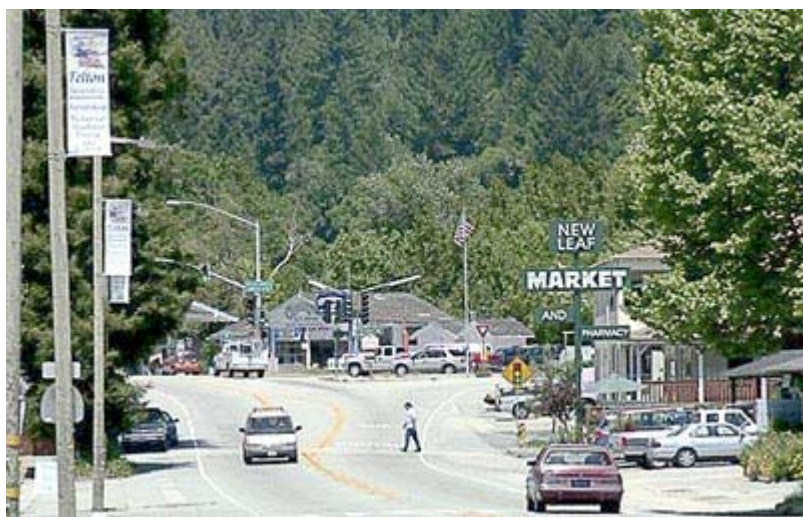


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Calls Rise for Public Control of Water Supply

By **JIM CARLTON**
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FELTON, Calif. -- The faucets in one of six U.S. homes pour water provided by a private company. Now, some of these communities are revolting against their corporate water systems, attempting to put their water under government control because of concerns over rising rates and service disruptions.



Residents of Felton, Calif., fought to bring back local control of the town's water, part of a backlash against a wave of privatization deals.

in May to sell the system to the local public water district, which Felton recently joined, for \$10.5 million in cash and assumption of \$2.9 million in debt.


Similar conflicts have flared up around the U.S. over the past few years -- part of a backlash against a wave of water-works-privatization deals in the U.S. that began in the 1990s as cash-strapped municipalities sought to defray the costs of upgrading old water plants and other infrastructure.

RWE earlier this year spun off American Water -- the nation's largest privately held water company -- in part because of the uprisings that have spread throughout the U.S. "Public resistance to privatization schemes of companies was growing" in the U.S., according to a Sept. 16, 2005, summary of the minutes from an RWE board meeting at which officials discussed why they potentially needed to divest American Water and another British unit.

In all, the U.S. Environmental Protection Agency estimates about 16% of Americans get their water from nongovernment sources, a number that has remained little changed over the past decade.

In some cities, "There's an aversion to getting involved with a private company," says Peter Cook, executive director of the National Association of Water Companies, an industry trade group based in

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Cheers broke out in a packed senior center near the mountain village of Felton on June 5, when the local water district officially wrested control of the town's water from a unit of **American Water Works Co.** Residents of Felton, 70 miles south of San Francisco, had been unhappy ever since the Voorhees, N.J., company bought their water system from another corporation in 2002 and proposed a 74% rate increase. Germany's RWE AG bought American Water in 2003.

Felton residents waged a years-long battle to bring their water back to local control. American Water finally agreed

Washington. Mr. Cook said more growth is likely to occur, though, as cities face having to rebuild expensive water infrastructure.

One common tactic that communities are using in this water fight is eminent domain, the power that cities and other local agencies have to seize a corporate water system in the public's interest. Earlier this year, the cities of Fort Wayne, Ind., and Cave Creek, Ariz., condemned all or parts of water systems owned by private companies because of issues including user complaints over service and maintenance. Scottsdale, Ariz.; Tiffin, Ohio; and Homer Glen, Ill.; have all this year initiated steps that could result in takeovers of local water systems.

Water-industry officials say they don't see any widespread customer backlash against private ownership. The take-back efforts in some communities represent only isolated resistance, says Dan Kelleher, an outside adviser and spokesman for American Water, which reports a continued increase in business. "I would argue that a mayor in Tiffin who wants to look into government ownership is not indicative of a problem," he says.

Mr. Kelleher says the vast majority of the company's 15.6 million customers in 32 states and the Canadian province of Ontario are "very satisfied with our service," and that some other efforts to take over private water utilities, such as in Lexington, Ky., have failed. He and other industry executives say rate increases are needed to help underwrite the cost of major upgrades to water systems.

In the case of Felton, Mr. Kelleher says the company's proposal in 2002 to raise rates 74% over three years was driven by the fact the town hadn't had a rate increase since 1998, while American Water needed to invest \$1.1 million between 2002 and 2005 to replace old facilities. The California Public Utilities Commission approved a 44% jump in the water rate. But many customers in the town of about 1,000 were still so incensed they formed a group called Friends of Locally Owned Water, or FLOW, and embarked on a campaign to force out American Water.

They gained support in the community as customers also began complaining of slower response times to broken water mains and other service glitches, as American Water routed accident reports to a national call center in Illinois. American Water officials have said the call center was designed to improve service.

One tactic by the opposition group was to persuade local Santa Cruz County officials to expand the boundaries of the adjoining San Lorenzo district to include Felton, so it would have condemnation powers over the water system there. Another was to get voters to pass a local ballot initiative -- Measure W -- in 2005, which allocated up to \$11 million in bonds to buy the water system and offset legal fees.

After American Water officials said the system wasn't for sale, the San Lorenzo district initiated eminent-domain proceedings. In May, the company agreed to the Felton purchase. "I think a handful of people [in Felton] felt government ownership was a better choice," says Mr. Kelleher, the American Water adviser.

Felton residents will see an almost immediate benefit. Over the past decade, their water rates have more than tripled to about \$180 a month. Now rates will drop to about \$80 -- what customers of the San Lorenzo district pay. "We're happy," says Jim Mosher, an attorney who helped lead the fight for FLOW.

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