



# AQUA AMERICA

## Strategies of a Water Profiteer



food&waterwatch



## About Food & Water Watch

Food & Water Watch is a nonprofit consumer organization that works to ensure clean water and safe food. We challenge the corporate control and abuse of our food and water resources by empowering people to take action and by transforming the public consciousness about what we eat and drink. Food & Water Watch works 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.

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## Executive Summary

Aqua America is the second largest publicly traded water and wastewater corporation based in the United States. It has pushed its way to the top through a strategy of aggressive acquisitions and drastic rate increases.

Aiming to make several dozen acquisitions a year, the company targets smaller systems to avoid a citizenry armed with resources to fight the takeover. And it pursues systems in states that have fast growing populations, corporate friendly regulatory environments and considerable investment needs. Of course, all of this is done with an eye toward its bottom line.

Not long after taking over a system, the company begins its almost continual process of increasing rates. In just the first nine months of 2007, the company increased rates in nine locations. It has nine additional rate increases pending and plans even more over the course of 2008.<sup>1</sup>

While families see skyrocketing water bills, the company sees booming revenue growth: 13 percent in 2007 alone.<sup>2</sup> But rather than reinvesting all the money from community bills into improving their water and sewer systems, as a public utility would do, the company is “delivering solid returns to its shareholders.”<sup>3</sup>

Discontent is growing among its customers, and many communities are beginning to speak up. In some cases, they even are kicking out Aqua America and reclaiming public control over their vital water and sewer infrastructure.

Aqua America is failing to protect the public interest. Instead of private control of their water systems, communities need — and overwhelmingly support — a national trust fund for clean and safe water. Federal support for public utilities will do what Aqua America has not done: A trust fund will help ensure families across the country have access to clean, safe and affordable water.

## Key Findings

- Aqua America is hiking up water bills through rapid-fire rate increases and infrastructure surcharges.
- Aqua America is aggressively acquiring new systems, especially places with high population growth, little competition and weak regulation.
- Aqua America is cutting and running on communities with the greatest needs and least profitability.
- Aqua America is expanding into unregulated industries to avoid public oversight of pricing.
- Communities are fighting to kick out Aqua America and reclaim public control over their vital drinking water and clean water infrastructure.



## Introduction

In the United States, 86 percent of people on community water systems receive their drinking water from a public utility, and these public operators have kept drinking water safe and affordable for most households. Public utilities provide nearly 250 million people with high quality water that costs less than a penny per gallon.

But even the best management can't stop the effects of time. Across the nation, water and wastewater systems are aging, pipes are crumbling and growing populations are straining already overburdened water supplies. The mounting repair and replacement costs are taxing many municipalities, especially small towns that have limited financial resources.

The federal government has traditionally provided assistance to these struggling utilities, but that funding is going dry. In the face of seemingly insurmountable improvement costs, as a last resort, cash-strapped municipalities are selling their water and sewer systems to corporations that are aggressively marketing themselves to local officials.

Aqua America, Inc., is one company trying to cash in on the infrastructure crisis. It is voraciously eating up small systems. With nearly 200 acquisitions over the last 10 years,<sup>4</sup> Aqua America has grown into the second largest publicly traded U.S. based water and wastewater company, serving 3 million people in 13 states.

Up until the late 1980s, however, it was a different story. For more than 100 years, Aqua America operated almost exclusively in the suburbs of Philadelphia, where it was founded in 1868. But in the early 1990s, it began its aggressive growth-by-acquisition strategy, and in 2004, the corporation, still based in Bryn Mawr, Pa., changed its name from Philadelphia Suburban Water Co. to Aqua America to announce its arrival on the national stage.<sup>5</sup>

As Aqua America expands, its customers shoulder rapidly increasing water rates, which bring in heaps of money for the company: \$602.5 million in revenue and \$95 million in pure profit in 2007.<sup>6</sup> Meanwhile, many households are seeing their water bills grow out of their budget, placing extra hardship on families already toiling to keep up with skyrocketing housing costs.

Aqua America believes it is the savior of small struggling water systems, but its customers are quickly learning that privatization brings higher rates and no public accountability. Corporations answer to the will of their shareholders – not the residents they serve.

Instead of corporate control, citizens need — and overwhelmingly support by a 6-to-1 margin<sup>7</sup> — a national trust fund for clean and safe water. Federal support for public utilities will help keep prices affordable and ensure high quality water for families across the country.

### How Water Companies Make Money

Because all water utilities are monopolies, most states oversee the prices that water companies charge to avert exploitative rates. Water corporations, however, have found a way to use this regulation to inflate water prices and grow their earnings — at the expense of the households footing the bill.

Usually when a corporation wants to increase rates, it files for a rate case, and state regulators hold public hearings and conduct investigations to evaluate the proposal. This typically lasts nine to 12 months — a period Aqua America calls regulatory lag. At the end of the process, state regulators set rates that allow the corporation to run its systems, maintain equipment and bring in a certain amount of profit.<sup>8</sup>

These profits are a portion, usually around 10 percent, of the amount that a company spends on infrastructure; regulators call this the rate of return on investment. The more money a corporation invests in a system, the more it can charge for water service and the more it can rake in for stockholders. The idea is that a private utility must spend money to make money.

### Is History Repeating Itself?

Many cities tried private water in the past, and the experience was unsettling. Private utilities provided such poor quality water that there were extensive outbreaks of waterborne diseases. Improvements came only after municipalities took over the private utilities and began public operation of their systems.

This is the story of New York City's water. The city's water system began as a network of wells and privately sold water known as Tea Water — the equivalent of today's bottled water — that was brought by pails and barrels from springs on the edges of town.

By the mid 18th century, industrialization and rapid population growth polluted and overburdened these wells and ponds. In response, the city began constructing a public water system, which sadly, was destroyed during the Revolutionary War. Doubting it could raise sufficient funds to rebuild the system, New York City privatized the endeavor and granted the Manhattan Company exclusive rights to provide drinking water.<sup>11</sup>

And Aqua America knows this very well. “Aqua shrewdly exploits the system to its advantage,” according to Boenning & Scattergood, Inc., an investment research company that does business with Aqua America.<sup>9</sup>

Indeed, a rate of return system can be dangerous, some economists warn, because “managers have an incentive to inflate costs and raise price.”<sup>10</sup>

### Aqua America's Growth Strategy

Nicholas DeBenedicis, CEO of Aqua America, has very particular plans for his company's development in the regulated return system. He focuses on both new acquisitions and organic customer growth, and he is eager to drop less profitable systems. His underlying goal is always to expand the company's earnings.

#### Grow the Rate Base

The crux of Aqua's growth strategy is to grow the rate base, which is the value of its property that regulators use to determine its allowable return. Aqua adds to its rate base by making capital investments, such as building new treatment plants, purchasing expensive system technology, replacing pipelines and extending service lines. On these types of projects, Aqua plans to spend more than \$1 billion over the next five years.<sup>16</sup>

It didn't take long for the city to figure out this was a mistake. The Manhattan Company undercut costs, spent very little money on the water system and used the resulting surplus funds to start a bank, known today as Chase Manhattan Bank. Over 32 years, the company constructed only 23 miles of piping. Meanwhile, it enforced its monopoly on water provision by eliminating the sale of Tea Water and forcing people to use antiquated and unsanitary wells.<sup>12</sup>

Waterborne diseases ravaged the city. After an outbreak of cholera killed 3,500 people, New York City took public control over its drinking water. It formed a board of water commissioners and began plans for major improvement projects.<sup>13</sup>

Driven by public outrage over poor sanitation, inefficiency and high rates, many municipalities joined New York City in taking over their systems during the late 19th century and early 20th century. In 1800 private utilities owned 94 percent of water systems, but by 1924 this fell to 30 percent.

Water corporations have a long history of failure.

*In his own words: focus on the bottom line*

*Try to remember that the shareholder is the boss. If you are doing something that isn't going to benefit the shareholders on a year-to-year basis, you shouldn't do it just to get bigger. You really have to come to the bottom line.*

*– Nicholas DeBenedictis,  
CEO of Aqua America<sup>15</sup>*

After augmenting the rate base, Aqua seeks regulator approval to hike customer rates to both recover costs and boost profits. Accordingly, the company has proposed 32 rate increases in 2006 and 23 in 2007, and it plans many more in 2008.<sup>17</sup>

With its eyes on the bottom line, the company overlooks families sinking in water debt. It is not surprising then that the most common complaint about Aqua America is frequent rate increases and high water bills. While individual increases are not usually colossal, they compound, and communities begin to notice their monthly bills are often two or three times that of neighbors with municipal water.

This is part of the company's strategy. "Our theory has always been to go in for smaller rate cases," DeBenedictis said, "but to go in more often."<sup>18</sup>

Aqua knows that regulators typically approve only a portion of its proposed rate increase, so the company initially makes an exorbitant, fanciful request. "Typically they'll ask for an excessive level of profit," Sonny Popowski, a Pennsylvania consumer advocate, said about Aqua America. "They never get what they ask for."<sup>19</sup>

This hasn't stopped Aqua America. It just incorporates the reduction into its scheme. Aqua asks for excessive rate increases, settles for less and quickly seeks another hike. Doing so, the company appears to yield to regulator concerns while actually yielding higher returns.

## Surcharges

For Aqua, the traditional rate hike is not enough. The corporation vigorously pursues new ways to charge people more money.

One technique that Aqua pioneered is the infrastructure improvement surcharge. The surcharges are temporary fees added to water bills that allow companies to receive a return on capital investment without any public comment or trial period. As of June 2008, only eight states allow surcharges, these including six states where Aqua operates: Pennsylvania, Illinois, Ohio, New York, Indiana and Missouri. Outside of Aqua's territory, two states allow them: Connecticut and Delaware.

Aqua has had considerable influence on getting these fees approved, and its home state of Pennsylvania was the first to allow them. David Schanzer, a utility analyst at Janney Montgomery Scott, hails Nicholas DeBenedictis, Aqua CEO, as the apostle of the surcharge mechanism. "He's the guy who got that," Schanzer said. "It was the holy grail for utilities for years."<sup>20</sup>

Indeed, the company has a strong incentive to get the surcharges approved; they bring in a substantial amount of revenue: \$7.9 million in 2006 and \$10.2 million in 2005.<sup>21</sup>





While Aqua surely benefits, the same cannot be said for its customers, who have to pay higher rates with limited public input.

In several states without specific surcharge policies, Aqua employs another tactic: interim rate increases. Aqua probably favors surcharges because interim rates, while boosting corporate profit, come with greater public oversight. For example, in Florida, an Aqua subsidiary charged an interim rate while waiting for a rate case that was eventually denied. Because regulators rejected the increase, the company had to refund all the fees, with interest, to its customers.<sup>22</sup>

The surcharges go by many different names; the most popular is *Distribution System Improvement Charge*. Customers should be aware that Aqua is actively trying to get more surcharge laws passed.

### Acquisitions

Aqua seems to have an unquenchable thirst for new systems. Over the last decade, it has been gulping them down as part of its strategy to grow the rate base.

Until 1999, Aqua America operated in only Pennsylvania, but in less than 10 years, Aqua has expanded into more than

a dozen states.<sup>23</sup> Aiming to make 25 to 35 acquisitions a year,<sup>24</sup> the company employs several tactics to takeover new systems:

- **Aqua targets small to mid-sized water systems.** Smaller systems generally have greater per capita needs. As federal funding dries up, these cash-strapped systems are becoming increasingly vulnerable to private takeover. What's more, small, rural and lower income towns have less political voice to protest and fewer financial means to legally contest the sale of their water systems to a corporation. Aqua can negotiate favorable transactions with these mid-size systems and avoid what equity research firm Boenning & Scattergood calls "the political difficulties typically associated with large urban systems."<sup>25</sup>
- **Aqua targets systems in disrepair.** A system in need of repair is a system that brings in profit. Aqua's profits are a percentage of the amount it spends, so when it invests extra money to improve dilapidated infrastructure, the company augments its total profits. Its customers, of course, pay for all costs and corporate income through their water bills. Under the regulated return system, this is

the main way Aqua America gets more money for stockholders.<sup>26</sup>

- **Aqua targets regions with fast growing populations.** Moving away from the slower-growing Northeast, Aqua has beefed up its presence in the southern states of Florida, Texas and North Carolina<sup>27</sup> – three of the 10 fastest growing states.<sup>28</sup> In many southern states, Aqua can cut deals with developers to build, own and operate water systems for new subdivisions springing up to provide housing for expanding populations.

### Pruning Policy

Snatching with one hand, ditching with the other. Aqua is trying to unload several systems.

Through its *pruning policy*, Aqua America weeds out and disposes of less profitable systems. Aiming to sell \$50 to \$100 million worth of these systems in 2008, DeBenedictis asked his regional heads to identify places with negative growth potential or return rates less than 10 percent – Aqua’s goal.

The company has already pinpointed around a dozen locations. By dropping these places and keeping only lucrative ones, Aqua will grow its profit margin.

Indeed, Aqua intends to turn even the practice of ditching a system into a rewarding enterprise. “We’re not going to do it unless we can make money on them,” DeBenedictis said. “We’ll probably be able to book gains on most of them.”<sup>30</sup>

Aqua is always thinking about the payoffs — not its customers or the provision of safe, affordable water.

### Quack Analysis

A quack analysis governs Aqua’s decisions to grab or drop a system.

To beef up returns, Aqua has begun shifting money to corporate friendly states, which grant high rates and allow surcharges. This program is called *Quack Analysis*: Can we afford the capital. Addressing stockholders during Aqua America’s 2007 earnings conference call, DeBenedictis said when the company invests money it considers “when will you get the money back and what kind of rate case will it need and if it doesn’t seem realistic we cut back spending.”<sup>31</sup>

Indeed, state regulators have tremendous influence on Aqua’s earnings, and Aqua considers each state’s distinct regulatory environment before it purchases a system.

Overall, Aqua has been fairly successful at building up positive relations with state regulators. And at least one analyst glorifies DeBenedictis’s ability to chum it up: “There’s nobody better in the United States at regulatory interface than the CEO of Philadelphia Suburban [now called Aqua America],” said David Schanzer, a utility analyst at Janney Montgomery Scott.<sup>33</sup>

Nevertheless, several states offer more lucrative returns. Boenning & Scattergood, an equity research firm, ranked the regulatory environments in the six states containing the majority of publicly traded water utilities. It should come as no surprise that Pennsylvania — Aqua’s home state and

*In his own words: target the South*

*Why do we like the South? I’ll tell you why. It’s growing faster than the North. It’s hotter, they water their lawns more, they take more showers. We don’t have the problems with pipes freezing and breaking on Christmas Eve. There’s less competition. We don’t have 45 water companies like in New Jersey where every developer who wants to talk to a water company has a choice. It’s nonunion. We think the South is going to be a completely different way of doing business.*

*– Nicholas DeBenedictis, CEO of Aqua America<sup>29</sup>*

largest market — sits on top of the list as the most attractive “from the perspective of regulated utilities attempting to generate earning growth and maximize shareholder values.”

Investing money only in places with looser regulation doesn’t seem like the actions of a company that is concerned about customers or quality service; rather, it seems like one concerned about shareholders and profits.

### Invest in New Industries

From weak regulation to deregulation, Aqua America also is moving into new industries with less public oversight.

In 2003, Aqua expanded into the wastewater service industry, which now represents 10 percent of its revenue.<sup>34</sup> Part of the allure of wastewater is that fewer states regulate its pricing as compared to that of drinking water. Indeed, the regulatory commissions of two states where Aqua operates — New York and Maine — do not oversee the rates that sewer utilities charge.<sup>35</sup> Although Aqua owns mostly water systems in these states, it is in a good position to expand into the wastewater market.

Another attractive feature of the wastewater industry is actually its lack of “populist appeal,” according to one equity research firm.<sup>36</sup> Wastewater privatization provokes less political resistance because it does have an ingested end product.<sup>37</sup>

Aqua America also has moved into the unregulated septage tank pumping and sludge hauling businesses.<sup>38</sup>

### Oppose Federal Funding

For all of Aqua’s strategies to play out, it must be able to invest in infrastructure and acquire new systems — two actions that government funding could severely restrict. Federal assistance reduces the amount a company needs to invest, cutting away corporate returns, and it helps cash-strapped utilities stay afloat and fend off takeover. It is not surprising then that water corporations oppose a federal trust fund for clean and safe water.

“Congress is also becoming aware of the challenge [of the infrastructure crisis],” said Peter Cook, the executive director of the National Association of Water Companies; “however Congress responds to the challenge could be key to our long-term success and the long-term health of the water industry.”<sup>39</sup>

Corporations, however, have little to worry about; federal funding is at an all time low. Meanwhile, the cost of repairing and updating the nation’s aging systems is forcing many municipalities to hand over control to water companies

hustling private sector finance. The void of federal funding allows corporations to squeeze into the space the government once filled.

## Aqua America Communities

Aqua America designed all of its strategies to augment profits and please stockholders, but the same cannot be said for the communities that it serves. Aqua sticks its customers with high rates and poor service, and some communities are so fed up with these practices that they oust Aqua in favor of local, public control.

### High Rates and Poor Service

#### *Pennsylvania: No End in Sight*

Few understand the price of Aqua’s strategies better than the 400,000 customers in its home state of Pennsylvania.

Aqua Pennsylvania, a subsidiary of Aqua America, has sought rate increases at least every two years since 1993.<sup>40</sup> Since 2001, Aqua has filed for four rate hikes:

- In November 2001, Aqua Pennsylvania (then called Philadelphia Suburban Water Co.) sought a 14.7 percent rate increase that would have upped its revenue by \$28 million.<sup>41</sup> The Pennsylvania Public Utilities Commission granted most of it: a 10 percent rate hike worth \$21.2 million.<sup>42</sup>
- Two years later, in November 2003, Aqua Pennsylvania sought a 10.2 percent rate increase amounting to \$25.3 million in revenue. By this time, Aqua’s customers around Philadelphia already were paying more than \$400 — twice the typical annual bill of their neighbors with city water.<sup>43</sup> After public hearings, regulators granted Aqua Pennsylvania only a 5.9 percent increase, bringing in \$14.4 million in revenue.
- Two years later, in November 2005, Aqua Pennsylvania sought a 14.4 percent rate increase amounting to \$38.8 million. Again, PUC and consumer advocates were able to lower this amount to 9.2 percent, which brought in \$24.9 million additional revenue. In this agreement, Aqua Pennsylvania promised not to seek another rate increase until November 2007.<sup>44</sup>
- As soon as November 2007 rolled around, Aqua made its request — this time for 13.6 percent, or \$41.7 million.<sup>45</sup> The PUC decision is pending, but the regulators typically approve two-thirds of the company’s requested increase and likely will grant

Aqua a \$27.4 million revenue boost.

Over that six-year period from 2001 to 2007, Aqua Pennsylvania has sought to snap up \$134 million in additional revenue by hiking household bills more than 60 percent and adding \$228 to the typical annual residential bill. Although PUC has cut these requests by about a third, the approved increases are still considerable.

Pending the decision on the 2008 rate case, and projecting the approval of two-thirds of the company’s request, Aqua Pennsylvania’s six-year revenue growth could top \$88 million. Meanwhile, the typical household would pay an annual water bill that is \$180, or \$110 when adjusted for inflation, more than what it paid in 2001.<sup>46</sup>

***Florida: Water, Water Everywhere, but the Price Is Too High to Drink***

Aqua is learning that rate hikes aren’t that easy in Florida.

Communities across the state sprang into action in May 2007, when Aqua Utilities Florida, a subsidiary of Aqua America, proposed a \$7.3 million rate increase that would have nearly doubled water and sewer rates for more than 110,000 customers across 15 Florida counties.<sup>47</sup> One worried resident protested, “That kind of rate hike would be

devastating to the elderly poor and working poor in West Putnam County.”<sup>48</sup>

Aqua Utilities Florida began charging the higher rates in mid-April before state regulators approved the increase,<sup>49</sup> outraging the community. About 150 Aqua customers, frustrated with paying exorbitant prices for poor quality water, packed a Florida Public Service Commission hearing to speak out against the rates that were more than 3 times that of their neighbors with public water.<sup>50</sup>

“We have a legalized monopoly holding us hostage,” Heidi Van Wagnen, a senior citizen and widow on a fixed income, told the commissioners. “Now they want a rate increase where it’s going to cost us \$95 before we use the first drop of contaminated water. It’s unfair, discriminatory and downright unconstitutional.”<sup>51</sup>

For Aqua, the rate hike opened the floodgates of criticism from its customers. One resident described the water as “bleachy,” and another called it “undrinkable.” Several customers questioned Aqua’s billing practices. They brought the commissioners documents showing irregular billing periods, ranging from 19 to 45 days. Other residents said they had never seen a meter reader.<sup>52</sup>

Even Steve Riley, a consumer advocate with the Public Service Commission, was critical of the request. “We do feel



like the rate increase is both unjustified and very excessive,” Riley said. “It’s staggering and it’s a matter of great concern to our office.” Indeed, it was so bad that the state attorney general’s office filed a motion to intervene.

Because of the community opposition, Aqua Utilities Florida backed away and withdrew its request in August 2007. In a settlement with the Public Service Commission, the corporation agreed to refund the interim rates, which amounted to about \$1 million.<sup>54,55</sup>

The decision, however, was not the end of the road. Aqua Utilities Florida plans to file again in 2008.<sup>56</sup> Perhaps to prep for this next attempt, and as part of the settlement, the corporation held an inclusive workshop with the state regulators and their staff to promote rate consolidation.<sup>57</sup>

In January 2008, Aqua hired Troy Rendell — a former supervisor at the Florida Public Service Commission — to serve as Aqua’s chief liaison to the commission.<sup>58</sup> If Aqua can’t build relationships with regulators to ease the approval of rate increases, they can always hire someone who already has that “in.”

### ***Virginia: Flushing Money Down the Toilet***

Many Virginians are paying high rates for second-rate service.

Members of the Lake Monticello community in Virginia became distraught at the high prices charged by Aqua Virginia, a subsidiary of Aqua America. When Aqua increased rates, the 4,000 households saw their water bills jump by 53 percent and their sewer bills soar, quadrupling to \$78 every other month.<sup>59,60,61</sup>

While the rate hike bodes well for the company’s bottom line — it will generate \$2.5 million in annual revenue — as resident Char Wickman has noted, it could price families on fixed incomes right out of the area.<sup>62</sup>

If they have to pay such high prices, the residents expected at the least good service. But a year after the hike, Aqua’s customers were wondering where this money was going. Thousands of residents lost service when an aging water main broke.

While the water was out, local restaurants lost business. Mike Hartling, an Aqua customer and owner of a café, said he received no offer of reimbursement for lost revenue. “We pay for it,” he said, estimating his losses were around \$2,000 to \$2,500. “We expect to get the service, as all of the residents do.”<sup>63</sup>



Apparently, high prices don’t mean high quality service. Aqua’s customers are paying too much for what they’re getting.

### ***Texas: Picking on the Little Guys***

Skyrocketing water prices have rattled the small senior citizen golfing community of Woodcreek, Texas.

“I’m on a fixed income, and this is hard for us,” explained 81-year-old Francis Archer, who sprang into action after receiving a \$140 water and sewer bill. She joined hundreds of her fellow retirees from the 1,400-person community to protest at a city council meeting.<sup>64</sup>

Woodcreek was just one of many places in Texas that experienced sharp rate hikes in 2005. Aqua Texas proposed increases in all of its 50 locations that year. Sadly, this small city did not have the money to fight Aqua and had to settle and allow the jacked up rates.<sup>65</sup> Residents remain upset that their bills are more than twice what neighbors in Austin pay.

**North Carolina: Left Out in the Woods**

Aqua did a great disservice to the residents of Neuse River Village, N.C., when it took over their water and wastewater systems in 2004. Within a year, Aqua had cut off water service to more than half of the 130 households in this small manufactured home park, just a few miles outside of Raleigh.<sup>66</sup>

Dozens of families had to fill jugs of water at their neighbors’ faucets for daily cleaning and cooking, and many resorted to using the nearby woods as a bathroom. Parents and children faced possible eviction because a county health ordinance required homes to have running water. Residents worried about the health of their children and loved ones. “The children are going to get sick,” said resident Juan Rivera. He pointed to his neighbor, and with anger and frustration in his voice, he said, “She’s pregnant, and she has to go to the woods to use the bathroom.”<sup>67</sup>

“You’re talking about families with children and no water to take baths or cook,” said resident Barbara Wright.<sup>68</sup>

It all started when Aqua bought the water system, installed meters and began charging residents water bills to cover not only water service but also the cost of the meters and corporate profits.<sup>69</sup> Before, water and wastewater service was included as part of their monthly lot rents. This rental fee did not decrease.<sup>70</sup>

For many customers, the change was confusing. If Aqua gave any notification of the new charges, it sent letters in English to this predominately Spanish-speaking community.<sup>71</sup>



High rates exacerbated by leaking pipes made the transition all the more difficult. Several households received bills that topped \$200 a month, and others accrued debts upwards of \$1,000.<sup>72</sup> Many families were paying more for water than for rent.

Perhaps because of their water woes, many residents left the community. The remaining households continue to face high bills and disconnections. Out of desperation, some families have resorted to bypassing the water meter with homemade piping. Although the company agreed to repair some of the piping and to establish a payment program, several residents still are knee deep in water debt.

Families are much worse off now than before Aqua North Carolina entered their lives.

**Illinois: What Will You Be Charged?**

When Aqua America buys a new system, the transition period can be especially rocky.

An hour south of Chicago, in Kankakee County, Ill., Aqua’s 45,000 customers have endured rough tides. After Aqua took over their water system, the community did not receive any water bills throughout the summer of 2007.<sup>73</sup>

The honeymoon didn’t last long, though. The other shoe soon fell, and in the village of Manteno, households began receiving huge bills and even notices that Aqua would shut off their water.<sup>74,75</sup> Aqua Illinois overcharged more than 100 customers, some by as much as nine times.<sup>76</sup>

Everyone has similar stories. Aqua charged one customer for supposedly using 270,000 gallons of water on a vacant lot. Roy Hodges, another consumer, found Aqua’s bill practices suspicious. He usually uses 4,500 gallons per month, yet in December 2007 Aqua charged him for 27,500 gallons, an unreasonably high amount. He also said his water bill varies the size of his waterline pipe from month to month — something he was positive had not changed.<sup>77</sup>

Hodges believed these are tactics of Aqua Illinois to squeeze even more money out of communities that do not always have the resources to protest irregular and questionable bills. “We have a lot of senior citizens in town who don’t know what their water charges are,” he said. “[Aqua is] scalping people by overcharging them.”<sup>78</sup>

Village officials agreed that billing has been very erratic since Aqua took over in June. “Most bills are exceedingly high, several hundred dollars more than they should be,” said Janice Schulteis, the village’s resource manager.<sup>79</sup>

Aqua is offering to re-read meters,<sup>80</sup> but it remains to be seen if this provides a solution.

Meanwhile, as residents struggle for fair service, a former village official is riding high. Aqua Illinois hired Craig Blanchette — the village administrator who pushed through the sale of Manteno’s water system — to serve as its vice president and regional manager.<sup>81</sup>

**Missouri: Act Now**

Aqua Missouri has proposed a 50 percent rate increase for water and 35 percent for sewer services on December 7, 2007. Residents of local communities, such as Maplewood, are signing petitions to stop the increase.<sup>82</sup>

**Surcharges**

**New Jersey: Finding New Ways to Make Money**

Dave Fried, the mayor of Robbinsville, N.J., is very upset about Aqua New Jersey’s “latest outrageous request.”<sup>83</sup> The company, a subsidiary of Aqua America, is seeking a 28 percent rate increase for its 45,000 customers in Robbinsville and surrounding areas, and at the same time, it hopes to tag on a new type of fee: the Distribution System Improvement Charge.<sup>84</sup>

As of May 2008, New Jersey does not permit such improvement charges, but Aqua hopes to pilot the new fees. Because they would allow Aqua to increase rates without approval from the state, Mayor Fried fears they could result in “quiet rate increase each year with limited scrutiny from regulators.”<sup>85</sup>

**New York: Laying the Groundwork**

Aqua America built up its Aqua New York subsidiary with the purchase of New York Water Service in Nassau County, Long Island, at the end of 2006. In the acquisition, Aqua New York agreed not to increase rates until December 31, 2009.

At the same time, however, Aqua New York proposed a Distribution Improvement System Charge, which allows the company to increase prices. A clever way to avoid the rate freeze dictated in the sale, the surcharge allows the company to increase the typical customer’s bills by nearly 2 percent each year and will allow Aqua to bring in another \$275,000 in annual revenue.<sup>86</sup>

But hikes will not stop there. Even higher bills are on the horizon. Aqua promised to keep the previous rate plan only through the end of 2009, after which it likely will propose a substantial increase.



## Poor Quality Water and Environmental Standards

### *Pennsylvania: Oops!*

In May 2007, the Pennsylvania Department of Environmental Protection found Aqua Pennsylvania workers responsible for dumping chlorinated water into a stream and killing hundreds of fish.<sup>87</sup>

### *North Carolina: No Rush to Reach EPA Standards*

Aqua's poor quality water can be hazardous not just to fish.

In the wealthy northern areas of Wake County, N.C., residents began to worry about their children's health when their household water filters turned brown and red after only one month of use.<sup>88</sup> In the poorer southern areas, families began to worry when the water from an outdoor faucet resembled chocolate milk.<sup>89</sup>

Although the communities differ in wealth, they share in the bad service of the same corporation: Aqua North Carolina, a subsidiary of Aqua America and the largest private utility in North Carolina, operating in half of the state's 100 counties.

Across Wake County, Aqua's customers received low-quality and potentially dangerous water. The carcinogens radium and uranium contaminated the drinking water of one of its northern Wake County communities. In this community, uranium levels were five times higher than EPA's allowable concentration.<sup>90</sup> Aqua's customers in southern Wake County regularly received notices about high levels of radium.<sup>91</sup> To minimize health risks, drinking water ideally should contain no uranium or radium, according to EPA.<sup>92</sup>

Tom Roberts, Aqua North Carolina's president, must disagree with EPA scientists, because he has responded to community complaints by saying that radium is "a very minimal health risk." While admitting the company must reduce the contamination, Roberts rationalizes delayed action, saying, "Not only do we have to do something, but we have to do it in an economic way, and that's why we're taking our time."<sup>93</sup>

Many residents are appalled that the company would take its time to remove carcinogens from their drinking water, and they are demanding safe water that meets EPA standards.

## Pruning Policy

### *Virginia: The Easy Way Out*

In 2007, Aqua America began its Pruning Policy by selling its water system in Henrico County, Va., for \$1.5 million.

Aqua dropped the water system because it "needed major capital expenditures to meet continuing environmental compliance standards."<sup>94</sup> Apparently, it was easier to dispose of the system — without regard to the residents or the environment — than to make necessary investments.

## Mobilizing to Remove Aqua America

### *Indiana: Goodbye, Aqua America*

Ed Steger knows what Aqua America's services look like. In his Fort Wayne, Ind., home, yellow water pours from his kitchen faucet, bright orange stains the inside of his toilet and grey water reddens his silver chest hair when he showers. Steger has tried, unsuccessfully, to mitigate the damage of his water's high iron content by purchasing a \$500 water softener and paying \$18 a month for chemical treatment — all in addition to his monthly water bills.<sup>95</sup>

Steger is hopeful, though. He anticipates great improvements are on the horizon.<sup>96</sup> After residents signed petitions to get rid of the company,<sup>97</sup> the City of Fort Wayne used eminent domain to take over the water and sewer system on the city's north side from Aqua Indiana, a subsidiary of Aqua America.<sup>98</sup> The mayor will seek to buy the southwest utility from Aqua after completing the north side purchase.<sup>99</sup>

The acquisition has received huge support across northern Ft. Wayne, where poor service had plagued Aqua's 9,200 water customers and 1,700 sewer customers. The water and sewer systems needed thousands of dollars in repairs, but Aqua Indiana was investing very little of what it budgeted for infrastructure, despite seeking to hike rates by 75 percent.<sup>101,102</sup>

The city plans to provide better water, improve service and rejuvenate the systems — all at a lower price. With the water and sewer systems in public hands, the average family of four will save \$90 a month, and small businesses will save around 40 percent on their bills. What's more, the city will implement long-term and locally accountable rate control to help ensure that prices are affordable for its residents. Although it sounds like a great feat, the city can accomplish its goals because it does not have to turn profit, whereas Aqua Indiana sent stockholders \$3.6 million in 2006.<sup>103</sup>

### *Florida: Sticking It to Aqua America*

Aqua America is in hot water in Florida.

In November 2007, after almost four years of high rates and poor quality water, the town of Chuluota in Seminole County, Fla., began preliminary discussions to oust Aqua Utilities Florida, a subsidiary of Aqua America.

Chuluota residents were paying water and sewer bills of \$95 a month — three times the \$32 households pay in nearby Oviedo.<sup>104</sup> And that’s a bargain compared to the \$186 Aqua had originally charged.<sup>105</sup> Aqua had to refund these excessively high rates after residents came together and defeated the company’s rate increase request. This marked a major victory for the communities, and it inspired civic engagement in the fight for clean, safe and affordable water.

“This is definitely a victory for the consumer,” said Kelly Sullivan, an Aqua customer and organizer with Chuluota Friends of Locally Owned Water, which wants public control of the water system. “This was the result of citizens getting involved in government. The outcome would not have been the same without it.”<sup>106</sup>

“This is an example of a community stepping up and taking control,” said Ron McKay, another leader of community efforts to stop the hike. “We were not going to let corporate greed prevail and let them get away with what they were doing. We put our foot down.”<sup>107</sup>

Water rates are not the only issue important to residents. Aqua Utilities Florida has repeatedly failed to comply with basic drinking water standards. In January 2007, Florida’s Division of Environmental Protection ordered Aqua to reduce the high levels of trihalomethane, a water quality violation ongoing since October 2005.<sup>108</sup>

Trihalomethane, a byproduct of drinking water disinfection, increases the risk of cancer and problems with the liver, kidney and central nervous system,<sup>109</sup> and it is associated



with miscarriage and stillbirth.<sup>110</sup> Yet, in a recent notice to the public, Aqua Utilities Florida stated, “... this is not an immediate risk. If it had been, you would have been notified immediately.”<sup>111</sup>

Perhaps Aqua is not taking this problem seriously. The company failed to meet the deadline to reduce the contamination, and the Division of Environmental Protection is fining Aqua \$9,000 plus \$100 per day until it is resolved.<sup>112</sup> Although the penalties are accruing, Chuluota FLOW says the amount is “pocket change to Aqua.”<sup>113</sup>

Chuluota FLOW is working with Seminole County officials who are trying to buy the system from Aqua Utilities Florida. During preliminary discussions, the county valued the water and wastewater system at \$2 million. Aqua disagreed, saying it is worth four times more, around \$8 million. Seminole County and Aqua Utilities Florida are continuing conversations about the purchase price.

But if Aqua can have its way, the sale will bleed the community dry. As DeBenedictis has said, Aqua sells a system only if it can turn a profit. But Chuluota FLOW won’t stand passively by while this happens.

“Water is becoming a scarce resource in Florida,” Sullivan said. “Why should a company from Pennsylvania control this resource and pay big dividends to its investors while sticking it to us?”<sup>114</sup>

### Ohio: Case Dismissed

Northeast Ohio, just outside of Cleveland, is a battleground between private water and public water. Residents and Mahoning Valley Sanitary District, a public utility, are fighting for public water. They are collecting petitions, voting and kicking out water companies.

Meanwhile, Aqua Ohio, a subsidiary of Aqua America, is trying to expand its hold of water and sewer systems. The company has offered to buy water systems that are not for sale and has sued counties that want out of their contracts.

In Trumbull County, Aqua Ohio waged a legal battle against a public takeover. In 2005, the communities of Brookfield, Vienna, Liberty and Hubbard decided against renewing their contract with Aqua, which had operated their water systems since 1955. The county wanted public control, but Aqua refused to relinquish control.

The corporation sued the county, claiming that it received insufficient notice of contract termination, so the deal should be effective until 2015. The county, however, insisted that it did give adequate notice.<sup>115</sup> A judge sided with the county and dismissed Aqua’s case in February 2008.

Mahoning Valley Sanitary District took over the water system and began providing water service to the 2,800 former Aqua Ohio customers.<sup>116</sup> It has already begun working on pipe extensions and a booster station that will allow residents to get water at a lower cost.<sup>117</sup>

Aqua was never allowed into Campbell, Ohio.

Facing fiscal trouble, John Dill, the mayor of Campbell, wanted to sell its water system to Aqua Ohio in 2005. The city residents sprang into action to prevent corporate control of their water system. Through a November 2006 referendum, the citizens rejected the \$10.2 million deal.<sup>118</sup>

The mayor, however, refused to give up the privatization push, and in 2007, the residents had to petition to get another referendum passed in the November 2007 elections. This latest measure voided legislation that authorized the mayor to negotiate the sale or lease of the town's water system.<sup>119</sup>

Even after all of this, the mayor is not giving up. He plans to create an organization to advocate for private control of the water system. Despite his constituents' multiple rejections of privatization, Dill believes they simply do not understand the situation.<sup>120</sup> Perhaps, though, Dill simply does not understand his role as a publicly elected official — to represent the will of the people.

In contrast, the residents of Youngstown have never had to worry about their mayor selling them out to corporate interests.

Although Aqua Ohio is pressuring the city to privatize its water system, Youngstown officials have told Aqua very clearly that the town has absolutely no interest in selling or leasing its system.<sup>121</sup> Instead of letting corporations profit from the provision of water, the city is unveiling a study to show how it can use the water system as an economic development tool.<sup>122</sup>

### **New Hampshire: No Way to Aqua America**

Aqua America does not operate in New Hampshire, although it almost did.

In 2002, Aqua America planned to acquire Pennichuck Corp., a water company based in Merrimack, N.H. Residents became outraged at the possibility of an out-of-state corporation owning their water, and they began the process of using eminent domain to purchase the water system.<sup>123</sup> Aqua quickly ran away from the deal.<sup>124</sup>



## **The Future of America's Water**

Aqua America is disappointing communities in every state where it operates. As it aggressively devours new systems to fill stockholder pockets, the company sticks households with high rates, bad water and poor service. As many Aqua America customers will attest, private operation of the nation's water and sewer systems is not working. It is leaving residents high and dry.

Indeed, privatization is no solution to the infrastructure crisis besieging the nation's drinking water and clean water systems. As aging pipelines crumble and federal funding washes away, U.S. water utilities are left with huge funding gaps. Water corporations are trying to squeeze into this gap to turn profit from crisis. If this happens, water rates will skyrocket and environmental and human health concerns will fall by the wayside as quality decreases from lack of public accountability.

Communities must take action to stop this destructive process. They can begin by rejecting the notion that privatization is a viable option. The experiences of many cities — from questionable billing practices in Kankakee, Ill., to expensive, unsafe water in Chuluota, Fla. — have shown its failure. Already, people across the nation are fighting for better water quality and affordable prices through public ownership and operation of their water and sewer systems.

The next step for communities is to contact their members of Congress. Although public utilities have made considerable strides to address the infrastructure crisis, they still need help. Congress must take action and create a federal trust fund for public drinking water and clean water utilities. Citizens need — and overwhelmingly support by a 6-to-1 margin<sup>125</sup> — a national trust fund for clean and safe water. Federal assistance will help ensure that safe, clean and affordable water is available for generations to come.

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