



Corporate Profile

RWE

June 2005

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Introduction

German energy giant RWE was born in 1898 and throughout its history it has mainly focused its operations on energy-based utilities. Since 2000, however, it has embarked on a EUR 30 billion shopping spree which included the purchase of Innogy (UK energy company), Thames Water and American Water Works. The acquisition of Thames Water in 2000 and American Water in 2003, placed RWE in third spot behind Suez and Veolia Environment among the world's giant water privateers. Unlike Suez and Veolia Environment, however, RWE Thames Water focuses its operations on three fairly secure primary markets: Germany; the UK; and the United States. While their international presence is limited, RWE's role in pushing for an agenda of public private partnerships in the international forum should not be underestimated (see political profile below).

When RWE acquired Thames Water and American Water, it also assumed both companies' questionable contractual and environment track records. Thames Water (now officially known as RWE Thames Water), based in the UK, has regularly topped that country's list of the worst polluters and annually forks out hundreds of thousands of Pounds in fines to the British Environment Agency. Thames' record outside of its main British market is not much better. In Australia, for example, where the company is part of a consortium made up of Veolia Environment and Halliburton's Kellogg Brown and Root, Thames Water is involved with the problem (and odor) plagued privatization experiment in Adelaide (see below). Thames has also come under pressure in Indonesia over poor water quality and raised rates.

RWE Thames Water manages RWE's international water business, including American Water. Since RWE took over American, rate hikes for customers have become common. Instead of going for contracts in large US cities, where other large water multinationals have had problems (Suez, Atlanta), RWE Thames Water/American Water plans to expand into small municipal markets in the United States. This move is designed to limit financial risk.

This profile exposes RWE's political and institutional connections as well as provides a detailed snapshot of the group's operations and financial situation. Divided into 5 sections, the profile covers RWE's operations, economic situation, political connections, social and environmental track record and finally the company's institutional holders. An emphasis will be put on RWE Thames Water and American Water's operations.

The purpose of the profile is to look at many aspects of RWE's operations and dealings from a critical perspective. The information provided here will act as a tool for dissecting and analyzing certain parts of RWE in order to discern its strengths and vulnerabilities. The profile presents strategic information and intelligence on the corporation in such a way that will be useful for corporate campaigns.

Organizational Profile

As of March 2005, RWE employed 97,777 people worldwide

RWE is ranked 68th on the 2003 Fortune 500, and is ranked 32nd on the list of top European corporations by revenue

RWE AG
Opernplatz 1
45128 Essen
Germany
Tel. +49(0)201/12-00

RWE Thames Water
Clearwater Court
Vastern Road
Reading R618DB debauchery
Tel. +44(0)118/373-8000
Fax +44(0)118/373-8916

American Water
1025 Laurel Oak Road
Voorhees, New Jersey
08043
Tel. (856) 346-8200

1.1 RWE AG's operations

RWE's operations are split into the following six core management companies:

RWE Power: 20,000 employees, 9.2% of 2003 annual revenue – RWE Power is the RWE Group's power generator and one of Europe's largest. The business generates power from a number of different sources including: nuclear energy and lignite, produced in the company's mines in Germany; hard coal, gas, water, wind and biomass.

RWE Energy: 43,000 employees, 49.7% of 2003 annual revenue – RWE Energy, recently restructured to cover water services for continental Europe, is involved in the sale of electricity, gas and water. In 2003 it assumed the operations of former management companies, RWE Plus, RWE Gas-Group, RWE Net, and RWE Solutions. The company now offers its customers all energy and water services from a single source. RWE Energy supplies close to 25.5 million customers in a total of twelve regions in Germany and continental Europe. RWE Energy is the second largest supplier of electricity in Germany and third largest in Europe. Through RWE Aqua, RWE Energy's water division, the company is the largest private water supplier in Germany. RWE Aqua also serves a link between RWE Energy and RWE Thames Water. In 2003, RWE Aqua supplied Germany and Europe with approximately one billion cubic metres of water.

RWE Innogy: 12.6% of 2003 annual revenue – RWE Innogy, RWE's UK energy business formerly known as RWE npower, was fully consolidated into the group in 2003. RWE Innogy operates and manages coal, oil and gas fired power stations across the UK. The company also supplies electricity and gas to residential customers, small to medium enterprises and large industrial and commercial companies.

RWE Trading: 5.5% of 2003 annual revenue – RWE Trading is RWE’s hub for all tradable commodities such as electricity, gas, oil and coal.

RWE Thames Water: 20,000 employees, 9.6% of 2003 annual revenue – RWE Thames Water is third largest water services provider worldwide. The Thames Water Authority, based in Reading, England, was created in 1973 as a public utility by the UK Government and became a private company after the UK water privatization legislation in 1983. Acquired in 2001 by RWE, it now leads RWE’s Water division, which includes American Water (formerly known as American Water Works, see section below). The company focuses on two key markets: Americas and Europe, which center on North America and the UK; and three key regions, Americas, Europe and International. Thames Water claims that it has 70 million customers in 46 countries worldwide. In reality, however, a large portion of their customers are concentrated in a small geographical area. Half of their customers and 80% of their turnover can be found in the UK and the US.¹

RWE Thames owns the following subsidiaries:

- Thames Water International Services Holdings Ltd (UK, 100%)
- ESSBIO (Chile, 50.97%)
- E’town Corporation Inc. (US, 100%)
- Ondagua (Spain, 75%)
- Pridesa (Spain, 100%)

Some of the countries where RWE Thames Water has operations include: Australia, Canada, Chile, China, Croatia, Egypt, Germany, Hungary, India, Indonesia, Italy, Japan, Malaysia, New Zealand, Poland, Puerto Rico, Singapore, South Africa, Spain, Thailand, Turkey, UAE, United Kingdom, USA

American Water

In January 2003, RWE completed their acquisition of American Water Works, now known as American Water. The deal was worth US \$8.6 billion, which includes a transfer of US \$4.0 million in debt to the parent company. The sale was announced in 2001, however was delayed since each of the Public Utilities Commissions in each of the 27 states where it holds contracts had to first approve the transfer of ownership. Many public hearings before the commission showed that the public was not convinced that having a huge foreign corporation operate their water systems would benefit them. Concerns were raised that that RWE would use American Water to finance its huge debt by increasing rates and decreasing investment. Each state eventually approved the sale, with California being the last.

According to an RWE Press Release, American Water provides water and wastewater services to 15 million Americans in 27 states and 3 Canadian provinces comprising of over 860 utilities.² American Water now oversees RWE’s water business in North and South America as a wholly owned subsidiary of Thames Water. Bill Alexander, CEO of Thames Water, was appointed Chairman, President and CEO of American Water. In 2003 RWE Thames’ annual revenue increased by almost 50% because of the acquisition.

American Water is made up of 16 subsidiaries in the United States:

American Water Subsidiaries

Arizona American Water, California American Water, Hawaii American Water, Illinois American Water, Indiana American Water, Iowa American Water, Kentucky American Water, Long Island American Water, Missouri American Water, New Jersey American Water, New Mexico American Water, Ohio American Water, Pennsylvania American Water, Tennessee American Water, Virginia American Water, West Virginia American Water

RWE Umwelt: 4.4% of 2003 annual revenue – This management company is responsible for RWE’s waste-disposal and recycling activities. In Germany RWE Umwelt provides services to 216,000 industry, trade and retail customers. The company also performs contracts for a number

¹ De la Motte, R., “RWE-Thames profile”, Public Services International Research Unit, August, 2003

² “RWE completes acquisition of American Water Works” *RWE Press Release*, January 10, 2003

of municipalities primarily in waste disposal. It possesses 400 sites across Germany and operates 300 sorting, processing, recycling and treatment plants. RWE Umwelt also has operations in the Czech Republic and Hungary.

1.2 Contracts and transactions (with a focus on RWE Thames Water)

The following list of contracts provides a sense of where in the world RWE Thames Water is involved in the management and privatization of water systems.

October 2004: United Kingdom – Pridesa, RWE Thames Water's desalination specialist, announced that it will build a water desalination plant on the Thames river estuary. Three hundred million Euros will be invested in the project, which will supply 900,000 Londoners with approximately 150 million litres of drinking water a day by the end of 2007.³

September 2004: Sioux City, Iowa – American Water was awarded a 20-year \$114 million contract to manage, operate and expand Sioux City, Iowa's wastewater facility.

September 2004: Tampa Bay, Florida – American Water Services/Pridesa won a contract from Tampa Bay Water to repair its troubled desalination plant. The contract will be worth \$29 million dollars. Tampa Bay Water is a not-for-profit agency funded through the sale of water to its membership made up of municipal governments. The utility staff estimates that the repairs will increase the monthly cost of water by 72 cents.⁴

March 2004: Buffalo, New York – American Water raised water rates for the fourth time in less than a year for customers in Buffalo New York. The company was awarded the five-year contract in 2003.⁵

June 2003: United Arab Emirates – Thames Water won a 27.5 year US \$140 million contract to operate a new water system in the city of Ajman, United Arab Emirates. The contract value is expected to rise to US \$450 million by its completion and is the first privately funded venture in the Gulf.⁶

March 2003: New Jersey – Thames Water announced its intentions to merge its two companies, Elizabethtown Water Company and New Jersey- American Water, by 2004. The new company will be called New-Jersey American Water and will serve over 2 million customers in 178 communities.⁷

February 2003: Stockton, California – A partnership between OMI and Thames Water won a 20 year contract worth US\$600 million to operate the City of Stockton's water system, considered the largest deal of its kind in California.⁸

January 2003: United States – RWE acquires American Water Works for US\$4.6 million plus a transfer of US\$4.0 million in debt.

September 2002: Spain – Thames Water acquired a 75% stake in two Spanish water companies owned by Iberdola for EUR 94.5 million. Pridesa is a water treatment company specializing in

³ "Pridesa to supply drinking water to Londoners", El Pais, October 24, 2004

⁴ "Fix for desalination plant is set", The Miami Herald, September 22, 2004

⁵ Meyer, B., "Lawmakers Ask New Look At Water Operator", Buffalo News, March 12, 2004

⁶ "RWE arrives in the Gulf to fight drought in Arabia" *Finanza e Mercati*, June 6, 2003

⁷ "New leadership team of New Jersey-American Water announced" *PR Newswire*, March 17, 2003

⁸ Yong, P., "The State; Stockton puts water services in private hands" *Los Angeles Times*, February 21, 2003

desalinization technology and Ondagua serves 400,000 with water, wastewater and municipal services.⁹

July 2002: Croatia – Reported by Thames as being the “largest of its kind in Europe”, Thames won a 24-year contract to build and operate a wastewater treatment plant in the city of Zagreb, Croatia.¹⁰

June 2002: China – Thames Water paid US\$70 million for a 48.8% stake in China Water Company (CWC) making it the majority shareholder. CWC provides water to 2.9 million and waste water treatment to 2.5 million in Eastern China. Thames Water reportedly plans to merge its other operations in China with CWC to make it the largest water company in the country.¹¹

June 2002: Chile – Thames Water Chile merged two of their three operating units in Chile – Empresa de Servicios del Libertador (ESSEL, Region VI) and Empresa de Servicios Sanitarios del Bio Bio (ESSBIO, Region VIII).¹²

April 2002: Germany – RWE Aqua, a German subsidiary of Thames Water, increased its 14.3% stake to a majority share of 79.8% in Rheinisch-Westfälische Wasserwerksgesellschaft mbH (RWW) for EUR 233 million. With a customer base of over one million and facilities including 9 water treatment plants, 13 reservoirs and a hydroelectricity plant, Thames Water CEO Bill Alexander described that the sale “consolidated [Thames Water’s] presence as the largest water supplier in Germany...”¹³

April 2002: Poland – RWE Aqua gained a 34% share in a 24-year water contract to supply water to 135,000 in the city of Dabrowa Gornicza, Poland. This marks the third privatization project in Poland.¹⁴

January 2002: Montara, California – American Water Works won a contract to operate the City of Montara’s water system, subsequently sold to Thames Water in September.¹⁵

American Water Works bought the privately owned Citizens’ Utilities in the town of Montara serving 3,000. Montara’s water system had been privately owned for over 60 years. In December 2002, Montara residents won a victory to regain public control of their water system (See below).

December 2001: Chile – Thames Water bought an extra 25.5% stake in Empresa de Servicios del Libertador (ESSEL) from Electricidade de Portugal for EUR 77.8 million. The transaction gives them a majority total share of 51% - the other 49% is owned by the Chilean government- and a 20% share of the Chilean water market.¹⁶

November 2001: United States – Azurix, Enron’s failed attempt to enter into the water market, is acquired by American Water.

November 2001: Chile – Thames Water was the only bidder for a concession contract to upgrade the water plant Empresa de Servicios Sanitarios del Maule (ESSAM). Their bid of

⁹ Taylor, A., “Thames expands in Spain” *Financial Times (London)*, September 26, 2002

¹⁰ Thames Water, 2002 Annual Report

¹¹ “RWE invests in China water” *Borsten-Zeitung*, June 26, 2002

¹² Thames Water, 2002 Annual Report

¹³ “RWE raises stake in regional water group RWW to 74.9 pct for 194 mln euros” *Agence France-Press*, April 30, 2002

¹⁴ Thames Water, 2002 Annual Report

¹⁵ Gaura, M.A., “Water a hot commodity; Montara residents fight to seize system from overseas buyer” *The San Francisco Chronicle*, December 1, 2002

¹⁶ “RWE’s Thames Water buys EDP’s 25.5 pct stake in Chile’s ESSEL” *AFX.COM*, December 10, 2001

US\$171 million bought them the rights to Essam, which has 4.4% of the Chilean water market and about 150,000 customers.¹⁷

March 2001: Thailand – Thames Water International Thailand, in a 50/50 partnership with a Thai construction company, was awarded a contract worth US\$240 million to provide water to the cities of Nakhon Pathom and Samut Sakorn. Once it is complete in 2004, it will be one of the largest treatment plants in Asia. More than half of the funding came from local financial institutions and the rest from the World Bank's International Finance Corporation.¹⁸

October 2000: New Orleans, Louisiana – American Water Works gained the contract to operate and maintain the East Bank water treatment facility in Jefferson Parish, a suburb of New Orleans.

September 2000: Elizabethtown, New Jersey – Thames Water acquired through a merger E'Town Corporation, reportedly one of the "largest investor-owned utilities in the United States". E' town is the parent company of Elizabethtown Water Company, E' town Properties, Inc., Liberty Water Company, Applied Water Management, Inc., and Edison Water Company. Elizabethtown Water Company and its subsidiary, The Mount Holly Water Company, provide water service to 54 municipalities in eight New Jersey counties. In its 2002 Annual Report, Thames Water characterized Elizabethtown as having "outstanding performance".¹⁹

May 1997: Seattle, Washington – American Water Services won a 25-year contract to design, build and operate one of the largest water treatment plants at the time.

1996: Puerto Rico – Thames Water gained a contract to design, build and operate the US\$300 million Superaqueduct servicing 1.6 million people in 12 municipalities in the capital of San Juan.²⁰

1.3 RWE AG's executive committee and 2004 income

All figures in Euros

Executive	Position	Fixed compensation	Variable compensation	Total 2004 (including options exercised)
Harry Roels	President and Chief Executive Officer, since 2003	1,400,000	2,623,000	4,023,000
Klaus Sturany	Chief Financial Officer, since 1999	1,000,000	1,510,000	3,464,000
Berthold Bonekamp (since April 2004)	Member of the Executive Board, President and CEO of RWE Energy AG	375,000	692,000	1,703,000
Gert Maichel (resigned Feb, 2005)	Member of the Executive Board, President and CEO of RWE Power AG	680,000	1,222,000	1,902,000
Jan Zilius	Member of the Executive Board, and CEO of RWE Power AG	680,000	1,243,000	2,559,000

¹⁷ "Thames Water wins Chile' s Essam water utility concession with 171 mln usd bid" *AFX European Focus*, November 12, 2001

¹⁸ "2002 Annual Report" *Thames Water*; "Thames' Bt10 bn project marks watershed" *The Nation (Thailand)*, March 8, 2001

¹⁹ "Thames Water' s Acquisition of E' town Gains Regulatory Approval World' s Third Largest Water Service Provider Set to Expand in the US" *Business Wire*, October 13, 2000

²⁰ "Thames Water' s Acquisition of Ebwn Gains Regulatory Approval World' s Third Largest Water Service Provider Set to Expand in the US" *Business Wire*, October 13, 2000

[Source: RWE 2004 Annual Report]

1.4 RWE AG's supervisory board

The Supervisory Board is made up of 20 members, ten of which are elected by the General Meeting of RWE and ten of which are elected by the employees. The Board is the control body for RWE and its main function is to appoint, supervise, and counsel the Executive Board. It gives recommendations but no instructions to the Executive Board.

Thomas Fischer – Chair – Fischer was appointed Chair of the Supervisory Board in November 2004 following the sudden death of Friedel Neuber.²¹ Fischer sits on the supervisory boards of the following corporations: Audi AG; AXA Konzern AG; Hapag-Lloyd AG; HSH Nordbank AG; Amvescap Plc; DekaBank Deutsche Girozentrale; KfW.

Frank Bsirske – Deputy Chair – Chair of ver.di Vereinte Dienstleistungsgewerkschaft. Bsirske sits on the supervisory boards of the following corporations: Deutsche Lufthansa AG; IBM Central Holding GmbH.

Paul Achleitner – Member of the Board of Management of Allianz AG. Achleitner sits on the supervisory boards of the following corporations: Allianz Global Investors AG; Bayer AG; MAN AG.

Carl-Ludwig von Boehm Beznig – Former member of the Board of Management of Deutsche Bank AG. Von Boehm Beznig sits on the supervisory board of the following corporation: Rutgers AG.

Wilfred Donisch – Chair of the Works Council of SAG Netz-und Energietechnik GmbH.

Ralf Hiltenkamp – Chair of the General Works Council of RWE Umwelt Westfalen GmbH & Co. KG.

Heinz-Eberhard Holl – Former Chief Administrative Officer of Osnabrück Rural District

Berthold Huber – Trade Union Secretary of IG Metall. Huber sits on the supervisory boards of the following corporations: Audi AG; Heidelberger Druckmaschinen AG; Siemens AG.

Dietmar Kuhnt – Former President and CEO of RWE AG. Kuhnt sits on the supervisory boards of the following corporations: Allianz; Dresdner Bank AG; Hapag-Lloyd AG; HOCHTIEF AG; mg technologies ag; TUI AG; Societe Electrique de l'Our S.A.

Gerhard Langermeyer – Mayor of the City of Dortmund

Dagmar Muhlenfeld – Mayor of the City of Mülheim/Ruhr.

Josef Pitz – Chair of the General Works Council of Heidelberger Druckmaschinen AG

Wolfgang Reiniger – Mayor of the City of Essen

Gunter Reppien – Deputy Chair of the General Works Council of RWE Power

Bernhard von Rothkirch

²¹ "Thomas Fischer To Be Appointed Supervisory Board Chairman Of RWE", Die Welt, November 6, 2004

Manfred Schneider – Chair of the Supervisory Board of Bayer AG. Schneider sits on the supervisory boards of the following corporations: Allianz AG; DaimlerChrysler AG; Linde AG; Metro AG; TUI AG.

Klaus-Dieter Sudhofer – Trade Union Secretary of IG Bergbau, Chemie, Energie

Uwe Tigges – Chair of the General Works Council of RWE Westfalen-Weser-Ems AG

Karel Van Miert – Professor, Nyenrode University. Van Miert sits on the supervisory boards of the following corporations: Agfa-Gevaert N.V.; Anglo American plc; De Persgroep; Koninklijke Philips Electronics N.V.; SOLVAY S.A.; Wolters Kluwer N.V.; Vivendi Universal S.A.

Jurgen Wefers – Chair of the Works Council of RWE Rhein-Ruhr AG

Erwin Winkel – Chair of the General Works Council of RWE Power AG

1.5 RWE Thames Water Executive

In 2002 Bill Alexander was given an enormous pay raise from Pounds 572,000 to Pounds 1.4 million. His new salary included a one-off bonus for a number of takeover deals. The pay raise drew criticism from consumer groups.²²

Bill Alexander – Chief Executive Officer

Jeremy Pelczer – Deputy Chief Executive of RWE Thames Water and President of American Water since 2003

Werner Boettcher – Managing Director Europe

Tim Weller – Chief Financial Officer, Thames Water

1.6 American Water's Executive Board Members

Bill Alexander – Chairman and CEO

Jeremy Pelczer – President

Dietrich Firnhaber – Senior Vice President, Strategy and Planning

Dan Kelleher – Senior Vice President of Business and Technical Services

Jim McGivern – Chief Operating Officer

Ellen Wolf – Chief Financial Officer.

²² Moore, M., "Fury over water chief's pay", The Daily Telegraph, August 6, 2002

Economic Profile

2.1 Financial Data – RWE AG

Results for 2003

All Figures in Euros.

Key Figures	2004	2003	%Change
Revenues	42.13 billion	43.87 billion	(4)%
Net income	2.13 billion	953 million	124.2%
Net debt	12.38 billion	17.83 billion	(30.6)%

(Source: RWE 2004 Annual Report)

Results for the first three quarters of 2004

All Figures in Euros

RWE Group	Jan-Sept 2004	Jan-Sept 2003	% change	Jan-Dec 2003
Revenue	29.94 billion	31.93 billion	(6.2)	43.87 billion
Net income	1.61 billion	732 million	120.1	953 million
Net debt	14.52 billion	17.83 billion	(18.6)	

(RWE AG Press Release, <http://www.rwe.com/generator.aspx/templated=renderPage/id=76864?pmid=4000287>)

2004 Revenues by Business

Business	2004	2003	%Change
RWE Power	2.91 billion	4.07 billion	(28.4)
RWE Energy	22.4 billion	21.84 billion	2.8
RWE npower	5.60 billion	5.55 billion	1
RWE Trading	3.82 billion	2.44 billion	56.4
RWE Thames Water	4.06 billion	4.24 billion	(4.3)
RWE Umwelt	1.83 billion	1.94 billion	(5.9)
Heidelberger Druckmaschinen	1.35 billion	3.65 billion	(62.8)
Other	87 million	109 million	(20.2)
RWE Group	42.13 billion	43.87 billion	(4.0)

(Source: RWE AG 2004 Annual Report)

RWE Thames' jump in annual revenue from 2002 to 2003 can be attributed to the consolidation of American Water.

2004 Revenues by Geographic Region – RWE AG

Region	% of Annual revenue
Germany	54.8%
UK	20.0%
Rest of Europe	16.6%
Americas	6.2%
Asia/Africa/Australia	2.4%

(Source: RWE AG 2004 Annual Report)

2004 Revenue by Geographic Region – RWE Thames Water

Region	2004	2003
Europe & Other Markets	2.26 billion	2.33 billion
Regulated UK business	1.68 billion	1.60 billion
Americas	1.80 billion	1.91 billion
Total	4.06 billion	4.24 billion

(Source: RWE AG 2004 Annual Report)

2.2 Debt

For the past few years RWE has been working towards lowering its debt-load. The company's debt grew to EUR17.8 billion in 2003 (15.4 billion in 2002) after acquiring American Water. In 2004 the company's debt dropped to EUR12.4 billion.

2.3 Markets/Future plans

RWE's 2004 annual report states that the company is pursuing two objectives: one, to focus on energy and water, their core businesses; and two, is to limit their presence to their core markets in Germany, the UK, Central Eastern Europe and the North American Water sector.²³ In 2003 the Group's annual report said that RWE Thames Water would in future focus on "further acquisition of small-scale water activities in areas adjacent to our existing operations".²⁴ Thames Water and American Water will continue with a strategy of looking to small municipalities instead of big cities to expand their operations. On the heels of United Water's (Suez) negative experience in Atlanta in 2003, it seems as if the big water giants are looking to limit their risk by focusing on smaller communities to set up shop.

In the UK and Germany, RWE's approach is to provide 'one stop shopping' for customers. Because of what it calls cost advantages, the company wants to supply electricity, gas and water from a single source. This approach is not likely to extend beyond RWE's main European markets since it has sold its energy companies in the US and focuses on water services elsewhere.²⁵

The company has stated that it will continue to centre its efforts on its main markets in the UK and the US. However, it does have a foothold in a number of important international markets, including Chile, China, Turkey and Indonesia. RWE Thames Water may be looking to expand in these areas if it can limit its financial risk. If recent contracts for the construction of desalination plants in the US (Florida) and the UK are any indication, the company's technical expertise is expanding into new arenas.

2.4 Joint Ventures

RWE Thames has entered into a number of joint ventures with the world's two water giants, Suez and Veolia/Vivendi. Emanuel Lobina and Stuart Hall from the Public Services International Research Unit say that smaller companies like RWE Thames Water will join forces with the two biggest water services multinationals in order to establish themselves in the market.²⁶ This strategy limits their ability to compete with the two largest water services companies. It could also either limit or increase potential reputational risk if, for example, when blame from problems

²³ RWE AG 2004 Annual Report

²⁴ RWE AG 2003 Annual Report

²⁵ *ibid*

²⁶ Lobina, E., Hall, D., "Problems with private water concession: a review of experience", Public Services International Research Unit, June 23

caused by their joint venture partner falls equally on both parties.²⁷ Some of RWE Thames Water's main alliances with Veolia/Vivendi and Suez include:

Veolia/Vivendi:

United Water – In 1995 Thames Water formed a consortium with Vivendi and Halliburton KBR. In 1996 the consortium signed a \$1.5 billion contract with the city of Adelaide in Australia. Since its inception, United Water has been plagued with a number of problems (See social profile below). The consortium, known as United Water, operates and maintains the filtration plants, water network, sewerage network and sewage treatment plants for the City of Adelaide, serving a population of some 1.5 million people. Operations include six water treatment plants, four major sewage treatment plants, 8600 km of water network and 7,000 km of sewers. United Water also has contracts in two locations in the State of Victoria and one in New Zealand.

Berliwasser – In 1999, RWE entered into a joint venture with Vivendi. Both companies own 24.95% while Land Berlin retains 50.1%. The companies took over Berlin's water services after they were partly privatized.

Suez:

Budapest Water – RWE Thames Water formed this joint venture with Suez in 1997. The company, Budapest Waterworks, operates a network of 4,700 kilometres and a major water treatment plant.

2.5 Public Relations

In early 2004, RWE AG launched a pan-European public image campaign with the motto "Somebody has to be there". The goal of the campaign was to construct an image of the company as a caring partner in the energy and water services sectors and was targeted at top decision makers, analysts and investors. The campaign was developed by German agency Philipp und Keuntje. RWE's Deputy Head of Group Communications said that the campaign played "a key role in further establishing RWE as a quality brand across Europe".²⁸ In early 2004, Thames Water took on advertising agency M&C Saatchi as their new ad agency.²⁹ Zenith Optimedia has also been hired by Thames Water.

RWE Thames Water also uses its affiliations with international institutions, such as the United Nations and non governmental organizations to promote an image of social and environmental responsibility (see political profile below).

2.6 Lawsuits

Anticompetitive practices

- In September 2003 German Antitrust authorities raided the offices of dozens of German-based waste management companies, including RWE, on suspicion of antitrust and criminal activities in bidding for waste disposal contracts. Authorities suspected that the waste management companies had fixed bids for contracts from a German recycling company.³⁰

²⁷ de la Motte, R., "RWE-Thames profile", Public Services International Research Unit, August 2003

²⁸ RWE press release, "'Somebody has to be there' – RWE launches new image campaign", March 3, 2004, <http://www.rwe.com/app/presse/Anzeige.aspx?id=4000011>

²⁹ "Olympic bid win boosts ad agency", Birmingham Post, September 15, 2004

³⁰ Gassman, M., Harnischfeger, U., "Cartel office hits companies in crackdown on waste bids", The Financial Times, September 12, 2003.

Political Profile

3.1 Political connections

Jan Zilius – Member of Executive Board at RWE, Human resources and Law. He is appointed an honorary judge at the Federal Labour Court in Kassel, and is Labour Director and Member of Executive Board at Rheinbraun AG.

Marilyn Ware – Ware is a former Chair of the Board at American Water Works Company (1997-2003). She remains involved in RWE as a member of the Economic Advisory Board and the International Advisory Council of Thames Water. During 2002, she served as a member of President George Bush's National Infrastructure Advisory Committee. She is a member of the Board of Trustees and the Executive Committee of The American Enterprise Institute for Public Policy Research in Washington, D.C. and currently serves on the United States Advisory Board of the Committee to Liberate Iraq. She is a pews oceans commissioner – an independent group of "American leaders" finding ways to protect US living marine resources.³¹

William Marrazzo – Marrazzo was appointed to the position of independent board member at American Water in 2003. He served for 17 years as an executive with the Philadelphia Water Department, including nine years as its chief executive. The Philadelphia Water Department is one of the nation's largest regional and wastewater organizations.³²

Victor Mercado - former President of Thames Water Puerto Rico, is now the new head of the Department of Water and Sewerage for the city of Detroit.³³

Burkhard Drescher – Mayor of the city of Oberhausen

Gerhard Langemeyer – Mayor of the City of Dortmund

Wolfgang Reiniger – Mayor of the City of Essen

Heinz-Eberhard Holl – Former Chief Administrative Officer of the Osnabruck Rural District

3.2 Affiliations with big business associations and other international agencies

Big business associations are indispensable tools for corporations like RWE for public relations and in their search for new markets. The following associations predominantly function as lobby groups for big business to convince national governments that the global water industry is the best choice for managing water and sanitation services. Maude Barlow and Tony Clarke note that organizations such as these appear "to be neutral...but a closer look reveals that these agencies promote the privatization and export of water resources and services through close links with global water corporations and financial institutions."³⁴

European Union – In 2002 during General Agreement on Trade in Services negotiations at the World Trade Organization, the European Union asked 72 WTO member states, many of them

³¹ Pews Ocean Commission, Commissioner biography, http://www.pewoceans.org/commissioners/commission_19107.asp

³² American Water press release, "American Water elects three independent board members", October 22, 2003, <http://www.amwater.com/awpr/news/news3409.html>

³³ McConnell, D., "Detroit mayor is expected to name new water chief; Director led overhaul of \$300 million system, plant in Puerto Rico" The Detroit News, June 12, 2002

³⁴ Barlow, M., Clarke, T., "Blue Gold: The Battle Against the Theft of the World's Water", Toronto: Stoddard, 2002, p. 157.

from the South, to open their water and waste water management systems to international competition. Corporate Europe Observatory, a European corporate watchdog group, reported that the European Commission, which coordinates the EU's position at the WTO, worked closely with large water services multinationals, including RWE, when putting together their position for the GATS negotiations.³⁵ Privatizing water markets through the GATS is in the interest of large water multinationals and may make the privatization of water services irreversible.

United Nations Global Compact – RWE is a participant in the Global Compact, the United Nations' effort to push for more corporate responsibility. The Global Compact is an agreement based on ten principles of human rights, environmental protection, labour rights and corruption designed to promote 'responsible corporate citizenship'.³⁶ The Global Compact is a voluntary initiative which is not defined as a binding set of regulations nor as a code of conduct for companies. UN Secretary General Kofi Annan defines the Global Compact as a dialogue forum to promote mutual learning among corporations. To become members of the Global Compact, a corporation's CEO must send a letter to Secretary General Kofi Annan expressing support for the Compact and its principles, set in motion changes to business operations so that the Compact will become part of the company's business strategy, culture and day-to-day operations. Compact members are also expected to publicly advocate the Global Compact through press releases and speeches. In a statement released by EarthRights International in June 2004 in response to the UN's Global Compact Leaders' Summit, the group said that the Global Compact "cannot adequately address corporations' negative social and environmental impact...[it] distracts Governments and the UN from necessary steps to establish an effective intergovernmental framework on corporate accountability...[it] provides little but a public relations cover for global corporate malefactors."³⁷

Ecosense – RWE is a member of this group comprised of large German companies and organizations. Ecosense is the initiative of the Federation of German Industries and is dedicated to presenting the private sector as part of the solution to 'sustainable development'. Ecosense is also an official partner of the World Business Council for Sustainable Development (WBCSD), a coalition of 170 international companies which claims to be committed to sustainable development through "economic growth, ecological balance and social progress". The WBCSD's mission is to "provide business leadership as a catalyst for change toward sustainable development, and to promote the role of eco-efficiency, innovation and corporate social responsibility". The WBCSD is a notorious "greenwasher" responsible for presenting itself and its members as environmentally friendly and compassionate. It sees large corporations as the best avenue for 'sustainable development' and believes that corporations should be the leaders in meeting the United Nations' Millennium Declaration Goals (MDGs) for water. Their website states: "There is an emerging consensus that governments need strategic alliances with business and other key stakeholders to meet these goals for water and sanitation".³⁸ The group's membership boasts such environmentally and socially responsible corporations as, British Petroleum, Chevron/Texaco and Shell.

National Association of Water Companies (NAWC) – American Water is a member of the NAWC, an industry association created to represent the private and investor-owned water utility industry. The NAWC is a lobby group designed to develop strategies to respond to federal or state legislation that affect the US water industry or markets.

World Summit on Sustainable Development – Thames Water was invited by Tony Blair to form part of the UK consortium at the United Nation's 2002 Earth Summit in Johannesburg. The move

³⁵ Corporate Europe Observatory, "WTO and Water: The EU's Crusade for Corporate Expansion", Infobrief #3, <http://www.corporateeurope.org/water/infobrief3.htm>

³⁶ Global Compact website: <http://www.unglobalcompact.org/Portal/Default.asp?>

³⁷ "Joint civil society statement on the Global Compact and corporate accountability", June 23, 2004, <http://www.earthrights.org/news/ngogcstatement.shtml>

³⁸ World Business Council for Sustainable Development website, <http://www.wbcscd.org/templates/TemplateWBCSD5/layout.asp?type=p&MenuId=ODI&doOpen=1&ClickMenu=LeftMenu>

brought criticism when it became clear that Thames Water would be traveling on public expense and that Blair was not inviting UK Environment Minister Michael Meacher (Meacher was later included). Two days after it was announced that Thames Water would be ‘defending the environment’ in Johannesburg, RWE made public their threat to cancel jobs unless the EU made favourable adjustments to their carbon dioxide controls.³⁹ Thames Water was also a partner in the European Union’s water initiative presented at the Earth Summit that actively promoted public-private partnerships.

Water Partnership Council (WPC) – American Water is a member of the Water Partnership Council, a water and wastewater industry group that was started in 2001. The WPC promotes public-private partnerships before the U.S. Congress and the Environmental Protection Agency.⁴⁰

WaterAid – WaterAid is a UK based non-governmental organization whose stated goal is “to help poor people in developing countries achieve sustainable improvements in their domestic water supply, sanitation and associated hygiene practices”. WaterAid presents its concern for the struggles of water deprived people around the world, while simultaneously promoting the operations of large multinationals like Thames Water. Though WaterAid has been critical of private sector involvement in water services, it also has ongoing and historical links to the water services industry. On its website WaterAid boasts of a ‘flagship partnership’ with Thames Water. WaterAid’s website states that, “WaterAid is Thames Water’s principal charity and the partnership forms a key part of the company Corporate Social Responsibility programme.”⁴¹ Since 1989, Thames Water has raised close to Pounds 14 million for WaterAid. In addition to its relationship with Thames Water/RWE, WaterAid has ‘international partnership’s’ with such industry giants as Suez⁴², through its subsidiary Northumbrian Water, Anglian Water and Severn Trent. Multinational water services corporations are also very well represented at WaterAid’s policy making level. WaterAid’s 2005 Board of Directors, includes the president of RWE subsidiary New Jersey American Water, Andrew Chapman; its 2005 Board of Trustees includes, John Sexton, the former Managing Director of Thames Water Utilities (retired 2005); and WaterAid’s Honorary President Marilyn Ware is a member of RWE’s Economic Advisory Board and is also a member of Thames Water’s International Advisory Council.⁴³

3.3 Campaign contributions

RWE, like most large multinationals, spends large amount of money on contributions to political campaigns. Donations target candidates that will most likely push for legislation and policies that will be in the interest of the corporation. Data is only available for RWE’s US subsidiary, American Water.

	1998	2000	2002	2004
Soft Money ⁴⁴	\$60,000 (100% to reps)	\$272,650 ⁴⁵ (100% to reps)	400,126 (80% to reps, 20% to dems)	
PAC ⁴⁶		\$44,100 ⁴⁷ (66% to	\$32,900 (61% to	\$1,000 (100% to

³⁹ Monbiot, G., “Money talks when it comes to deciding green issues”, The Irish Times August 22, 2002

⁴⁰ <http://www.waterpartnership.org/>

⁴¹ WaterAid website, accessed September 12, 2005, http://www.wateraid.org.uk/get_involved/international_partnerships/365.asp

http://www.wateraid.org.uk/about_us/organisation/44_usa.asp

⁴² see Polaris’ Suez profile, http://www.polarisinstitute.org/corp_profiles/public_service_gats_pdfs/updated_Suez.pdf

⁴³ WaterAid website, accessed September 12, 2005, http://www.wateraid.org.uk/site/about_us/organisation/44.asp

⁴⁴ Soft money encompasses any contributions not regulated by federal election laws and is considered by many to be a political loophole. The exemption was made to encourage “party-building” activities which benefit the political parties in general, but not specific candidates. In reality however, the loophole has emerged as the parties’ primary means of raising tens of millions of dollars from wealthy contributors during the fall presidential campaigns, when direct contributions to candidates are prohibited.

⁴⁵ Includes \$350 donation from American Water subsidiary, West Virginia American Water

		reps, 24% to dems)	reps, 39% dems)	dems
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Controversy

In late 2004 the general secretary of Germany's right wing Christian Democratic Union was forced to resign when it was disclosed that he had been receiving a full salary plus bonus for months after receiving his job with the party. Laurenz Meyer, who had worked for RWE since 1975, received a full monthly salary from the company between June 2000 and April 2001 in addition to an extra payment of 66,500 euros.⁴⁸ He began working for the party at the end of 2000.

3.4 Corporate Welfare

All of the biggest water multinationals receive funding from international financial institutions such as the World Bank and the IMF. Even the United Nations recognizes this phenomena saying that "they [water multinationals] are all subsidized, receiving export credits, and sharing in the benefits of development loans to the countries in which they agree to do business".⁴⁹ The following is a list of some of RWE's history of loans and financing from various government and lending agencies.

2004: Bulgaria – In July 2004, RWE Nukem, RWE's nuclear power subsidiary, was awarded a EUR49 million contract for the construction of a spent fuel storage facility at the Bulgarian nuclear power plant Kozloduy. The project is financed with funds from the Kozloduy International Decommissioning Support Fund, which is managed and administered by the European Bank for Reconstruction and Development.⁵⁰

2004: Estonia – RWE was awarded the contract to build a pulp mill in a EUR153 million project in Estonia. The European Bank for Reconstruction and Development invested EUR5 million in the project.⁵¹

2004: Pennsylvania – In 2004, Pennsylvania's Public Utility Commission granted Pennsylvania-American Water \$15.5 million to cover security costs it says it incurred after September 11th 2001. A state consumer advocate said the recovery was illegal retroactive rate-making. No other utility in the state applied for retroactive post 9/11 security costs. The charge will result in rate increase for customers.⁵²

2003: Chile – Thames Water has received millions of dollars in funding from the International Finance Corporation (IFC) for a water and sewerage services contract in Chile. The IFC provided \$70 million in loans for the project.⁵³ The project is located in Chile's VII Region, which covers a total area of 30,302 km². The IFC is a member of the World Bank Group and states that it "promotes sustainable private sector investment in developing countries as a way to reduce

⁴⁶ PACs are political committees organized for the purpose of raising and spending money to elect and defeat candidates, most PACs represent business, labour or ideological interests

⁴⁷ Includes \$650 donation from PAC representing American Water subsidiary, Pennsylvania American Water

⁴⁸ "Setback for Germ party over payments to top official", Deutsche Presse-Agentur, December 19, 2004

⁴⁹ Statement of the 5th Global Civil Society to the 8th Special Session of the UNEP Governing Council/Global Ministerial Environment Forum, Background paper no. 7, August 2004, <http://www.un.org/esa/sustdev/csd/csd12/Background7.pdf>

⁵⁰ European Bank for Reconstruction and Development press release, "Fuel storage facility for Bulgaria's Kozloduy nuclear power plant", June 4, 2004

⁵¹ European Bank for Reconstruction and Development press release, "Second-largest foreign direct investment to Estonia signed", May 4, 2004

⁵² DeKok, D., "Pennsylvania Public Utility Commission move to assist water supplier draws fire", The Patriot-News, June 23, 2004

⁵³ International Finance Corporation website,

<http://ifcfn1.ifc.org/IFCExt/spiwebsite1.nsf/0/3425eea653fe1d5b85256d0800734bd4?OpenDocument>

poverty and improve people' s lives.⁵⁴ In practice, the group provides support to big corporations in their quest for ever expanding markets.

2001: Croatia – The European Bank for Reconstruction and Development provided EUR55.2 million in financing for the construction of a wastewater treatment plant in Zagreb. The contract is managed by Zagrebacke Otpadne Vode d.o.o., a special-purpose, limited liability company incorporated in Croatia and owned by a sponsor consortium consisting of RWE AQUA GmbH (owned indirectly by RWE) and SHW Hölter Wassertechnik GmbH (fully-owned subsidiary of Berlinwasser Holding Aktiengesellschaft).⁵⁵

⁵⁴ International Finance Corporation website, <http://www.ifc.org/about>

⁵⁵ European Bank for Reconstruction and Development press release, “EBRD helps Croatia' s Zagreb clean up its waste”, December 14, 2001

Social Profile

4.1 Problem contracts

2002: Turkey – In September 2002, a water consortium which was granted a contract to build and operate a water plant in the industrial city of Izmit about 90 km from Istanbul, was asked to renegotiate its contract based on allegations of misconduct and financial problems. The consortium, in which Thames Water has a 48% share, was granted the country's first BOT contract in 1995 for the £570 million water plant with a capacity of 480 million litres per day. Completed in 1999, the project required the construction of a 110 meter by 400 metre dam creating a 600 billion litre reservoir and 90 km pipeline.⁵⁶ State auditors claim that the plant cost more than necessary – more than double its proposal! They also claim that because the price of the water is too high, there are not enough customers to make it viable and municipalities that had promised to buy water made no provisions for the transaction in their budgets. Meanwhile, the State of Ankara Treasury office is reportedly paying US\$387 million for unsold water. Allegations of misconduct point to past and present Treasury officials for approving a government guarantee for the project without sufficient and accurate information. *The Financial Times* reported that Thames Water defended the project “as having been ‘within budget’ and representing ‘value for money’. [Thames] rejected ‘superficial comparisons’ of cost given that ‘no other similar project has been delivered in Turkey’ under a build-operate-transfer (BOT) structure”.⁵⁷

1995-2004: Australia – In 1995, Adelaide privatized its water services when it awarded United Water, a consortium of Vivendi (now Veolia Environment), Thames Water and Halliburton's Broun and Root, a \$1.5 billion contract. The bidding process was characterized by irregularities that resulted in two government investigations and an inquiry by a parliamentary committee. United Water failed to deliver on many of the promises that were at the centre of its contract bid. While water prices quickly went up and jobs were cut by 33 percent, United Water began making excellent returns off of the project. Since the project began, United Water's profits have increased every year. In 1997, just over a year after winning the contract, the city was overwhelmed by a strong sewage smell. The odor remained for over three months and was eventually tracked to Adelaide's largest wastewater treatment plant. Equipment failures and a lack of monitoring allowed raw sewage to run directly into settling lagoons for six days while a gate was being repaired. The State Government eventually paid \$72 million to upgrade the plant.⁵⁸

Indonesia – PAM Jaya a water company owned by the state, and in cooperation with Thames Pam Jaya (TPJ) and Pam Lyonnaise Jaya (Palyja), made a proposal in October 2002 to raise water rates by 35% in Jakarta. This comes just one year after another 35% rate increase. PAM Jaya still reportedly owes the World Bank Rp1.7 trillion and has posted Rp 700 billion in losses since 1997. Consumers have complained that the water company has no right to raise water rates for the poor quality of water and service they provide. A government hydrology expert found that the water could be unclean due to a poor filtering system. Various other studies, including those conducted by the Indonesian Consumers Foundation and University of Indonesia, have found high levels of metals and detergents in the same water PAM Jaya withdraws their sources.

The 25-year cooperation agreement with the two foreign companies was met with a month-long strike by the 2,000 employees of the state-owned company who were protesting both foreign ownership and Thames Water's involvement in a previous partnership with former president Suharto's son, Sigit Hardjojudanto, during Suharto's reign of human rights abuses. Sigit withdrew

⁵⁶ Boulton, L., “Thames Water defends its role as Turkey probes water project” *Financial Times (London)*, September 5, 2002

⁵⁷ “Turkish officials under investigation over possible misconduct” *Global Water Report*, September 9, 2002

⁵⁸ de la Motte, R., “RWE-Thames profile”, Public Services International Research Unit, August 2003

from the partnership regarding water company PT Kekar Pola Airindo and sold his 20% stake to Thames Water for US\$410,000 in May 1998 after the fall of Suharto. A lawsuit was filed by seventeen lawyers in Indonesia claiming that Thames' partnerships were illegal and the contracts were not being awarded fairly.⁵⁹

1994-2004: Hamilton, Ontario – In September 2004, the citizens of Hamilton gained a major victory when city council voted against the renewal of a contract with American Water to operate the city's water and wastewater plants.⁶⁰ Ten years earlier, Hamilton became the first major Canadian city to privatize this type of service. The original contract was awarded to a local company, Philip Utilities Management Corp which was later sold to Azurix North America, a subsidiary of the now infamous Enron. Azurix was acquired by American Water in November 2001 for \$140 million dollars.⁶¹ The contract covered operation of the main water-treatment plant, three communal well systems, three sewage treatment plants, six sewage storage tanks and a number of reservoirs and pumping stations. The municipality remained in control of the city's water mains, sewer pipes and water testing.

The private operators were the focus of a decade-long fight against the privatization of water in Hamilton. In January 2004, a coalition including the Canadian Union of Public Employees, the Council of Canadians and the Canadian Catholic Organization for Development and Peace along with support from local activists, spoke against the continued privatization of the city's water services at a Hamilton city public works commission meeting. At the same meeting, the public works commission rejected the coalition's calls and voted 6-3 in favour of retaining a private company to handle the city's water.⁶²

Privatization seemed less inevitable after it was revealed in September 2004 that the bid put together by American Water would be amount to CND\$39 million a year, far higher than the \$24 million the city had been paying annually. After the first bid was disqualified, the company submitted a new bid of CND\$13 million. American Water said that the new bid would meet the same technical requirements, without some of the 'risks' involved in running the plants. The experience with privatization in Hamilton shows that the corporation had been able to avoid risks through various loopholes in the contract, including one where the corporation was only responsible for maintenance and repairs that cost less than CND\$10,000. The loophole created an incentive for the private company to overlook responsibilities until major repairs were needed.⁶³

In mid-September 2004, City Council voted to return the operation of the utility to the municipality, thus ending Hamilton's experience with privatization. Prior to the vote, American Water had attempted to pass an injunction to block the vote and reportedly invested \$600,000 on their effort to win the contract.⁶⁴

Kentucky – The City of Lexington, Kentucky, has been embroiled in a long and nasty debate over Kentucky American Water's operation of the municipality's water services. The struggle began in July 2003, when the Urban County Council, in Urban County Kentucky gave final approval to condemning Lexington's foreign controlled water works. The move toward condemnation began soon after RWE AG announced its intention to buy American Water, putting

⁵⁹ Junaidi, A., "Water company slammed for plan to hike charges" *Jakarta Post*, October 28, 2002; "Clean water, clean gov't?" *Jakarta Post*, September 2, 2002; "Foreign Co's want to continue coop with Indonesian water co" *Asia Pulse*, April 27, 1999; "PDAM Jaya sued over cooperation project" *Jakarta Post*, September 12, 1998; "Thames Pam Jaya announced" *Emerging Markets Datafile*, August 18, 1998

⁶⁰ McGuinness, E., "City to operate water system", *The Hamilton Spectator*, September 16, 2004

⁶¹ American Water press release, "American Water Works Company Completes Acquisition of Azurix North America", November 7, 2001, <http://www.amwater.com/awpr/news/news1310.html>

⁶² McGuinness, E., "Push for public water suffers setback", *The Hamilton Spectator*, January 20, 2004

⁶³ Canadian Union of Public Employees press release, "Hamilton water back in public hands", September 16, 2004, http://www.cupe.ca/www/hamiltonwater/Hamilton_water_back_in_pu

⁶⁴ *ibid*

the foreign ownership of natural resources at the center of the debate. Condemnation advocates also feared continued rate increases if the utility remained in private hands.⁶⁵

The corporation immediately began a legal and public relations campaign to fight for their survival in the community. For over a year, a local grassroots organization, FLOW (For Local Ownership of Water), with the support of Lexington's mayor and a number of city counselors, struggled to condemn the contract and return the services to the public domain. However, they finally suffered a devastating defeat in the November 2004 elections, when pro-privatization candidates won a number of seats on the Urban City Council, creating a strong mandate to end condemnation.

Well funded anti-condemnation candidates waged successful campaigns with the ability to purchase more media time and send out more direct mail, increasing the profile of their agenda. The company, while unable to directly fund candidates, did heavily influence public opinion by sponsoring an anti-condemnation citizens' group, Coalition Against a Government Takeover. While superior financing had a great impact, pro-condemnation candidates admit that their response to the company's campaign was ineffective.⁶⁶

In the end the people of Lexington will get what they voted for, a 16.4% rate increase and sustained corporate control over their precious natural resources. Kentucky American supplies water to 108,000 customers in 10 counties. The company is asking to increase its annual revenue by \$7.3 million. If approved, the average monthly residential bill would increase from \$18.65 to \$21.50.

Arizona – In the community of Anthem in Phoenix, Arizona-American Water is asking for rate hikes so that they can achieve a 7.75 percent profit from the water supply and waste water systems they have operated since 2002, which currently bring in 5.87% and 1.72% respectively, translating into a rate increase of about 33% over two years. Arizona-American also wants to raise rates in Sun City, Sun City West, Agua Fria, Mohave, Havasu and Tubac.⁶⁷

California – In Montara, where water rates have increased 43% over seven years and American has been pushing for another 20% increase, over 80% of voters have pushed for a public takeover of their water system. In December 2002, the California Public Utility Commission ordered RWE to reach an agreement to sell their Montara operations to the community by March. The sale price has not been set but voters had approved a \$19 million bond to ensure they can regain public control. The communities of Felton and Thousand Oaks are taking similar action. Thousand Oaks reportedly has the highest water rates in the county and pay 1/3 more than city systems.⁶⁸

Tennessee – In Chattanooga, Tennessee-American is proposing a 12.7% rate increase, although company officials insist that it is not being driven by the ownership change.⁶⁹

Illinois – The Illinois-American Water company was granted a rate increase of approximately 9.7 percent in late 2002 by the Illinois commerce Commission. The rate hike increased monthly bills from \$29.09 to \$31.84 a month. The rate increases were reportedly to offset the cost of enhance security measures and replace aging infrastructure.⁷⁰

⁶⁵ "Urban County, Ky., Council approves condemning Lexington's Water Works", Lexington Herald-Leader, July 2, 2003

⁶⁶ Stamper, J., Ku, M., "Voters' message: End condemnation", Lexington Herald-Leader, November 7, 2004

⁶⁷ Anchors, S., "Anthem residents fight water rate hike" The Arizona Republic, April 16, 2003

⁶⁸ Liedtke, M., "Local utility not only one to be absorbed" Chattanooga Times Free Press, February 9, 2003; "Montara has a message" San Mateo County Times (San Mateo, CA), December 27, 2002; Griggs, G.W., "Sale of Thousand Oaks Water Utility to German Corporation Approved" Los Angeles Times, December 20, 2002

⁶⁹ Liedtke, M., "Local utility not only one to be absorbed" Chattanooga Times Free Press, February 9, 2003

⁷⁰ Pawlaczyk, G., "Electronic Security Is Coming", Belleville News-Democrat, April 28, 2004

Missouri – In April 2004, the Missouri Public Service Commission (PSC) approved a plan to freeze Missouri American Water rates until the end of 2005. The decision ended a debate between the company, who wanted to increase revenue by \$20 million, and the PSC who was pushing for a decrease of \$20 million.⁷¹

New Jersey – The state Board of Public Utilities approved a 9 percent rate increase for New Jersey-American Water customers in South Jersey. The increase will generate an additional \$24.1 million in annual revenue for the corporation while customers will pay \$3.45 more a month. The corporation was seeking a 20.6 percent increase.⁷²

New York – Rates for Buffalo New York residents were raised twice within 6 months between 2003 and 2004. The first 11.8 percent hike took effect in July 2003 while the second jump of 23 percent happened in January 2004. American Water Systems administers the area's water system.⁷³

Pennsylvania – In February 2004, the Municipal Authority of Robinson sought an emergency order from the Public Utility Commission to block Pennsylvania American-Water from supplying water to a neighboring community – which lacks a water treatment facility – at undercutting prices. The community of Robinson had been selling the bulk of its water to the Western Allegheny County Municipal Authority for more than 20 years. When the contract ended in late 2003, the community accepted American Water's offer of lower prices and short contract terms. Authorities in Robinson see the deal as "a classic bait and switch", where the company offers below market prices to land the contract while using revenues from other customers to offer the lower rates. Robinson filed the complaint after their business dropped by 30 percent, saying that the company illegally undercut prices. Pennsylvania state law requires companies to only lower rates in order to protect existing customers, and to not expand business by stealing customers from competitors.⁷⁴

West Virginia – In March 2004, West Virginia American Water filed a request with the state Public Service Commission for a 19.4 percent rate increase. At the time of the most recent request, the company already had a rate increase case pending before the state Supreme Court. Both requests have met with protest from concerned citizens. West Virginia American serves about 164,000 customers in Boone, Braxton, Cabell, Clay, Fayette, Harrison, Kanawha, Lewis, Lincoln, Logan, Mason, Mercer, Putnam, Raleigh, Summers, Wayne and Webster counties.⁷⁵

California – Friends of Locally Owned Water (FLOW, feltonflow.org) A grass-roots organization in Felton California, North of Santa Cruz, received backing from the Santa Cruz County Board of Supervisors for the financing of a buy-back of the area's water system from California American Water. Residents in Monterey have formed a similar group looking to buy back their utility. Since June 2004, California American Water has applied to the state Utility Commission for three major concessions including: an emergency rate hike; the consolidation of Felton and Monterey districts; and for the approval to build a desalination plant and for direction on a proposed water connection moratorium.⁷⁶

Stockton, California – In February 2003, the City of Stockton approved a 20-year \$600 million contract with an OMI-Thames Water partnership privatizing the City's municipal wastewater, water and stormwater utilities. The deal was made even though over 18,000 citizens had signed a ballot initiative that would require voter approval of any contract over US \$5million. The ballot was to come up only one month later during a special election but city officials decided to award the

⁷¹ "Regulators sign off on Missouri-American rate freeze through 2005", The Associate Press, April 7, 2004

⁷² Kummer, F., "State allows 9 pct, increase in water rates", Philadelphia Inquirer, February 20, 2004

⁷³ Pignataro, T.J., "Water Rate Increase Draws Protest", Buffalo News, December 5, 2003

⁷⁴ Lin, J., "Small municipal authority takes on big investor-owned utility", The Associated Press, February 4, 2004

⁷⁵ "West Virginia American Water seeks \$19 million rate hike", The Associated Press, March 12, 2004

⁷⁶ Hennessey, V., "Groups join forces to protest water company", Monterey County Herald, September 22, 2004

contract before the public could 'officially' voice their opposition. Citizens were concerned about Thames' documented environmental performance in the UK and its plans to expand rapidly in the United States, which many felt would be financed through its operations in Stockton (i.e. water rate increases). Stockton mayor Gary Podesto responded: "Sure, Thames Water was fined \$700,000 in Britain, but that's nothing when you're serving 10 million people. We service a quarter-million people in Stockton, and we were fined \$100,000 for a single spill a couple years ago."

OMI/Thames was selected due to a report conducted by Parsons-Engineering for the City, which concluded that OMI/Thames' bid would be cheaper than a public system. Former director of the Stockton public utility, Morris Allen, alleged, however, that there were two reports produced – the first one had concluded that the public system would be cheaper to run based on a different water treatment technology. Even the second report was dubious - the company was predicting estimated savings of about US\$154 million to \$175 million annually, however, the Pacific Institute, an Oakland environmental research group, estimated it would cost the city \$1.7 million annually more. Allen was reportedly fired shortly after posing challenging questions to OMI/Thames and City officials about accountability and financial viability.

A Petition has been filed under the California Environmental Quality Act (CEQA) by citizen groups including Public Citizen and the Sierra Club against the City of Stockton. The Petition argues that the two proposals were not compared based on environmental performance and standards, and the awarded contract does not comply with the CEQA and its Guidelines.⁷⁷

Toronto, Ontario – American Water, through Terratec Environmental Ltd., which it purchased in 2001, is under contract with the City of Toronto to dispose of treatment plant solid by-products by spreading it on farms in Ontario. According to Thames Water, "the biosolids are of major benefit to the farming community in the area, and we now apply some 25,000 tonnes of dry biosolids to over 7,000 acres of land a year, working with over 100 farm operators across the [province]." In 2003, a new 4-year contract was approved for Terratec to remove 50,000 tonnes of dry sewage sludge by spreading and disposing it at a Michigan landfill site. Sewage sludge contains many byproducts including pathogens and heavy toxic metals, which are difficult to test for.

Some municipalities have passed bylaws prohibiting the farm sludge. Melancthon Township, just 1.5 hours north of Toronto is in a battle with Terratec and the City of Toronto after it passed a bylaw limiting sewage sludge spread to areas where groundwater protection is vital. Terratec has appealed to the Ontario Superior Court of Justice arguing that the town has no jurisdiction and the case will be heard on August 29, 2003. Phil Sidhwah, President of Terratec, was quoted in *The Toronto Star*, "the agricultural population of Melancthon, they really like the stuff. They want it, and they don't understand why the public is against it, or a small group of the public... We don't want to go and harass people unnecessarily. But here is a municipality imposing a bylaw, involving itself in a program where provincial regulations supercede bylaws".⁷⁸

4.2 Environment

⁷⁷ Yong, Peter H. "The State; Stockton puts water services in private hands" *Los Angeles Times*, February 21, 2003; "Stockton citizens stand to lose in proposed privatization deal" *Public Citizen*, February 11, 2003; Daffodil Altan, Molly Bentley, Mark Hertsgaard, Chris Van Bebber "Profit of tap? Stockton braces for a decision that could drastically change the way California's most precious resource is handled" *The San Francisco Chronicle*, February 9, 2003; "Stockton City Council ignores public on water privatization, opts to negotiate contract with multinational entity" *Public Citizen*, October 16, 2002. *Public Citizen* reports available at www.citizen.org.

⁷⁸ Lakey, Jack "Rural residents fight Toronto sludge" *The Toronto Star*, August 11, 2003; "Toronto Staff Report: Biosolids Beneficial Use Program Land Application Contract Award" *Commissioner of Works and Emergency Services, The City of Toronto*, April 22, 2003

United Kingdom – Thames Water has a dismal environmental record in the UK. According to research by Public Citizen, from privatization in 1989 to 1997, Thames was successfully prosecuted for environmental violations 31 times and has been fined over £450,000. From 1999-2002, it has been convicted 24 times with fines amounting to approximately £480,600. The UK Environment Agency for England and Wales reported Thames as the worst environmental polluter in both 1999 and 2000. In 1999 alone it was prosecuted 8 times – more than any other company in England or Wales. In 2000 its fines reached \$450,000 – again, more than any other company in the area. That year, in southeast London, a pumping failure at a Thames Water plant released about 22.5 million litres of raw sewage into the River Thames and neighbouring houses, making people sick and rendering 10 houses uninhabitable due to toxicity.

In 2001, the number of significant episodes of pollution rose by 20%, and in 2002, although it was only the third most significant polluter, the value of its fines rose 134% and it had 50% more incidents of pollution than any other water company!

In 2003 RWE Thames Water was fined 60,000 Pounds for 5 events and was involved in 40 serious incidents. In one incident in 2003, a failure at a pumping station allowed raw sewage solids and debris to flow into Arford Stream. The stream flows into three lakes, all of which were grey and smelled of sewage. High levels of ammonia caused by the sewage killed all of the fish in the lake closest to the stream. Commenting on the incident, the Environment Agency said, “this incident was avoidable, and if the company had acted promptly the fish would not have died”.⁷⁹

As of November 2004, RWE Thames Water had been fined 85,000 Pounds for four major incidents. In one incident, the corporation was fined 50,000 Pounds for polluting a five mile stretch of the River Thame killing an estimated 15,000 fish. The discharge of millions of litres of untreated sewage was blamed on failures at Thames Water’s sewage treatment plant in Aylesbury. An Environment Agency Officer said: “Companies must ensure they maintain equipment for the protection of the environment to a high standard, as failure to do so can have a serious impact on river life. Our investigation revealed a serious lapse in environmental procedures at Aylesbury Sewage Treatment Works which caused a pollution incident killing 15,000 fish. We will always seek to prosecute companies which fail in their environmental responsibilities”.⁸⁰

In many of the other cases, the courts found that the company was well aware of the problems leading to its environmental pollution and were intentionally stalling to remedy them. As a report by Public Citizen explains, “pollution as a business strategy, combined with ramming through rate hikes at every opportunity, has been very successful for RWE’s water operation arm.”

A major lack of investment by Thames Water into water infrastructure may be partly the cause of their poor environmental and operational performance. A report by OFWAT, the regulatory agency for UK water companies, in 2002, found that leakage from Thames Water pipes amounted to more than 860 megalitres per day or 30% of its volume – enough to provide water to 2.5 million people estimates the UK Environmental Agency – and accounted for ¼ of the leakages from 22 water companies. Although Thames’ water rates have risen 99% over a decade from 1989, it has failed to invest significantly in infrastructural improvements – in 1995, it actually slashed investments by £350 million as rates were increasing. Currently, Thames is lobbying Ofwat to grant them a price increase for the next 5 years starting in April 2005 – once again using consumers to finance their investments while their profits rise.⁸¹

⁷⁹ “Spotlight on Business Environmental Performance”, Environment Agency, 2003

⁸⁰ Mitchell, C., “Thames Water fined 50,000 Pounds for polluting River Thame”, Environment Agency press release, July 2, 2004

⁸¹ “Double Trouble: Thames Water and OMI – two companies Stockton could do without” *Public Citizen*, February 11, 2003; Gow, David “Thames Water ready to soak Londoners” *The Guardian (London)*, March 24, 2003; “Corporate Profile – RWE/Thames Water” *Public Citizen*, October 21, 2002; Greenwood, Victoria “Sewage fish kill costs Thames Water

European Union – In August 2002, RWE threatened to cancel the promised 4,000 jobs unless the EU made changes to its planned regulations surrounding carbon dioxide trading. *The Guardian* in London reported that RWE's CEO at the time, Dr. Kuhnt, warned that a planned lignite power plant in Germany would not be constructed if "its profitability is jeopardized by unreasonably stringent sanctions or carbon dioxide penalties... This could be the case if the EU implements the plans it has for carbon dioxide certifications without making the adjustments required by several constituencies." Ironically, the threat came just two days after Thames Water was invited, on public expense, to represent the UK at the Earth Summit.⁸²

4.3 Corruption

September 2004: Lexington, Kentucky – A city councilor in Lexington Kentucky alleged that two high-ranking officials with Kentucky American Water offered to run his campaign for reelection if he agreed to change his position against privatized water services. The councilor said that the water company executives tried to 'persuade him' to change his vote by offering to "run my total campaign". State law forbids corporations from supporting a candidate either directly or indirectly. A lawyer representing the company called the accusations baseless.⁸³ However, according to a five year business plan filed with the state Public Service Commission in August the company had a goal of electing like-minded people to the Urban County Council. Referring to the council, the business plan said, "we need to work harder to get people elected to the LFUCG Council who have a pro-free-enterprise philosophy". The plan also indicated that the corporation is ready to spend \$2.71 million to wage its ongoing legal and public-relations fight against anti-privatization groups in.⁸⁴

almost £75,000" *UK Environment Agency*, March 26, 2003; Henshall, Natalie "Thames Water leaks continue to rise" *UK Environment Agency*, October 23, 2002. See www.environment-agency.gov.uk and www.citizen.org for more info and sources.

⁸² Milner, Mark "RWE threat over emissions" *The Guardian* (London), August 13, 2002; Monbiot, George "Money talks when it comes to deciding Green issues" *The Irish Times*, August 22, 2002

⁸³ Stamper, J., "Allegations in water dispute", *Lexington Herald-Leader*, September 14, 2004, <http://www.kentucky.com/mld/kentucky/news/9660116.htm>

⁸⁴ Stamper, J., "Water firm's plan: courts, PR, politics", *The Lexington Herald-Leader*, August 26, 2004

Stakeholder profile

5.1 Shareholders

RWE is partially owned by a group of German municipalities. Approximately 260,000 shareholders own 562.4 million of the company's shares.

Foreign investors own approximately 15% of the capital:

- 3% - USA/CAN
- 6% - UK
- 5% - Continental Europe excluding Germany

Institutional Shareholders: 51%

- 5% - Allianz AG
- 5% - Munchner Ruck
- 41%- Other institutional shareholders

Shareholders

Institutional shareholders	51%
Allianz AG	5%
Munchner Ruck	5%
Other	41%
Municipal shareholders	33%
RW Energiebeteiligungs-Gesellschaft	10%
Other municipal shareholders	23%
Other	16%
Private Shareholders	13%
Employee shareholders	3%
RWE AG total	100%

[Source: RWE 2003 annual report]

Shares of voting rights

Municipal shareholders	34.4% (of which RW Energie Bet.-Ges. 11.1%)
Allianz AG	5.5%
Munchner Ruck	5.9%