



Corporate profile: RWE/Thames Water

England's worst polluter and its debt-choked corporate parent make for a toxic combination

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Thames Water is a giant British company, and is a subsidiary of an even larger German company, RWE AG. Thames topped lists of the worst polluters in the United Kingdom in both 1999 and 2000. The company's dismal record in 2002 may very well warrant a return to the top of the dubious lists yet again when regulators release their annual pollution tables for 2002 later this year.

RWE, meanwhile, is one of the world's largest energy giants with more than 640 subsidiaries worldwide and annual revenues of more than \$50 billion.¹ It's also racked up nearly \$27 billion of debt.² The company has all but admitted that it spent far too much for some of its acquisitions, including its purchase of the British energy company Innogy last year. Now the financial community is wondering if RWE's \$7.6 billion deal for American Water Works—the largest publicly held U.S.-based water utility with 16 million customers in 29 states and three Canadian provinces³--isn't similarly overpriced, and if the debt-loaded company isn't spread too thin.⁴

Thames is the operational manager of RWE's international water business, including the management of the U.S. properties owned by American Water Works. Thames/RWE is gaining yet more control of U.S. water and wastewater services by entering into an agreement with Operations Management International (OMI), a Denver-based firm, to pursue long-term operation and maintenance contracts with municipalities across the nation.⁵

Whether in the hundreds of utilities that RWE now owns, or in long-term monopoly lease concessions the corporation is pursuing, most notably in Stockton, Calif.,

Thames, as RWE's management arm, is going to be under tremendous pressure to fatten a bottom line for its debt-choked corporate parent. That could be a recipe for public health risks, environmental damage, corner-cutting and customer-gouging.

RWE's financial "Catch-22"

RWE acknowledges that it is paying a "premium" for American Water Works, which is to say RWE is shelling out more than the utilities' book value. And in state after state where RWE had to win regulatory approval, the company promised that customers would not be stuck with the tab. The company would cover the cost of the premium and grow future company revenues through expansion, not rate hikes to former American Water Works customers, RWE officials explained.

In fact, that's what RWE officials told the California Public Utility Commission in December 2002, as RWE was arguing that it should be allowed to acquire several water and wastewater utilities in California communities. "Let's not worry about that," said Thames Managing Director James McGivern, referring to the premium. "That premium is for the shareholders. It will never, ever be passed down to the customers of California-American."⁶

"This transaction is predicated on growth," McGivern added, proceeding to envision the corporate takeover of water and wastewater systems throughout the United States.

In effect, the company is telling its current customers that they won't have to pay more, but future customers will.

Or, as McGivern told the PUC, California customers subject to the American Water Works deal won't have to pay the premium, because the company will make up the costs of the premium elsewhere—"For example, we are the preferred bidder of a major project just up the road in Stockton, California where we will be working with the community there to run their water and wastewater services."⁷ Stockton is the first foray into long-term monopoly management contracts for the RWE/Thames in partnership with OMI, Inc.

How RWE will grow when it's already spread so thin—and given the substantial and growing public opposition to corporate control of water in the U.S.—is anybody's guess. In fact, RWE is in something of a “Catch-22.” It can't pay off its debt unless it grows, but it can't grow because it can't afford to take on more debt.

The pressure to cut costs and pad revenues is going to be intense, and the corporation's desperate struggle to climb out of debt will be a far higher priority than, for instance, spending money on water system maintenance or holding down consumers' water bills.

But then, the corporation is already exceedingly familiar with cutting corners, gouging customers and neglecting its responsibilities to the communities it serves

First in pollution, last in public protection

Dating back to 1999, Thames Water, the largest water and wastewater company in England, has been convicted of environmental and public health violations two dozen times and fined £450,000 (roughly \$700,000). The convictions are connected to Thames allowing raw sewage to flow into open waterways, over streets, onto people's lawns and over children's toys—even flooding homes, damaging houses to the point that families could no longer live in them. In 1999, Thames was successfully prosecuted for pollution eight times, more than any other company in England and Wales. In 2000, the company paid £288,000 in pollution-related fines, more than any other company that year.

In case after case, regulators and magistrates found that Thames was aware of conditions that led to raw sewage discharges and could have easily prevented the pollution.

But putting public health and the environment at risk, and a willingness to plead guilty and pay the occasional fine, appears to be integrated into Thames' corporate culture, and perhaps its business strategy. In 2000, a year when Thames led all polluters with £288,000 in fines, Barbara Young, chief executive of the Environment Agency for England and Wales, complained that the monetary punishment wasn't large enough to act as a deterrent to the private water industry. “The scale of penalties levied by the courts

makes pollution—and prosecution—an acceptable risk and an acceptable business expense for too many,” Young said.⁸

As details of some of the incidents leading to convictions in recent years illustrate, Thames has a skewed set of priorities and a dysfunctional corporate culture that tolerates harming the environment and the public.

1999—A ‘knowingly’ unique polluter

In 1999, Thames was prosecuted and convicted for environmental pollution eight times, the most of any company in England and Wales, and fined £79,000, the third-highest amount.⁹

One of the corporation’s more egregious violations stemmed from sewage discharge into the River Cray in Dartford in 1998. Vandals apparently broke into a locked compound and tampered with a sewage valve.¹⁰ A sewage trunk line to a treatment facility was shut down, resulting in sewage discharge to the river. Within minutes of learning about the problem, Environment Agency staff showed up at the site. Thames, however, “failed to respond appropriately.” Over more than four hours, an estimated 22,700 cubic meters of sewage made its way to the river.

Thames’ failure to promptly contain the discharge, and the corporation’s subsequent conviction in court, was “an unusual case,” the Environment Agency later reported, “as the defendant pleaded guilty of ‘knowingly permitting’ the discharge to the Cray.” Thames ended up paying more than £40,000 in combined fines and costs, the highest single fine for a sewage pollution case up to that time.¹¹

2000—Residents get sick of it

In 2000, Thames was fined £288,000 (about \$447,000), more than any other company in the Environment Agency tables and nearly twice as much as the chemical company that came in second.¹² The vast majority of fines levied against Thames, £250,000, stemmed from a single case—a case that was so offensive, the first magistrates to hear Thames’ guilty plea felt the scope of their punitive authority was insufficient, and they kicked the case up to a higher court.

Thanks to Thames committing what the Environment Agency characterizes as “a series of errors” and operating “illegal” equipment at a pumping station in southeast London, raw sewage and toxic industrial waste overflowed into a street and flooded nearby homes. Residents, including young children, suffered headaches, nausea and vomiting, and many were treated in hospitals.¹³ Ten houses were rendered uninhabitable, and Thames ended up purchasing most of them. Additionally, an estimated 22.5 million liters of raw sewage and industrial waste was pumped into the River Thames.¹⁴

As a result of the incident, Thames was fined £200,000 for disposing of controlled waste in a manner likely to cause harm to human health—the largest fine ever under the waste management law Thames had violated. A second charge hit the company for polluting the river, and resulted in another £50,000 fine. The company paid an additional £13,000 in costs. The court harshly criticized the company for its “complete disregard for human health and the environment.”¹⁵

2001—More ‘completely avoidable’ sewage

Thames slipped from its perch atop the list of most-fined corporations in England and Wales in 2001, though still managing to be fined £57,600. And while the amount the company was fined was relatively lower in 2001, the corporation’s total number of significant pollution incidents climbed 20 percent from 2000 to 2001.¹⁶

Moreover, the fines levied in 2001 suggest that the company is either incapable of learning from its mistakes or, simply finds polluting, and paying fines for pollution, to be an acceptable business practice.

In admitting to polluting waterways in 2001 by letting sewage overflow from a manhole cover at a pumping station, Thames was taken to task by the Environment Agency for essentially ignoring the incident and allowing the pollution to continue. The station had a history of sewerage overflows, and regulators warned Thames that more frequent maintenance was needed at the station—and that another overflow would result in prosecution. “This was something that Thames Water Utilities had been aware of for a number of years, and as such the incident...was completely avoidable,” said Environment Protection Officer Tessa Vandenberghe.¹⁷ Thames was fined 15,000 pounds.

2002—Worst of the worst again?

By the time the Environment Agency compiles its report on prosecutions and fines for 2002, Thames will assuredly feature prominently yet again, perhaps even reclaiming its dubious spot at the top of the heap. Through August 2002, Thames had been prosecuted five times and fined a total of £132,000.¹⁸

For several years, people in Surrey communities had been complaining about sewage gushing from manholes every time it rained heavily. On at least three occasions between May 2000 and February 2001, residents were disgusted with sewage several inches deep washing up over their gardens and yards, covering children's toys and play equipment, and leaving a slimy smelly residue behind. The sewage also seeped into heating ducts, stained carpets, and toilets and washing machines couldn't be used. Sewage came up into one elderly couple's shower. At least one small business owner suffered when sewage flooded the business, damaging a computer and other equipment. "Residents' complaints received little or no action from Thames Water," the Environment Agency reported. "The company was reluctant to accept responsibility for the flooding, saying that the pumping station seemed to be operating correctly. However at times of heavy rainfall the capacity was clearly inadequate." And though residents had complained for years to Thames about the overflows, "the area was not high on its list of priorities...It is unacceptable," the Environment Agency concluded, "that any citizen's quality of life should be affected in this way for such a prolonged time."¹⁹ Thames was fined £65,000 pounds.

But the Environment Agency was wrong. Knowingly allowing raw sewage to flow into streets, streams and even homes apparently is not unacceptable at all—at least not to Thames, as some of its other prosecutions this year illustrate:

- Due to inadequate maintenance at a pumping station, sewage was on several occasions flowing out of manhole covers and into surface waterways, blanketing stream beds with sludge and debris, including toilet paper, sanitary towels and condoms. "The Agency made repeated attempts to get Thames Water to outline a short and long-term solution to this known problem," the Environment Agency reported. "Thames Water could have avoided prosecution by taking this action before the run of

incidents” that led to the company’s prosecution, the agency said, adding, “Nearby residents have had to suffer the ongoing degradation of their local environment from these ongoing incidents.” Thames was fined £12,000 on Jan. 28.²⁰

- In April, Thames was fined £9,000 stemming from incidents that occurred in the winter of 2001. Informed not once but twice in February 2001 that sewage was flowing into a waterway, Environment Agency officials traced the source themselves. It turned out that Thames had contracted a company to fix the problem, but the contractor cleared the wrong sewer.²¹
- In August, Thames was fined £19,000 for an incident that killed hundreds of fish the prior November, when sewage discharged into the River Wey and subsequently into lakes in Hampshire. Thames’ contractors appear to have arrived on the scene in a timely fashion. However, “Owing to...Thames Water contractors coming to the end of their shift,” the blocked sewer that was the source of the discharge was not cleared until the following day. Magistrates who heard the case were stunned “at the exceptional levels of incompetence and lack of communication and liaison” that led to the pollution. “The pollution would not have had such a big impact if Thames Water had dealt with the blockage swiftly and efficiently,” according to the Environment Agency.²²

Putting profit first

Thames’ foul record is not confined to its home country. As part of a consortium operating a water and sewer system in South Australia in the mid 1990s, Thames was involved in slashing maintenance expenditures, leading to the failure of a primary sewage treatment plant in April 1997. For the next three months, the entire Adelaide metropolitan area was subject to, as the media dubbed it, the “Big Pong,” a rotten stench that created “universal annoyance and widespread health problems.”²³ A subsequent audit commissioned by the government of South Australia laid the blame clearly at the feet of the private consortium’s efforts to reduce costs. The Big Pong was the result of “failure

of the operators over several years to properly monitor the performance of the processes within the plant,” a failure “associated with a policy of minimising expenditure.”²⁴

Thames’ commitment to putting profit before people confined strictly to environmental concerns. Thames has been criticized for striking deals with the regime of President Suharto in Indonesia, a reign marked by human rights abuses. Thames’ Indonesian operations have been marked by repeated strikes by Jakarta water workers, and court cases alleging excess profiteering and contracts obtained through corruption.²⁵

According to an analysis by Public Services International, Thames has inflicted enormous rate hikes on its customers in England as well. Water bills levied by the company rose by 99 percent in actual pounds during the decade following the 1989 privatization of England’s water systems.²⁶ And in 1995, Thames slashed investment in infrastructure by £350 million, but that reduction in expenditures did not correlate with lower rates during that period of time.²⁷

Now the company is bringing its penchant for exorbitant rate hikes to the U.S. In Felton, Calif., one of the communities where RWE’s consolidation and acquisitions have placed a community’s water and sewer service under Thames management, the company is trying to immediately raise rates by 57 percent, and follow with 9 percent and 2 percent rate hikes over the ensuing two years.²⁸

One of the reasons Thames needs to gouge consumers in such an offensive manner is so that it can afford to reward corporate executives with equally offensive pay raises. Thames recently tripled the annual compensation package of its chief executive, Bill Alexander, to £1.4 million (\$2.2 million).²⁹

From the company’s point of view, Alexander is probably worth it. Pollution as a business strategy, combined with ramming through rate hikes at every opportunity, has been very successful for RWE’s water operations arm. Through the first half of 2002, Thames/RWE’s water business recorded sales of £1.4 billion, and earnings of £718 million pounds—an astounding 51 percent of sales. That is easily the highest earnings to sales proportion among RWE’s four core business operations.³⁰ Although the water business accounted for only 5 percent of RWE’s total revenues, it provided a whopping 22 percent of the corporation’s operating profit!³¹ (See table)

| | Sales (in million £) | Operating profit (in million £) |
|--------------------|----------------------|---------------------------------|
| RWE Total Business | 27,679 | 2,169 |
| Water | 1,404 | 476 |

Source: RWE report on first half of fiscal 2002

Corporations are in business to make money. But water is not just another product or just another commodity. Water is not a commodity at all, but a shared resource and a public trust. As Thames/RWE swoops in on the U.S., it brings along a relentless pursuit of profits that overrides any regard for public health and the environment. Citizens must be joined by civic leaders and elected officials at all levels of government to help keep this price-gouging reckless polluter from gaining control of a community's most precious resource, its water.

Notes³²

¹ RWE report on first half of fiscal 2002, pp. 4, 27.

² “RWE issues warning on net profits for 2003,” *Financial Times*, Dec. 17, 2002.

³ “RWE AG reports that American Water Works shareholders approve RWE merger agreement,” RWE statement, Jan. 17, 2002.

⁴ “Is RWE paying too much in U.S. deal?” *Wall Street Journal*, Nov. 18, 2002.

⁵ “OMI signs agreement to pursue selected new business opportunities in U.S. and Canada with Thames Water,” OMI statement, March 21, 2000.

⁶ James McGivern statement to California Public Utilities Commission, Dec. 12, 2002.

⁷ *Ibid.*

⁸ “Thames Water top UK polluter, says govt body,” *Reuters New Service*, Oct. 1, 2001.

⁹ “Spotlight on business environmental performance,” 1999, Environment Agency.

¹⁰ “Thousands of fish die in sewage spill,” *Daily Telegraph*, Sept. 28, 1998, referenced in AnimalNet, www.ansc.purdue.edu/courses/ansc481/animal_net.

¹¹ “Water pollution incidents in England and Wales 1999,” Report of the Environment Agency.

¹² “Spotlight on business environmental performance,” 2000, Environment Agency.

¹³ “Water firm fined for flooding homes with sewage,” *Daily Telegraph*, Feb. 22, 2000.

¹⁴ “Pollution incidents in England and Wales 2000,” Report of the Environment Agency.

¹⁵ “UK Developments: Cases” *BLG Pollution and Environmental Risk Digest*, Barlow Lyde & Gilbert, Issue 35, Summer 2000, pp. 4-5.

¹⁶ “Spotlight on business environmental performance,” 2001, Environment Agency

¹⁷ “Thames Water fined £15,000 for polluting River Wey,” Environment Agency, Dec. 4, 2001.

¹⁸ The amount of fines, and the 2002 dates the fines were announced in Environment Agency statements: £12,000, Jan. 28; £9,000, April 26; £20,000, May 9; £65,000, July 3; £19,000, Aug. 20; £6,500, Nov. 25.

¹⁹ “Sewage in shower earns Thames Water a £65,000 fine,” Environment Agency, July 3, 2002.

²⁰ “Thames Water fined £12,000 for pollution,” Environment Agency, Jan. 28, 2002.

²¹ “Thames Water fined £9,000 for pollution,” Environment Agency, April 26, 2002.

²² “Thames Water fined £19,000 for pollution in Hampshire”, Aug. 20, 2002.

²³ Quiggin, John, “Contracting out: promise and performance”. Australian National University, April 2002.

²⁴ K. J. Hartley, *Independent Audit of the Bolivar Wastewater Treatment Plant to Determine the Causes of a Major Odour Event*, Uniquet Limited, St Lucia, July 10, 1997, p. 56-7; excerpted and cited in Christopher Sheil, “Adelaide’s Big Pong,” and extract from *Water’s Fall*, Pluto Press Australia Ltd, Annandale, 2000, www.plutoaustralia.com.

²⁵ David Hall, “The Water Multinationals,” Public Service International Research Unit, University of Greenwich, September 1999.

²⁶ Lobina, Emanuele and David Hall. “U.K. Water Privatization – a briefing.” Public Service International Research Unit, University of Greenwich, February 2001.

²⁷ *Ibid.*

²⁸ Application of California-American Water Co. to the California Public Utilities Commission, Sept. 18, 2002.

²⁹ “Lobby groups query Thames Water pay,” *The Guardian*, Aug. 6, 2002.

³⁰ RWE report on first half of fiscal 2002.

³¹ *Ibid.*