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NEWS

Boiling point

Water managers face grand jury probe

Jack Miller

After months of media attention over alleged improprieties, Veolia Water Indianapolis — the company responsible for managing the city's water utility — is now the center of state and federal inquiries.

Four managers in the water quality division, including Director of Production Alyson Willans and her second in command David Hill, received subpoenas at their homes Friday ordering them to appear before a federal grand jury this week. The grand jury probe concerns possible falsification of water quality records.

Last weekend, agents of the Indiana Department of Environmental Management took 20 water quality samples at Veolia plants and water treatment lines. An independent lab is analyzing the sampling with results expected in 10 days.

Officials at Veolia, or VWI, released the following statement: "We are fully cooperating and providing requested information. Public trust is important to us — the public should have every confidence in its drinking water. Providing our customers with a safe and constant water supply is our number one priority and always has been. Since VWI began operating the Indianapolis waterworks system in May 2002, we have continually met or exceeded state and federal water quality standards. VWI's facilities are fully operational and we have every confidence that the water we are providing to Indianapolis Water customers is safe."

In its on-going investigation, the Indiana Utility Regulatory Commission has asked Veolia why it is in non-compliance with administrative rules concerning pressure recording and various discrepancies concerning incentive payments. The commission also wants Veolia to explain the practice of "dummy orders" in response to customer service requests and instructing customers "how to turn on their own water."

Another question refers to an internal memo from Veolia official Jean Michel Seillier. Found loose in boxes of Veolia documents, the revealing memo pertains to the Citizens Advisory Group (CAG) which develops member surveys. Good survey results allow Veolia to receive \$100,000 in annual incentives from the city.

The memo suggests that Veolia "might need to hold the CAG members' hands if we want to meet the incentives [and] explain 'privately' what the incentives mean to us." The memo concluded, "Actually, we might have to do some 'data normalization' if we don't achieve what we need ..."

After three years of struggling with poorly-maintained facilities, boil-water advisories, layoffs, over-billing and allegations of fraud, Mayor Bart Peterson and the Water Board have defended the management of our water utility by French-owned Veolia. In July, the Citizens Water Coalition and City Councilor Jim Bradford asked the city to do a thorough performance audit of Veolia's operations. Water Board Chair Barbara Howard promptly denied the request claiming a recent ISO Certification (International Organization For Standardization) audit had satisfied the board, and further scrutiny of Veolia would be "inappropriate and duplicative."

But a number of public interest and environmental groups, including Public Citizen and the Sierra Club, have slammed the ISO, charging a "history of setting weak environmental standards lacking performance requirements and enforcement."

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Water company faces questions

Veolia hasn't broken rules, its president says

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When Indianapolis bought the city's old water utility and hired a private company to run it in 2002, officials hailed the public-private partnership as a victory for customers.

Three years later, Veolia Water Indianapolis — a subsidiary of the largest water company in the world — faces a torrent of questions over its performance.

In the company's first public comments since federal officials confirmed an investigation of the company's operations this week, Veolia President Tim Hewitt on Thursday said the company had not violated water-quality or operational rules.

"This is important to Veolia," Hewitt said of the Indianapolis contract. The \$1.2 billion deal with \$300 million in potential incentives is its largest in the United States. "This is a \$30 billion company (internationally); I wouldn't say we are in a tight position. I invite anybody to bring in testers or investigators.

"We're not going to put a 20-year contract at risk in the first few years to make foolish short-term profits," he said. "Everybody understands clearly this is a very important project for us in North America and globally."

Since the first of the year, the company has been involved in a series of controversies:

- In January, thousands of gallons of untreated water slipped into the system and prompted a boil advisory that shut down some companies and sent home about 40,000 public school children.
- Supply shortages through most of June prompted Veolia to ask customers to limit water use during peak hours.
- This week, the U.S. attorney's office for the Southern District of Indiana announced it had issued subpoenas in an investigation of the company's operations. Veolia said investigators were looking into allegations of falsified water-quality reports.

Hewitt said he learned Sept. 30 that four management-level employees had been subpoenaed to testify before a federal grand jury to answer questions about alleged falsification of records.

While he would not specifically address the investigation, Hewitt said he thought it stemmed from misunderstandings about differences between daily and quarterly tests for such things as disinfectant byproducts, substances left over from decontaminating drinking water with chemicals such as chlorine.

In response to the subpoenas, the city and the company each ordered independent chemical and bacteria tests to ensure the safety of Central Indiana's primary water supply. Results from tests are expected soon.

The state Department of Environmental Management ordered its own tests last week in response to a complaint against Veolia. The agency's results, released Thursday, showed no violations of state or federal drinking-water quality standards. Some samples reflected

elevated levels of disinfection byproducts, but one sample was not enough to indicate a violation, officials said.

Hewitt said he was pleased with the results.

"Tonight we have yet another confirmation about the quality of the water we supply," he said. "IDEM's findings are consistent with ours. Veolia Water has continually met or exceeded state and federal water quality standards."

Hewitt said the city's water is safe for the more than 1 million people who use it. Veolia serves 290,000 homes and businesses in Marion County and parts of surrounding counties, including Carmel, Zionsville and Greenwood.

Mayor Bart Peterson's office and the Department of Waterworks officials who manage the company's contract said they were confident the company has done no wrong.

Controversial setup

Since the beginning, the public-private partnership has weathered attacks from environmental groups, from the mayor's political opponents and from those who say water should be treated as a public trust rather than a commodity.

"At the end of the day," Hewitt said, "we'll get through this but have a black eye – all because of these critics who don't like public-private partnerships."

Veolia Water Indianapolis is part of Houston-based Veolia Water North America. That division is a subsidiary of French-owned Veolia Environment. The company provides water and wastewater services to more than 110 million people and 40,000 businesses in 100 countries.

The city of Indianapolis bought the Indianapolis Water Co. from Merrillville-based NiSource for \$515 million in 2002.

Deputy Mayor Steve Campbell said the city entered the deal because it wanted to retain control of a vital asset and keep rates low for residents. Part of the arrangement with Veolia froze rates at current levels until 2007.

The city hired Veolia rather than establish a new agency to run the utility because it wanted to avoid creating a bureaucracy. On the other hand, Campbell said, the city accepts ultimate responsibility and accountability over water issues.

A local watchdog group, Citizens Water Coalition, was formed in 2003 amid concerns about billing problems and computer problems at the company, said Clarke Kahlo, former president of the Hoosier Environmental Council who helped create the group.

Recently, some Republican City-County Council members have questioned whether financial incentives for achieving performance measures may have motivated the company or its employees to fudge the numbers. One of the most vocal critics, Councilman Jim Bradford, alleges the company has cut back on purification chemicals, testing, employees and maintenance in order to maximize its profits.

"The truth will come out now because the subpoenas give employees protection to testify," Bradford said. "Before, they were scared to say what was going on there."

Hewitt said the company is paid its incentives only by reaching a long list of performance benchmarks, including water quality above federal standards and on-time submission of reports. He said the company relies on the incentives to achieve minimal financial goals. It has yet to make a profit – it has lost millions each year, in fact – but hopes to turn its finances around by the end of the contract, he said.

"We did lose money, more than we anticipated," Hewitt said of the first years of the contract. "What motivates us not to cut expenses is the incentives."

Local, national scrutiny

Hewitt acknowledged that negative publicity has accumulated this year, but he said each incident should be addressed individually.

On June 30, the Indiana Utility Regulatory Commission sent to Veolia and the Department of Waterworks a list of 30 questions about the system's water pumping capacity and its plans to meet demand. IURC officials are still reviewing the case to determine whether the state will conduct a formal investigation.

In July, Bradford called for a performance audit of Veolia, as did the Citizens Water Coalition.

The coalition alleged "continuing and substantial irregularities in the operation of the waterworks" that Veolia was concealing. Incentive clauses, the group said, gave the company "a direct financial interest in minimizing the recording and reporting of problems."

Nationally, Veolia also has come under scrutiny.

Last month, two San Francisco Bay Area environmental groups threatened to sue the city of Richmond, Calif., unless it took steps to fix its storm water and sewage systems, managed by Veolia Water North America.

The company also has been embroiled in a legal dispute with Angleton, Texas. The city ended its contract with Veolia Water North America, alleging Veolia didn't provide the level of service promised.

Maj Fiil-Flynn, a policy analyst for the national watchdog group Public Citizen, said a number of large corporations have taken over community water supplies, and that Veolia's long-term deal with Indianapolis is typical.

"What often happens" in such cases, she said, "is that the accountability goes out the other end."

Veolia has its defenders beyond the mayor's office.

One is The National Council for Public-Private Partnerships. "Veolia Water inherited a billing system laden with problems," the group's Web site says. Since taking over, Veolia "has worked tirelessly to overcome the problems."

Richard Van Frank, a local environmentalist who serves on a technical advisory committee for Veolia, said he has never seen any indication of wrongdoing by the company. He said the company began automated sampling and a continuous monitoring system, which he said made testing more reliable.

"On the contrary, they inherited a system that was not in very good shape because it was not well-maintained, and every indication is that they've improved it," Van Frank said.