Misconduct Taints the Water in Some Privatized Systems

When cities hire firms to run utilities, they seek quality at lower cost. They may get ethics scandals, violations and irate consumers.

By Mike Hudson, Special to The Times
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INDIANAPOLIS – In recent years, cities across the U.S. have turned over a vital public service – providing safe drinking water – to private enterprise.

Driving the trend was the idea that for-profit companies, mainly European conglomerates, could operate water and sewer systems efficiently, keeping water quality high and costs low.

In some places, private-sector management helped trim bureaucracies and replace decaying infrastructure, local officials say. But in Indianapolis, New Orleans, Atlanta and other cities, privatization has been accompanied by corruption scandals, environmental violations and a torrent of customer complaints.

In Atlanta, residents began complaining of brown, brackish drinking water soon after the French company Suez and a subsidiary began running the water system under a $428-million, 20-year contract. It later emerged that Suez had treated then-Mayor Bill Campbell, who championed the contract, to a $12,000 Parisian holiday.

In New Orleans, officials blamed a subsidiary of Veolia Environnement, another French company, for illegally discharging sewage into the Mississippi River on dozens of occasions. The president of a related Veolia subsidiary was convicted in 2002 of bribing a New Orleans sewer board member to support renewal of its contract.

In Milwaukee, a Suez subsidiary caused 107 million gallons of untreated sewage to be discharged into streams and Lake Michigan, a 2002 state audit found. The company triggered a series of overflows by shutting off sewer tunnel pumps during hours of peak electricity demand, saving itself $515,000, the audit said.

A lawsuit by Wisconsin's attorney general blames inadequate maintenance for an even bigger discharge in May 2004, when more than a billion gallons of sewage gushed into local waters.

Indianapolis reached a $1.5-billion, 20-year agreement with Veolia to run the city's waterworks in 2002. The contract is the largest of its kind in North America.

Within the first year, customer complaints nearly tripled and the company admitted mailing more than 15,000 incorrect bills. Inadequate maintenance caused hundreds of fire hydrants to freeze, hampering efforts to put out fires that consumed a church and other buildings.

Then, on Jan. 6, 2005, heavy rains swelled the White River and triggered a chain of system failures at the White River Treatment Plant. Officials issued a boil-water advisory, 40,000 schoolchildren took an unscheduled holiday and residents of the nation's 12th largest city learned they could no longer take their tap water for granted.

A federal grand jury, meanwhile, is investigating allegations that Veolia's Indianapolis unit falsified water-quality data.

Peter Gleick, president of the Pacific Institute, an Oakland think tank that studies water issues, said the rhetoric of privatization "has run into the brick wall of reality."

"I'm not opposed to privatization. I'm opposed to bad privatization," Gleick said. "If privatization is going to work, there really needs to be clear protection of the public good and clear standards for performance."

The water companies say the vast majority of cities are satisfied with their performance. In recent years, they say, more than 90% of municipalities with private water or sewer operators extended their contracts when they came up for renewal.

"We've had some jobs where we haven't done a fantastic job," said Scott Edwards, a vice president of Veolia Water North America. "But we have largely done a fabulous job…. We believe in what we do. We believe our story and we believe in the day-to-day results."

Veolia and Suez, the world's two largest water companies, moved aggressively into the American market in 1999.

Veolia spent $6 billion to acquire the nation's largest water company, USFilter. Suez, which already owned a third of United Water, a private firm based in Harrington Park, N.J., spent $1 billion to buy the entire company.

In 2003, Germany's RWE AG purchased American Water Works Co., based in Vorhees, N.J.

The European companies touted their size, financial wherewithal and expertise and they cultivated friends in city halls, state legislatures and Congress. They promised to provide solutions for cities struggling with aging pipes, tight budgets and tough environmental regulations. Over the last decade, major water firms have made more than $4 million in federal campaign contributions, according to the nonpartisan Center for Responsive Politics. The industry also has given generously to the U.S. Conference of Mayors.

The mayors' conference helped spark the industry's growth by lobbying the Clinton administration to strike an Internal Revenue Service rule that limited municipal utility management contracts to five years. The 1997 rule change cleared the way for 20-year deals.

The water companies say long-term contracts allow them to spread capital improvement and operating expenses over decades and provide lower-cost service. With the IRS change, the number of "public-private" water partnerships in the United States rose from about 400 in 1997 to 1,100 in 2003.

In pursuit of contracts, water companies have lobbied hardest at the local level, treating office holders to dinners, sports tickets, free trips and campaign contributions.

Companies competing to manage Atlanta's water and sewer systems in 1999 stocked their management teams with former city officials and political fundraisers for Campbell.

The City Council approved the $428-million contract with Suez and United Water in the hope that it would control costs and help the city comply with a federal consent decree aimed at stopping sewage overflows into the Chattahoochee River. The companies shifted hundreds of city water and sewer workers onto their payrolls.

Campbell called it "a great victory for the people of Atlanta," predicting that "every city in America will go to privately run water systems."

A few months later, Suez bankrolled a $12,000 holiday for Campbell and a companion in Paris, where the mayor posed for snapshots at Napoleon's Tomb and the Arc de Triomphe. Suez executives later said they'd intended Campbell's visit as a legitimate business trip, but Campbell met with company officials for just 2 1/2 hours during his five-day stay.

Meanwhile, complaints about water quality and unresponsive service proliferated, peaking in the summer of 2002.

Gordon Certain, president of a north Atlanta neighborhood association, said poor maintenance and equipment failures caused recurrent water main breaks and boil-water alerts, at times producing tap water "the color of very well-brewed tea."

Mayor Shirley Franklin, who succeeded Campbell in early 2002, said United Water and Suez neglected basic repairs, violated federal drinking water standards, failed to regularly flush impurities out of the system and billed the city for work not done.

Company officials blamed old pipes and power outages and said haphazard city records had made it impossible to calculate how much it would cost to run the system before they signed the deal.

The two sides agreed to terminate the 20-year contract in 2003, after four years. By then, FBI investigators were focusing on Campbell's relationships with a wide number of city contractors, including Suez.

In February 2006, during Campbell's corruption trial in federal court, a handwriting expert testified that Campbell had signed secret amendments to the contract that would have been worth as much as $80 million to Suez over the life of the deal. Campbell denied signing the documents or otherwise approving the $80-million increase.

In March, a jury acquitted him of taking bribes but convicted him of three counts of tax evasion, charges that prosecutors had supported with testimony about his extravagant lifestyle and trips paid for by Suez and other companies.

Suez officials say that their dealings with Campbell were proper and that he did not receive favors for helping the company on its contract.

Atlanta runs its own water system again and is spending $3.9 billion to upgrade the water-sewer infrastructure.

Atlanta and other cities looked to private companies after years of mismanagement and budgetary neglect left their public systems in poor shape.

In 1993, the failure of Milwaukee's waterworks to screen out a parasite led to a flu-like outbreak that sickened 400,000 people and killed more than 100.

Two years ago, Los Angeles agreed to a $2-billion sewer upgrade to settle allegations that the city had allowed thousands of spills.

Mayor Dean Mazzarella of Leominster, Mass., said private-sector expertise was a boon to his city of 44,000, which was struggling with a leaking waterworks until it struck a deal a decade ago with USFilter. The company designed and built a new treatment plant, and now Veolia, which bought USFilter, oversees Leominster's water and sewer operations.

"We've got nothing but good things to say," Mazzarella said. "They're such a big company, they have the ability to tap into a larger talent pool, to reach for people on the cutting edge of technology and understanding."

Water rights groups doubt such success stories will be widely repeated. Privatization breeds corruption and reduces accountability, they contend.

Earlier this year, residents of Toms River and Camden, N.J., complained about a lack of accountability after United Water admitted it had failed to warn customers about contamination of drinking water.

In Toms River, the company neglected to notify some customers for six months of elevated levels of naturally occurring radium in the water. In Camden, the company delayed reporting high readings of TCE, an industrial solvent that may cause cancer and liver damage.

New Jersey regulators fined the company $4,000 in Camden and $64,000 in Toms River.

Rich Henning, a United Water spokesman, said the reporting failure in Toms River was the result of confusion over a change in testing protocols. The company has replaced its local manager and is conducting an internal investigation.

"We have apologized profusely," he said. "We're doing everything we can to make sure that the water that gets to our customers meets all the requirements for safe drinking water."

Henning conceded that some privatization deals have disappointed customers because, in the push to win contracts, some companies took on too much risk. "We were kind of hitting each other in the head to get that next contract," Henning said. "I think now the companies that are still in pursuit of this marketplace are doing so in a much more refined, less risky and more mature way."

The industry's prospects for growth may hinge on whether Veolia's $1.5-billion contract with Indianapolis is judged a success.

Tim Hewitt, who took over as president of Veolia Water Indianapolis a year into the contract, said the company's early difficulties stemmed from a flawed billing system and other inherited problems that took time to fix.

But troubles have persisted, including the shutdown of the White River Treatment Plant in January 2005 and the federal grand jury investigation.

Roger Edlin, then the night shift operator at the White River plant, said the emergency developed when a computer glitch turned off a pump that adds disinfectants to the water. The problem overwhelmed the system, Edlin said, because Veolia had taken two reservoirs out of service and cut back on cleaning and repairing the plant's filters.

The company blamed Edlin for the shutdown and fired him. Edlin contends in a lawsuit that Veolia executives brought on the crisis by slashing maintenance and staffing to boost their bottom line.

Seven other current and former employees said in interviews that Veolia's budget tightening had left the waterworks in poor condition.

"You're sitting there holding your breath, hoping that your last pump didn't go down," said Jim Bullington, a plant operator who took early retirement in December 2004.

The company said its detractors simply can't accept the technological and managerial innovations Veolia brought to a tradition-bound work environment. Evidence of the company's progress, Veolia officials said, can be seen in a 2004 customer survey that showed 83% of customers were "totally" or "mostly" satisfied.

Hewitt said Veolia has invested in new equipment and fine-tuned operating procedures, improving water quality and allaying customers' long-standing concerns about the taste and odor of their tap water.

Federal and state authorities, however, are investigating whether the company has accurately reported results of water-quality testing.

Concerns about the company's testing prompted the Indiana Department of Environmental Management to conduct its own tests last fall.

Although the agency said it found no violations of safety standards, Thomas Easterly, head of the department, expressed concern that the readings showed higher concentrations of disinfection byproducts than the company had reported from its own tests for at least four years. The trace chemicals "raise a potential health concern," Easterly said.

Hewitt said he was confident the probe would find no wrongdoing.

Indianapolis is a showpiece for Veolia as it markets itself around the world, he said, and the company wouldn't jeopardize such an important contract by cutting corners.

"We have a lot at stake here," he said. "When our senior managers go to Beijing, they talk about Indianapolis. When they go to India, they talk about Indianapolis."

Water ownership battles playing out across U.S.

COMPANIES' THEMES, RHETORIC, TACTICS ARE SIMILAR, AS ARE COMMUNITIES'

By Andy Mead and Michelle Ku
HERALD-LEADER STAFF WRITERS

There was a group named FLOW and a subsidiary of American Water. There were yard signs, mass mailings and plenty of campaign rhetoric about public ownership of the water utility.

But it wasn't here.

Last year, Felton, Calif., a community of 6,000 in the Santa Cruz Mountains, mobilized its troops, went up against California American Water, a subsidiary of American Water Works, and won the first round in an effort to acquire its local water system.

Over three months, 60 volunteers visited every house in Felton three times, answering questions about why the water company should be publicly owned and what the financial impact of such a move would be.

California American launched a counter-campaign, saying the company was a good corporate citizen that delivered a good product and that property owners wouldn't save any money if the water district was publicly owned.

In the end, the community overwhelmingly voted to impose a property tax of between $600 and $700 per property owner to raise money to finance condemnation of its water system.

The same themes -- a wronged corporation defending itself and a band of citizens struggling against deep corporate pocketbooks -- have become standard in campaigns and water battles in towns across the country.

It's a campaign that will play out again in Lexington this fall.

The campaigns all have similarities: A subsidiary of American Water vs. a group named FLOW.

American Water has used the same Tennessee-based public relations firm in the skirmishes. The FLOW groups have had research and other help from a non-profit called Public Citizen and, since last year, from an offshoot called Food and Water Watch. Both groups are based in Washington D.C.

"We've definitely seen similarities, especially with folks telling us about campaign materials they have received from the corporation," said Victoria Kaplan, an organizer for Food and Water Watch.

Dan Kelleher, an American Water senior vice president, said he isn't sure how connected the various FLOW groups are, but adds that "you see the same words and presentations in different cities ... they certainly are working together to some degree."

But that's not to say each campaign has been the same. There have been significant differences in the wording and timing of referendums, and specifics on just what the voters were deciding.

Lexington's battle resumes

On Nov. 7, Lexington voters will decide whether the city should restart condemnation procedures against Kentucky American Water. It will be the latest round in a battle that has lasted more than four years.

Within days of Kentucky American's May 23 announcement that it would no longer oppose a referendum in court, the company and Bluegrass FLOW (For Local Ownership of Water) started making their campaign pitches.

Kentucky American sent an "update" mailer thanking people for allowing it to be their water utility and reiterating its belief that "the majority of our customers oppose condemnation of our water company."

FLOW sent out an e-mail saying that the "International corporate conglomerate RWE (which owns Kentucky American's parent company) has apparently decided it is cheaper to buy television than to pay lawyers."

Lexington's referendum will be especially interesting because of the seesaw struggle that preceded it (condemnation proceedings were started, then stopped), and because voters will choose a mayor and a new Urban County Council on the same day.

As Lexington gears up for the fall, voters could be hearing more about other battles across the country.

In California, for example, two small communities -- Montara and Felton -- successfully gained citizen support to impose a property tax to pay for the purchase of their portions of California American Water. Montara has since bought its water system.

But American Water won in the Monterey Peninsula when voters handily rejected a ballot measure to spend $550,000 to study condemnation of the water company.

In Illinois, Peoria's off-and-on attempts to acquire its water system died last year when a panel of three appraisers put a price the city couldn't afford on the company. In nearby Pekin, Illinois American won votes in 1994 and 2000. The FLOW side prevailed in 2002, but that state's version of Kentucky's Public Service Commission nixed the plan, saying it would not better serve the public interest.

Dennis Kief, Pekin's city manager, said the city learned through court documents that the water company spent $600,000 on the 2000 campaign and $500,000 on the 2002 campaign.

That was 10 to 15 times what the local FLOW group spent, he said.

Voters turned away from the water company in 2002 because American Water had been acquired by German conglomerate RWE since the 2000 vote, Kief said.

"I think people felt betrayed that they said the water company is not for sale and shortly afterward they did just that, they sold the water company," he said.

But Joe Conner, a Chattanooga attorney for American Water, said other factors were at work, including a distrust of foreigners in the wake of the terrorist attacks of 2001, and a confusing ballot question.

The ballot mentioned "the proposed sale of our local water company to a large, foreign corporation" and asked voters if the city should obtain the company "in order to preserve American ownership."

The phrase "American ownership" confused voters because Illinois American is owned by American Water, Conner said.

Felton's campaign

In Felton, voters approved spending up to $11 million in bonds to purchase the water system in July 2005. Once condemnation proceedings -- which haven't begun yet -- are completed, Felton would join the neighboring San Lorenzo Valley Water District.

Felton began its condemnation effort in 2002 when the water company applied for a 74 percent rate increase over three years.

In the campaign to get the bond measure approved, Felton FLOW (Friends of Locally Owned Water) emphasized a door-to-door walking campaign, said Jim Graham, spokesman for Felton FLOW. American Water put on a full-court press with mailings, door hangers, newspaper ads and automated phone calls.

In a relatively small community such as Felton, the one-on-one touch was key to winning the vote, Graham said.

But American Water will definitely have the edge in bigger communities like Lexington, Graham said. "They win in big communities where they can dominate the media, where they can trounce everyone."

During the course of the campaign, Felton FLOW received, anonymously, an American Water document laying out the company's strategy for the campaign against condemnation. It laid out step-by-step what Felton residents needed to do to condemn the company and how the company could counter those moves, including applying pressure to public officials and persuading voters that they wouldn't save any money.

But Kelleher, the American Water official, said the company eventually decided not to implement most of the plan, which he characterized last week as "old news."

The document included a sample letter supporting the company that was later sent out by the San Lorenzo Valley Property Owners' Association.

Said Kelleher: "We did have some support groups that were opposed to government ownership and they did ask what they could do, and we were glad to have their assistance."

The plan looks similar to one that Kentucky American filed with the Public Service Commission in 1997 on how to deal with opposition to a pipeline proposal.

Kelleher said what American Water and its subsidiary, Kentucky American Water, does in Lexington will depend in large part on what kind of campaign the pro-condemnation forces wage.

"The main thing we're going to do is provide good quality water, good quality service, and make sure the public has the factual information they need to make a good decision at the referendum," Kelleher said.

Foster Ockerman Jr., an attorney for Bluegrass FLOW, said the Lexington campaign will be run by a group called Vote Lexington.

The group formed last year when it appeared the referendum might be on the ballot in 2005. It raised about $17,000 and spent nearly all of that on yard signs and other costs.

The group has been in hiatus and has not yet geared up for the fall campaign, he said.

Former Mayor H. Foster Pettit, FLOW's chairman, said his side will be ready in plenty of time for the vote. He points to last year's successful petition drive to put the referendum before the voters as an indication of success in November.

"You'll find that RWE has the money, but we have the troops," Pettit said. "We'll be getting the same kind of people who signed the petitions and secured the signatures to work on the precinct level."

The Kentucky Registry of Election Finance has said the water company doesn't have to report how much it spends unless it solicits contributions from others. Kelleher declined to say how much the company might spend, but noted "the inference some of the FLOW people like to make is that we're doing something wrong because we spend money."

Pressure turned up in the war on water

Towns push to make service public again

By E.A. Torriero
Tribune staff reporter
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For many towns across the country, it once seemed like a good idea to have municipal water utilities in the hands of private companies.

Now, bristling against skyrocketing rates, spotty service and foreign ownership, a number of towns across Illinois and the U.S. are waging fierce battles to regain control of their drinking water. A host of them are fighting a German conglomerate that has snapped up more than 1,800 U.S. water utilities.

The battle is intensifying in Illinois, where German company RWE and subsidiary Illinois American Water own the water supplies for more than 1 million people in 125 areas of the state.

Responding to complaints, American Water held meetings last week in Homer Glen, Orland Park and Bolingbrook hoping to mollify angry customers. Instead, they tapped into a deep vein of frustration.

"Everything we hear is double-talk," said Debbie Litoborski of Homer Glen, who is fighting the company over an $800 bill. "Should we call Germany to get the answers we need?"

In most of the country, including Chicago and many suburbs, water service remains a public utility. About 15 percent of America's water business, however, is in private ownership. Those ranks have tripled in the last decade as cash-strapped cities seek ways to upgrade aging water systems by turning to private firms.

Nevertheless, a showdown is brewing in Illinois as a half-dozen communities are plotting to take over water systems. If they succeed, Illinois American could lose as many as one-third of its customers.

Grass-roots groups are forming statewide to exchange battle plans, hold rallies and plot strategies. Busloads of angry suburban residents descended on Springfield this spring, demanding help. In April, Urbana's Mayor Laurel Prussing flew 4,327 miles to chastise RWE executives and shareholders in Essen, Germany.

"I fired a diplomatic shot across the bow," she said. "I was there to show the flag and to let them know that Americans are offended by foreign intervention and corporate bullying. After all, it's our water, not theirs."

Nationally, government and community takeover attempts against the subsidiaries of Germany's RWE have lasted years and cost taxpayers and consumers millions of dollars for legal challenges, referendums and public relations campaigns.

In most instances, American Water--RWE's U.S. arm and the largest private water company in the country--has won. In the last 15 years, it has sold only three operations because of hostile challenges.

Bought by RWE for $7.5 billion in 2001, American Water has 1,800 operations in 29 states and three Canadian provinces, serving 18 million and generating $2.2 billion in revenues.

To the company, the threats are government piracy to thwart free enterprise. The backlash has split towns, torn apart councils and spawned court fights that landed in state supreme courts.

In Monterey, Calif., last year, the company went on a blitzkrieg advertising rush to defeat soundly a ballot issue calling for a public water utility purchase. In Chattanooga, Tenn., the company spent more than $5 million before fending off a city takeover in 2000. In Lexington, Ky., a bitter battle is now headed toward a November referendum.

In Illinois, in a blow to the company, state legislators passed a bill this session that would make it easier for communities to seize local water operations. The legislation is awaiting the governor's signature.

The Illinois challenges come at an especially delicate juncture for the company. Although American Water officials say none of the firm's individual units is for sale, RWE is pursuing a public stock offering for the whole of American Water.

If communities succeed in taking over even a few of its subsidiaries, the value of the public offering could be seriously eroded, company officials say.

In Illinois, the company defends its record despite two pending cases before the Illinois Commerce Commission and an aggregate complaint from the state attorney general over allegations of bad service and rate gouging in three Chicago suburbs.

In the last decade, water wars in Illinois have taken psychological and economic tolls. Seven years into its battle, Peoria decided last year against a water takeover after an appraiser put the price tag at a hefty $220 million. A few miles away, in Pekin, a takeover attempt was squashed when the Illinois Commerce Commission ruled in 2004 that Pekin was not capable of running the utility better.

Now, a half-dozen Illinois communities are bent on forcing Illinois American to the bargaining table.

Consumers became riled in Champaign-Urbana last summer, when failed pumps led to impure water on five occasions. Then, firefighters arrived at a blaze in Champaign to find two of three hydrant covers stuck shut. Illinois American describes them as isolated incidents, but a backlash had begun.

The company has been firing back with letters to consumers in Champaign-Urbana and telephone polls asking whether city officials' attentions should be elsewhere. They gathered central Illinois business leaders recently to warn that local officials were embarking on a costly fight.

Small Towns Tell a Cautionary Tale About the Private Control of Water

By Tim Reiterman, Times Staff Writer
May 30, 2006

In San Jerardo, a tidy but poor farmworker cooperative encircled by the black earth of Salinas Valley fields, residents have been drinking bottled water for almost five years because the tap water they buy from a private company is unsafe.

Nearby, families in the modest town of Chualar are still smarting over monthly water charges that in some instances ballooned by 1,000% or more.

And about 40 miles to the northwest, the Santa Cruz Mountains hamlet of Felton voted last year to tax each household up to $700 a year to take control of the local for-profit water system after the new owner proposed a series of rate increases.

These communities are fronts in a statewide battle over the price, quality and reliability of water that investor-owned utilities are supplying to nearly one in five Californians.

In the late 19th century, private companies delivered water to most of the state's homes and businesses. Today about 80% of the state's people live in large cities and towns served by publicly owned utilities. About 140 for-profit companies provide water to more than 6 million people, mostly in suburbs and smaller communities.

Supporters of government-run water systems point out that they, unlike investor-owned utilities, do not need to pay taxes or produce a profit. But big companies contend that they can operate with less overhead per customer.

At the core of the dispute are philosophical differences over whether an indispensable resource should be controlled by private firms.

In San Jerardo, a farming co-op of converted military housing several miles from Salinas, residents still are paying for their tap water, although it was declared unsafe in 2001 when Alisal Water Corp. found high levels of nitrates in a company-owned well serving the community of 250.

Since then, the company has been providing households with three five-gallon bottles of purified water each week for drinking and cooking. Residents complained that it was not enough.

Monterey County recently began providing 10 additional gallons weekly to families that needed more, said co-op manager Horacio Amezquita.

"It is better because people ran out of the 15 gallons," he said. "Right now, it is working, but when summer comes, people will use more water."

Down the street, fieldworker Manuel Alcala said he doesn't like paying $35 to $45 a month for tap water his family of five cannot drink — and that cannot be used to wash his baby's bottles. "The water is no good," he said.

In 2004, U.S. District Judge Jeremy Fogel fined Alisal and its owners $500,000 for violations of the Safe Drinking Water Act that Fogel said jeopardized the health of thousands of customers in several communities around the county. Federal officials said it was the largest penalty ever imposed on a water utility.

The judge ordered the sale of the company's eight small water systems. Investor-owned utilities with nearby service areas are buying the largest ones.

Residents of San Jerardo are still waiting for a clean, adequate water supply, though recently a public water district moved to acquire the co-op's system and devise a plan to remedy its water supply problem with government funding.

Marc Fairman, lawyer for Alisal, said that, despite the violations cited by the federal government, the Salinas-based company "never had any kind of serious health problems with their systems."

In nearby Chualar, residents who had been paying $21 per month for water got a rude introduction to privatization two years ago, when Monterey County sold the town's water system to California-American Water Co.

A monthly charge of more than $200 prompted Rebecca Trujillo, a farmworker whose husband owns a concrete business, to call Cal-Am's customer service line in Illinois. She said she was told there must be a serious leak.

But that was not the problem — and Trujillo was not alone. Some monthly bills exceeded $500.

With approval from the California Public Utilities Commission, which regulates investor-owned water companies, Cal-Am had started assessing Chualar customers the same rates as its customers in a Carmel Valley neighborhood of million-dollar homes.

The rates were designed to encourage conservation by steeply increasing charges for households that used more water than a typical family of four. But Chualar's households often are much larger than that.

When residents protested at a PUC meeting in San Francisco, Cal-Am agreed to restore the old rates until more reasonable ones could be developed.

The residents want rates tailored to their ability to pay. "Water is very special because three-quarters of our bodies are water," said Trujillo, surrounded by relatives in her bungalow. "It is more important to bring the water than food."

State and company officials concede they were at fault.

"The whole idea of setting rates based on…. an adjacent area is pretty shaky," said Fred Curry, water branch manager at the PUC. "It was a shortcut that the commission allowed Cal-Am to get away with, but it blew up in their face."

"We were running on autopilot," said Kevin Tilden, Cal-Am vice president of external relations. "Obviously the adjacent community was not the right template."

The backlash against water companies echoes events of the early 20th century, when many communities, rebelling against perceived profiteering by private companies, formed public agencies so they could control their own water.

"If the private firms do not deliver water of the quality people are looking for and they start charging a lot, it creates anger, resentment and a desire to do something about it," said retired UCLA history professor Norris Hundley, an expert on California's water history.

Many of the recent protests followed a burst of consolidation in the water industry, with larger companies acquiring smaller ones to expand their service areas and revenues.

The companies maintain that although mergers save customers money over time, rate hikes can be necessary to pay for fixing old, neglected pipes and plants and to meet stringent new water quality rules.

Private water companies say they do a more efficient job than publicly owned utilities by employing fewer people, sometimes spreading costs across multiple service areas and often moving faster to upgrade aging facilities.

The state PUC lets them charge rates sufficient to cover operating costs and reap a potential profit of about 10% on new facilities and other capital improvements. The PUC also has permitted some companies to pass on merger costs to customers.

Residents of several communities around the state have launched takeover campaigns after privately owned water companies proposed raising rates.

That is what happened in Felton — a town in the Santa Cruz County redwoods with an eclectic population of professionals, blue collar workers and retirees — after its new water purveyor, Cal-Am, sought a rate increase of about 74% over three years.

The town's old water company had been absorbed by Cal-Am's parent, American Water Works, which in turn was acquired by German conglomerate RWE AG.

Felton residents said their rates were higher than those in neighboring areas and that water should be controlled by public agencies.

"We have to draw the line on privatization," said Jim Mosher, a Felton lawyer. "Water is not an appropriate commodity to be in private hands….

"We are on the front line of a global issue," he added.

Residents launched a ballot initiative to finance a takeover with $11 million in bonds. In July, voters approved a bond measure that could obligate each household to pay $600 to $700 a year in extra taxes for three decades, up to $21,000.

Although Felton, with about 1,300 customers, represents fewer than 1% of Cal-Am's 180,000 customers, the company fears a takeover could have a domino effect and has refused to sell.

Water companies have defeated takeover efforts on the Monterey Peninsula and in the Fresno County town of Selma.

But residents of the San Mateo County beach town of Montara, tired of chronic water shortages, bought their privately owned water system for about $11 million in 2003.

Now, Claremont in the San Gabriel Valley and Fontana in San Bernardino County are exploring ways to put water systems under public control.

For decades, communities have debated whether privately or publicly owned water companies can provide better and cheaper service.

"I think you can have well run and poorly run public or private water companies," said Peter Gleick, president of the Pacific Institute, an Oakland-based think tank that has studied the issue.

State regulators say some private companies may do a better job of upgrading infrastructure than cash-strapped public agencies do, but such expenditures spur higher rates, partly because utilities are allowed to collect a return on their capital improvements.

"The only way they make a profit is on investment," said Curry of the PUC. "What I am seeing is costs for private companies increasing faster than the cost of public ones."

Consolidations of water utilities became more attractive after 1997, when the industry won a change in state law allowing them to shift more of their purchase costs to ratepayers.

The stated goal was to encourage the absorption of struggling, small water companies.

"In my opinion, this was a misdirection," Curry said, noting that numerous small companies had been swallowed up without such incentives.

PUC records show that, although water companies have made dozens of mergers and acquisitions since 1997, there were many more in the previous decade.

Sometimes costly problems go along with mergers.

In a single year, Long Beach-based Dominguez Water Corp. bought several other utilities before it was purchased in 2000 for $62 million by San Jose-based California Water Service Group, also called Cal Water, the state's largest water company.

The company told the PUC the merger would not result in a rate increase, because the $32-million premium it paid would be offset by efficiencies.

A few years later, however, the company proposed rate hikes to cover infrastructure improvements.

The PUC's consumer advocacy division chided Cal Water for failing to properly inspect the Dominguez systems before purchase and then charging customers for repairs on an overpriced acquisition.

People in Lucerne, a Lake County community of about 3,000 previously served by Dominguez, were shocked when Cal Water proposed a 246% rate increase for this year to help pay for a new treatment plant and storage tank and replacement of pipelines dating to the 1920s.

Hundreds packed the local senior center and decided to look into a takeover. In a survey, many residents said the rate increase would cause them to dig wells, move or cut back on food and medicine.

Cal Water Vice President Stan Ferraro said the system would have needed major improvements whether the company had bought it or not.

"Here comes a larger company and does the responsible thing, and the question is: How do they get paid in rates?" Ferraro said. "It is a tough issue, and one the state should look at throughout the state. Affordability is important."

The company is seeking a state loan to build the treatment plant and help avert a major rate increase.

Former PUC commissioner Henry Duque, who consults for Cal-Am and Cal Water, said companies may be partly to blame for the spate of consumer takeover campaigns.

Utilities sometimes alarm ratepayers by proposing excessively high rates as a strategy for gaining PUC approval, Duque said.

"If you're a utility, you have to know regulators are going to cut you back, so you come in high," he said.

He also said utilities fail to educate the public adequately about reasons for increases. "I keep telling water companies, 'You need to get across to customers that you are not jacking up rates

18% to make 18% more' " profit, Duque said.

As fights over rates continue, privatization is expanding. Some companies are contracting to run municipal systems, including two in Stockton that have a controversial 20-year, $600-million deal. In other cases, they contract to provide such services as billing, testing or maintenance to government-owned systems.

The debate over privatization has focused attention on the affordability of an essential commodity.

"We are beginning to see water bills approach the same levels as energy bills, and the needs of low-income households for water are at least as much as they are for energy," said Curry of the PUC.

"So we are trying to develop [a statewide] low-income program to see their needs are satisfied."

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(INFOBOX BELOW)

Water company campaign spending

California's 10 largest investor-owned water utilities spent more than $1 million from 2000 through 2005 on state and local political races and ballot initiatives.

Company	**Contributions**
California-American Water Co.	$491,064
Golden State Water*	157,353
San Jose Water	102,050
San Gabriel Valley Water	99,530
Suburban Water	73,816
California Water Service	72,486
Valencia Water	26,978
Great Oaks Water	23,116
Park Water	12,224
Apple Valley Ranchos	0
Total	**$1,058,617**

Compiled by Times researcher Maloy Moore.

Numbers include donations to political action committees and to campaign funds for candidates for governor, Assembly, state Senate and local offices.

*Formerly Southern California Water

Source: California Secretary of State

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