — all because of these critics who don’t like public-private partnerships.”53
After several years of multimillion-dollar losses, the company used the threat of litigation to finagle major concessions from the city. A controversial contract amendment signed in 2007 shifted millions of dollars in liabilities from the company to the city while increasing the city’s annual payment to the company by $1.9 million. In total, the amendment was going to cost the city more than $144 million. State regulators objected to several of the amendment’s provisions and refused to allow the city to recoup a portion of the additional expenses through water rates.

By 2010, with infrastructure needs mounting, the city opted to wash its hands of the water utility altogether and decided to sell it, along with the sewer system, to the nonprofit Citizens Energy Group. (Interestingly, in 2003, a group of citizens had sued the city in an attempt to stop the deal with Veolia and transfer management to this nonprofit trust.) As part of the sale, the city agreed to pay Veolia $29 million to terminate the deal early because Citizens Energy believed it could realize savings not possible within the constraints of the contract. After a transition period, the company officially exited the city during the summer of 2011.

**Rockland, Mass.: Deception and “Willful Misconduct”**

In 2004, Rockland canceled a contract with Veolia (then US-Filter) for the operation of its sewer plant after state officials found that the agreement may have been illegally tailored to the company. That same year, a company manager and former town official pleaded guilty to stealing $166,000 from the city by submitting phony invoices and intercepting reimbursement checks. In 2007, a U.S. District Court found that the Veolia subsidiary acted “unfairly and deceptively” to win the contract, and fined the corporation more than $230,000, doubling the amount of actual damages because of its “willful misconduct.”

**Gladewater, Texas: A “Foul” Deal**

In 1996, Gladewater, a small city near Longview, Texas, privatized its water and sewer systems to Veolia’s predecessor. By 2012, after years of the company’s poor performance, the city had had enough. The system had violated federal water quality standards 16 times since 2004, and residents described the water as “dark brown” and “foul.” The company failed to perform work required by its contract, and its water plant operators were underqualified, lacking the necessary certification. City officials questioned whether the company was cutting corners and jeopardizing the safety of the city during emergencies by having operators split their time at other cities instead of working full-time in Gladewater.

“No. 1, the city should get what it’s paying for and Veolia should be protecting the safety of our citizens,” Gladewater city manager Sean Pate said in July 2012. “I don’t believe we’re getting that.” In October 2012, the city council voted unanimously to exit the contract.

### Other Cases

**Puerto Rico**: In 2002, Puerto Rico decided against renewing a $145 million annual contract with a subsidiary of Veolia (then Vivendi), which had operated the water and sewer systems since 1995. A government commission found that the company had raked up $695 million in operational losses and $6.2 million in fines, as well as more than 3,000 operational, maintenance and administrative deficiencies.

**Angleton, Texas**: In 2004, Angleton terminated its contract with Veolia, accusing the company of breaching its contract by failing to maintain adequate staffing levels, providing inadequate service and overcharging for maintenance and repair work.

**Petualma, Calif.**: In 2007, after nearly 30 years of privatization, the city council voted unanimously not to renew Veolia’s contract and instead returned its wastewater treatment system to public operation, expecting to cut costs by 10 percent and save an estimated $1.6 million in the first three years.

**Burley, Idaho**: In 2009, after cancelling its wastewater contract with Veolia, the city had to make thousands of dollars in repairs to the treatment plant, blaming the company’s neglect and poor maintenance.

**Schenectady, N.Y.**: In 2011, Schenectady took over its wastewater treatment plant from Veolia and saved $30,000 a month in the first quarter of public operation.

### Endnotes


4. Ibid. at 21.

5. Ibid. at 13 to 14.


14 “PWF’s 13th annual water outsourcing report.” 2009 at 3 to 4.

Ibid. at 3.


29 Ibid. at 223.

30 Veolia Environnement. April 12, 2013 at 2.

Ibid. at 2.


32 Ibid. at 8.

33 Ibid. at 12.


40 Bridges v. Veolia Water Indianapolis, LLC, 978 NE 2d 447 (Ind: Court of Appeals 2012).

41 Ibid.; Bond v. Veolia Water Indianapolis, 978 NE 2d 759 (Ind: Court of Appeals 2012); Veolia Environnement. April 12, 2013 at 212.


43 Olson, 2004.


48 O’Shaughnessy et al., 2005.

49 Murray, 2008.


52 O’Shaughnessy et al., 2005.


54 O’Malley, 2010.


56 Indiana Utility Regulatory Commission, 2011 at 37 to 42 and 45 to 46; Murray, Jon. “Indianapolis water bills will be going up 26 percent.” The Indianapolis Star. February 2, 2011.


60 Veolia Environnement. April 13, 2012 at 98.


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Lane, July 27, 2012.

Gladewater (Texas). Minutes of City Council Meeting, October 18, 2012 at 3.


Petaluma (California). Minutes of City Council Meeting, November 19, 2007; Petaluma (California). Agenda Item 4B of City Council Meeting, November 19, 2007 at 1 and 10.


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