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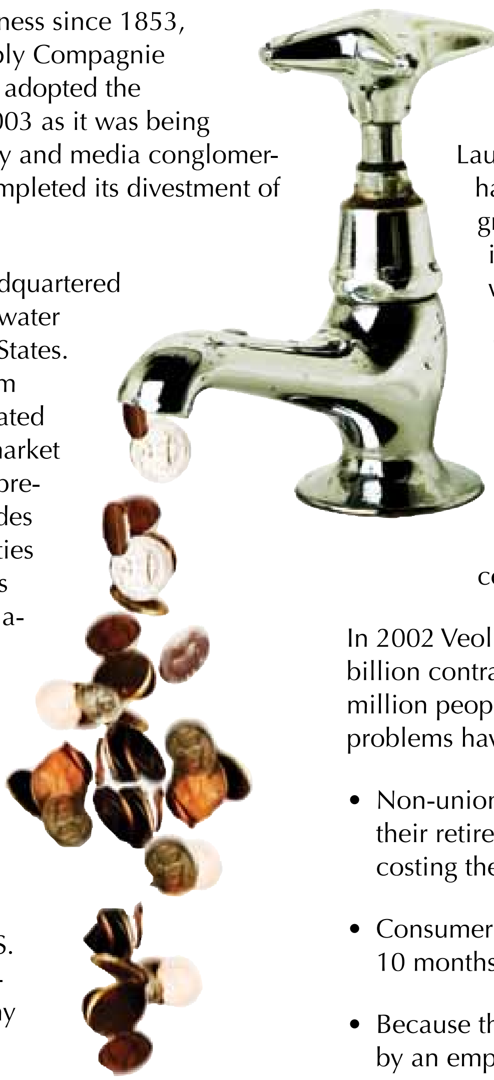
WATER

A Closer Look: Veolia Environnement

Fact Sheet • September 2010

Based in Paris, France, Veolia Environnement is the largest water and wastewater corporation in the world, making $50 billion in revenue and $2.9 billion in operating income in 2009. It provides water services in 66 countries worldwide and owns Veolia Water North America, the leading water contract operator, serving more than 14 million people in about 650 North American communities.[1]

Veolia has been in the water business since 1853, albeit under various names, notably Compagnie Générale des Eaux. The company adopted the name Veolia Environnement in 2003 as it was being sold off by former parent company and media conglomerate Vivendi Universal. Vivendi completed its divestment of Veolia in 2006.[2]



Veolia Water North America, headquartered in Chicago, Ill., is the top private water services contractor in the United States. With $546 million in revenue from 166 government clients, it dominated the country's water outsourcing market in 2009.[3] Despite the company's predominance, its track record includes privatization failures in communities large and small. After several of its largest contracts — including Indianapolis, New Orleans and Puerto Rico — ran into serious snags, Veolia was forced to reconsider its strategy for turning water provision into a private, profit-making venture.

In the mid-2000s, after high-profile mishaps in large cities, Veolia set its sights on smaller U.S. contracts that involved fewer lawyers and consultants. The company noted that it faced huge political opposition to large projects, and saw opportunities for narrow projects in small and mid-sized communities.[4] Nonetheless, by 2010, under the leadership of Antoine Frérot internationally and Laurent Auguste regionally, the company's focus had shifted back to larger deals. Auguste saw great opportunity to capitalize on the daunting fiscal crisis afflicting many cities in the wake of the recent recession.[5]

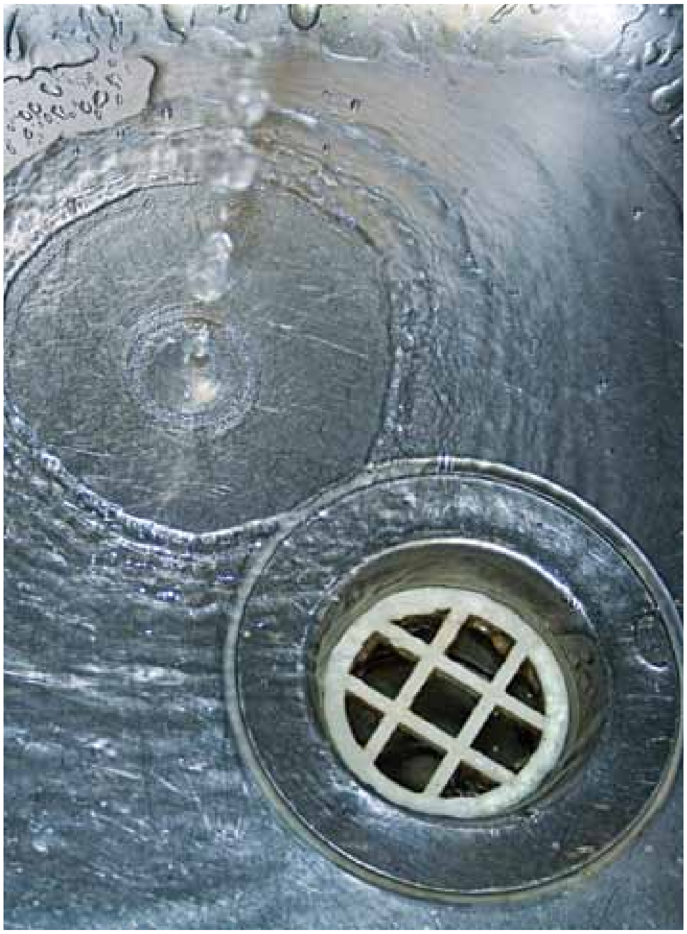
The following case studies explore Veolia's shortcomings in the United States.

Indianapolis: A Black Eye

Veolia typically points to Indianapolis as a privatization success story,[6] but for consumers, it is a cautionary tale.

In 2002 Veolia (then USFilter) signed a 20-year, $1.5 billion contract to provide water service to more than 1 million people in and around Indianapolis.[7] Since then, problems have ensued:

- Non-union employees claimed that the company cut their retirement plans, health care and other benefits, costing them more than $50 million over 25 years.[8]
- Consumer complaints more than doubled in the first 10 months of the contract.[9]
- Because the company lacked proper safeguards, a typo by an employee caused a boil-water alert for more



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than a million people, closing local businesses and canceling school for 40,000 students.[10]

- Customers seeking class-action status sued the company and the city, claiming the company overcharged them. The case was pending as of August 2010.[11]
- An independent review uncovered lax oversight of the city's contract with Veolia.[12]
- *Men's Health Magazine* ranked Indianapolis drinking water as the second-worst out of 100 large cities nationwide, giving it a failing grade in quality.[13] A similar ranking of 100 large cities by the nonprofit Environmental Working Group put Indianapolis drinking water quality as the 11th-worst in the country.[14]

In 2005, a federal grand jury subpoenaed four Veolia employees as part of an investigation into allegations that the utility falsified water quality reports. The probe began amid accusations by Indianapolis council members that the company had cut back on staffing, water testing, treatment chemicals and maintenance.[15]

Although this investigation resulted in no charges,[16] the corporation has had to question its own performance, after sustaining multimillion-dollar losses for years after the takeover. "We did lose money, more than we anticipated," then-Veolia President Tim Hewitt told the *Indianapolis Star* in 2005. In reference to the ardent public opposition to the deal, he added, "We'll get through this but have a black eye."[17]

Veolia dug its way out of this hole by finagling major concessions from the city. In 2007, a controversial contract amendment shifted at least $144 million in costs from the company to the city. Indianapolis even agreed to pay Veolia an extra $1.9 million a year while reducing the company's responsibilities. Drawing rebukes from consumers and state officials alike, Indianapolis then sought to raise rates by 35 percent to pay for these additional expenses along with costlier capital improvement projects.[18]

In 2010, with infrastructure needs mounting, the city decided to wash its hands of the water utility, agreeing to sell it along with the sewer system to the nonprofit Citizens Energy Group.[19]

New Orleans: Anything but Easy

Veolia's involvement in New Orleans began in 1999 when it (then Vivendi) purchased the company that had operated the city's sewer treatment plants since 1992.[20]

A major stain on Veolia's record occurred here in 2001, when an electrical fire at one treatment plant caused operators to divert raw sewage into the Mississippi River for two hours.[21] During 2001 and 2002, the plant released sewage into the river a total of 50 times, often violating water quality standards and resulting in more than $107,000 in fines. Between December 2000 and April 2003, the Sewerage and Water Board withheld $2.5 million in payments from the company to penalize it for its poor performance. The board's director accused the company of neglecting routine maintenance and failing to properly staff the plant.[22]

In 2002, Veolia's bid for a combined water/wastewater contract in New Orleans was snubbed because of public outrage over the proposal. The New Orleans Sewerage and Water Board rejected the proposal after a coalition of more than 90 faith, labor, community and environmental groups voiced concerns over the loss of accountability and transparency that would have accompanied the contract.[23] In 2004, New Orleans announced that it would no longer entertain private bids for the water/wastewater system.[24]

Other Notable Failures

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.[29] A government commission found the company had raked up $695 million in operational losses, $6.2 million in fines, and more than 3,000 operational, maintenance and administrative deficiencies.[30]

Rockland, MA – In 2004, the town canceled a contract with Veolia for the operation of the sewage plant after state officials found the agreement may have been illegally tailored to Veolia.[31] That same year, a Veolia employee and town official pleaded guilty to stealing $166,000 from the city by submitting phony invoices and intercepting reimbursement checks.[32] 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."[33]

Angleton, TX – 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.[34]

Lynn, MA – In 2004, the city ended a wastewater overflow plant contract with Veolia because the company failed to stay adequately bonded for the project. After a six-year legal battle, the company agreed to pay the city $7.25 million to settle contract disagreements.[35]

Novato, CA – In 2010, consumers sought to prevent Veolia from taking over their wastewater treatment plant, but the company narrowly won a public vote on the issue after spending $240,000 on an aggressive election campaign.[36]

Petaluma, CA – In 2007, after nearly 30 years of privatization, the city council unanimously voted to take back its wastewater treatment system from Veolia, expecting to save 10 percent, or $1.6 million in the first three years, with public operation.[37]

Burley, ID – 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.[38]

Lee, Mass.: Veolia Targets the Little Guy

Veolia Water North America has faced some of its most vigorous opposition in small communities, such as the quiet western Massachusetts town of Lee — the "Gateway to the Berkshires."

After initially favoring the deal, in September 2004 town representatives voted overwhelmingly against turning over their water and sewer system to Veolia — the only company to respond to the town's advertisement for a private operator. Many residents opposed the arrangement.[25]

The *Berkshire Eagle* newspaper published many letters to the editor objecting to the proposal. Opponents packed special town meetings at the local high school. And the town's public works staff staged a protest in front of Town Hall. "They may tell you that you'll save money, but you won't," one employee said. "I think we should do this ourselves."[26]

Three weeks before the vote, one of Veolia's vice presidents, Christopher Hodgkins, prematurely announced, "Yeah, we wrapped it up."[27] Not only did Veolia lose the contract, Hodgkins lost his position as town moderator in the following spring elections.[28]

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