Discussion

The remunicipalization of Paris’s water supply service: a successful reform

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The City of Paris decided to bring to a close a 25-year period during which the public water service was delegated to the private sector, and to transfer its management to a single public operator – Eau de Paris – as of January 1, 2010. In the homeland of the major water multinationals and the delegation of public services to the private sector, this historic decision of the authorities of the capital city was seen by many as a mini revolution in the quiet world of water. It has raised considerable attention among a large number of local authorities, associations, researchers and entities involved in water, and is still hotly debated.

For instance, in his article ‘Return of drinking water supply in Paris to public control’ published in Water Policy (Barraqué, 2012) a recognized expert in the world of water, examines the mechanisms of this reform, but in terms that are misleading, to put it mildly. The arguments put forward by the opponents of public management are given remarkable prominence in his account. Such a biased account almost amounts to disinformation, and requires a response.

Without reviewing all the inaccuracies contained in this article, especially when they do not directly concern Eau de Paris – like the percentage of the French population that is served by a public water utility (which is 35%, according to Desmars (2013), and not 28%, as asserted by Barraqué) – I would like to set the record straight on the facts about the origin, the process and the consequences of the Paris water reform.

The return to public control: beyond a political choice, a decision of good management with significant gains in terms of organization, economy and assets

‘The return of Paris water supply service under public control is clearly a political decision which requires no particular justification’: This is how Bernard Barraqué sums up the remunicipalization of...
water in Paris. But while the reform obviously resulted from a strong political and ideological choice, it
was also dictated by arguments of sound management. Water is an essential collective good that requires
a sustainable and solidarity-based management under clearly accountable public control. But it was also
a pragmatic decision aimed at ending the failures and limitations of the previous system. The organiz-
ation of the service was split up between three operators: a semi-private company, SEM (Société
de‘Economie Mixte), in charge of producing and transporting bulk water to Paris; and two private oper-
ators, subsidiaries of Suez and Veolia, who were in charge of the supply and billing. The control of the
water quality supplied to Parisians was the responsibility of CRECEP, a municipal centre of research
and expertise in water management.

There were serious problems in auditing and evaluating the service under this system. Several reports
pointed to the opacity of the two delegation contracts, which were signed in 1985 for a period of
25 years without any call for competition or consultation with the Parisians. For example, the financial
reports of the distributors did not provide a full description of the financial operations performed within
the framework of these contracts (Regional Audit Office, 2000). The production cost presented by the
private operators in their activity reports was 25 to 30% greater than the real management cost of the
service per subscriber. For instance, the production cost of the service declared by the subsidiaries of
Suez and Veolia amounted to €106 and €116, respectively, and the management costs to €75 and
€87 (Service Public 2000, 2002). The guarantees for renewal, a sort of insurance provision for future
works on the network, were disproportionate with respect to the real cost of the works (Audit Office,
2003). As far as the margins are concerned, they were underestimated in the declarations of the private
operators and could triple according to whether the added value on the supply activity was included or
not in the methods of calculation (Audit Office, 2003). Although it has always been very difficult to
make an exact calculation of the financial windfall that the Paris water service represented for the private
operators, analyses of their accounts have shown that the profit for suppliers (after adjusting expenses
and including financial incomes), amounted to at least €22 million; and that the average amount of the
working capital surplus between 2000 and 2006 was €60 million per year (Du Fau de Lamothe, 2007).
Between 1985 and 2001, the subsidiary of Veolia alone was able to pay dividends of €56 million to its
shareholders, 15 times the initial value of their capital. Additional obscurity was created by the compa-
nies when they sub-contracted work to other subsidiaries of the groups, allowing the groups to make
profits further down the production chain which did not appear in their accounts. These examples illus-
trate the total absence of financial transparency of the private operators that is a consequence of the
financial model they had established for their own benefit.

It was therefore quite logical, following the change of political control in 2001, that the new munici-
pality, led by Mayor Bertrand Delanoë, rapidly decided to completely rethink the Paris Water Service.
Contrary to what Bernard Barraqué asserts, the large number of City Council debates that took place on
the occasion of the annual reports on the service clearly shows that the political criticism was essentially
motivated by a total absence of control over the two suppliers and their financial manipulations, and was
not simply aimed at bringing down the price of water for users.

In 2003, the City of Paris took advantage of the clause permitting a renegotiation during the course of
the contract to renegotiate with the two private operators and enforce a tighter control of the contracts by
the public authority. The municipality calculated the financial gains made by the companies on the guar-
antees for renewal. In other words, the City estimated the provision for works that the private operators
should have normally used for asset renewal according to the terms of their contracts and obtained a
commitment from them to undertake works on the network worth up to €153 million. This included,
among other things, the replacement of all lead pipes by the end of the delegation contract in 2009, and the development of a system for remote reading of meters.

We will come back to this point later, but let us consider first the issue of the lead pipes, which, in many respects, symbolizes the lack of willingness of the private operators to completely fulfill their legal and contractual obligations. Both suppliers, though they announced the eradication of lead pipes in their activity reports, stated at the end of the contracts that the number of connections not replaced was somewhat over 400. In reality, the number of lead connections still to be replaced was three times higher (nearly 1500): the most complex and costly operations had not been made by the private operators and were passed on to the new operator.

During the 2008 municipal election campaign, Bertrand Delanoë promised that he would return to a totally public management of the water service if he were re-elected. The objective was to clarify responsibilities and costs and offer a service of quality at a controlled cost and with a long-term vision for the system. After his re-election as Mayor, the remunicipalization was confirmed. The end of the concession contracts being scheduled for 2009, the whole system had to be overhauled and the transition had to be carried through in a year and a half, which is an extremely short period for such a wide-ranging reform. The creation of the single operator, Eau de Paris, an industrial and commercial public body, was voted by the Paris Council in November 2008. The transfer of the staff and assets of the semi-private company, and of part of the research, expertise and control centre, took place on May 1, 2009. The conditions of transfer for the supply activities and the staff of the two private operators were approved by the Paris Council in November 2009 and came into force on December 31 in the same year.

Many people thought that the commitment of the Mayor of Paris was a mere electoral promise. Until the end, the private companies thought that the Paris Municipality would never implement the reform. When they realized this was not the case, they tried to make the best of it and asserted that the decision was only guided by political considerations (AquaFed, 2010), meaning campaign rhetoric that had nothing to do with the water service and the way in which it had been managed by the private companies. The fact that Bernard Barraqué highlights this argument and considers it as the main lesson from his analysis on the Paris water reform is astonishing.

It is however clear that the transfer to a public operator has allowed the elimination of overlapping functions and activities that were frequent in the past, and to optimize the functioning of the service. The synergies from pooling the production, supply and billing functions has enabled an increase in efficiency. It is now possible to monitor every drop of water from the catchment area right up to the tap. It is worth remembering that the creation of a single operator was also advocated by the private sector – but not in the form of a public structure.

The economic gains generated by the Paris reform range between €35 and 40 million per year, including the reintegration of the profits made by the private operators, lower operation costs and lower taxes. These gains are entirely reinvested into the water service. The operational savings include those made on the contracts for works on the distribution network. The private operators, during the whole course of their contracts, used the services of subcontractors that were part of their group for such works as maintenance and repair of pipes, renewal and renovation of water pipes, replacement of lead pipes and installation of automated meter reading systems. All these works were sub-contracted by mutual agreement, without competition on the technical options or the prices, to subsidiaries of these large groups. The cost of these contracts was then integrated into the expenses recorded by the service providers as part of the water service operation costs, which minimized the apparent margin of the private operators. In reality, these works generated a significant additional margin that indirectly went to the group of which the service provider was a subsidiary. Such works are now subject to public procurement procedures, and significant reductions in their costs have
already been observed: 25 to 30% savings on unitary prices compared with those charged by the private operators, which is an annual gain of between €3 and 5 million.

In short, the economic gains did not result, contrary to what Bernard Barraqué says, from savings on the dividends paid to shareholders of SEM, because this never happened.

The delegation contracts provided a windfall for Suez and Veolia, since profits were made all along the chain of value: through the subcontracting of works, the quantification of costs of capital maintenance, the payment of wages to staff who were not assigned full time to the service in Paris, and the delay in payments for the water purchased from the semi-private company in charge of production. All these margins were consolidated and used to inflate the dividends of the shareholders of the two groups.

Concerning the maintenance of the network, the efficiency of which was so highly praised by some people, the private operators limited their action to the replacement of joints and pipes attachments. The technical teams of Eau de Paris considered that this approach, which suited a private operator during the course of the contract, was not sustainable over the long term. This is why the municipal service worked out a long-term assets management plan with an investment budget for the supply network that was higher than during the last years of the delegation.

In addition, the network performance considerably improved after the 2003 negotiations, as it was made even more interesting financially for the private operators to tackle leaks. The network yield rose by 10% between 2003 and 2007. The companies reduced their efforts from 2008 when they found out their contracts would not be renewed. As a result, fewer leaks were repaired and the network efficiency started to decline.

The way the network yield was calculated also accounted for its increase after 2003. The suppliers used the volumes of water billed annually and not the volumes of water actually consumed to obtain this figure. Moreover private operators would bill volumes consumed a given year the year after. This allowed them to control to a certain extent the yield they wanted to publish. Some years they would even lower its value on purpose for financial reasons. The 2003 riders to their contract stipulated that they had to compensate the SEM if the network performance improved, as bulk water sales would then drop. This financial compensation was proportional to the increase in the network efficiency.

As far as the meters are concerned, they were effectively fitted out with remote metering systems by the private operators. But the Paris authority has been obliged to buy them all back at an excessive price – €17.6 million – but the equipment had been defined as ‘compensatable returnable assets’, which means that the municipality was entitled to recover the equipment at any time provided it compensated the private operators for the value that was not yet amortized at the date of the transfer. Moreover, the equipment installed by the private operators proved to be neither compatible with each other, nor usable without resorting to the computer system and staff of Suez and Veolia. In short, Eau de Paris has developed its own information and operation system, operational since 2011, that covers the management of customers, billing, the management of the meters, remote metering and consumption data, the online agency, the management of technical interventions, the management of operations on the network, and reporting. The municipal service now has a system at its disposal that corresponds to its needs and over which it has a full control. This has allowed it to significantly modernize the functioning of the water service.

A three-fold control of the service: political, municipal and by citizens

Bernard Barraqué underlines that monitoring water services is always difficult, irrespective of the management method. This was particularly true in Paris during the period of delegation to the private
sector. The lack of any control and power of the local authority over its service was well known. The municipality had entrusted SEM to monitor the private suppliers who were themselves administrators of SEM! There was an obvious conflict of interest. Several reports had pointed to this conflict (Regional Audit Office 2000; City of Paris General Inspection, 2003): hence the decision taken by the Paris Council in December 2003 to transfer the monitoring of the private water suppliers to the City administration. This was followed in March 2007 by a vote by the Council of Paris – not by the Mayor, Bertrand Delanoë – that approved the withdrawal of the private operators from the capital of SEM and their replacement by the Caisse des Dépôts et Consignations.

Like many other water authorities and semi-public companies – particularly SEM from 2008 to 2010 – Eau de Paris is chaired by the deputy Mayor in charge of water. The deputy Mayor in charge of finance is also responsible for monitoring Eau de Paris, against the objectives set by the municipality, as well as the results achieved.

Bernard Barraqué’s criticism concerning an excessive political control is difficult to understand and he seems to repeat the arguments put forward by the private groups.

Then again, owing to his expertise as a member of the Paris Water Observatory, he could have mentioned the monitoring system that was implemented with the return to municipal management. This extra-municipal committee, made up of a wide range of players from various backgrounds – social housing agencies, associations of tenants and users, environmental NGOs, trade unions, neighborhood councillors, researchers, etc. – is entirely focused on water and sanitation. It is chaired by a non-City of Paris person. It allows every citizen to be informed about all the important resolutions that concern the water service, and express an opinion prior to their study by the Council of Paris.

This monitoring by citizens supplements the monitoring by the municipality, which is based on a performance agreement signed with Eau de Paris for a period of five years – a true innovation in the French water sector. This document specifies the powers of the local authority and sets objectives to be reached by the public utility. It includes a large number of technical, financial, social, and assets indicators, and is a genuine tool of control at the service of the Paris administration. In fact, this agreement, which is regularly assessed by the city’s technical and financial services, is submitted every year to the Paris Council and the Paris Water Observatory.

The control over the public utility is also ensured through its board, which includes civil society representatives among its members. Two delegates from associations and a member of the Paris Water Observatory sit on the board with voting rights. There are also elected representatives of Paris, who are appointed by proportional representation of the political groups at the Paris Council; representatives of the staff; and other qualified people. Far from being symbolic, the presence of the civil society at the board has significantly changed the proceedings of board meetings. It also compels the public utility to give a clearer account of its management and to be more transparent.

Drop in the price of water for all users

At the time of the reform, the first commitment made by the Mayor was to stabilize the price of water in current euros during his term in office, that is to say until 2015, in spite of a continuous drop in operating revenues because of lower water consumption by Parisians, due to a lower consumption of domestic appliances (dish-washers and washing machines) and the shift of industrial activities from Paris to the suburbs. Furthermore, Parisians have become more vigilant with their water usages. It has been possible to go beyond this objective and reduce the price of water for all users by 8% as of July 1, 2011, thanks to the
economic gains from the return of the service to municipal management. Thus, Parisians will have benefited from a €76 million saving during the whole course of the performance agreement.

These decisions have put an end to the soaring of prices during the previous 25 years, with a 174% increase in the price of drinking water between 1985 and 2009. In his article, Bernard Barraqué stresses that the share going to the private operators increased slightly less than the share going to SEM. This assertion is incorrect because he fails to mention that the largest part of the investments made on the water supply system – production, transportation and network until 2003 – was borne by the semi-public company. The need to modernize equipment and the evolution of drinking water standards led SEM to make massive investments throughout the duration of the concession. In 1980, the water service was in a risky situation since two drinking water production plants in the Paris region, at Ivry-sur-Seine and Joinville-le-Pont, were showing signs of obsolescence. SEM renovated these plants – from 1988 to 1993 for Ivry-sur-Seine and from 1993 to 1998 for Joinville-le-Pont. It also modernized the Orly plant in 1992. During the same period, it renovated the control centre and started renovation works on the aqueducts after working out a monitoring system for the pipes. Three pumping stations for underground water were also modernized. Then, in 2002, it started the construction of four underground water treatment plants for a total amount of €150 million. In Paris, it has improved the safety of the water supply by creating two inter-reservoir connections. During these 20 years of activity, SEM has also undertaken the automation of installations which ended the system based on three eight-hour shifts.

The price increase applied by the private operators was directly computed according to a particularly rewarding price indexation formula, which provided for compensation in case of lower revenues, that is to say in case of lower bulk water purchases due, in particular, to the reduction of the leakage rate in the network.

Nearly 80% of the fixed expenses were borne by SEM alone, while the most profitable part of the service was held by the private operators.

All users are at the core of the new Paris water service

Restoring the place of users at the core of the service has been one of the pillars of the reform. How can Bernard Barraqué ignore it? Beyond the opening of the board of Eau de Paris to the civil society and the involvement of the Paris Water Observatory in the service operation, the return to municipal control of the management of customers has allowed Eau de Paris to re-establish links with the users.

The internalization of this relationship with users and subscribers was implemented after a unanimous vote of the board of Eau de Paris – including the municipal opposition. This new service, which has proved to be less costly than when it was entrusted to private operators, has been rewarded with the award for ‘Best Customer Service of the Year’ in 2013 and 2014. The new services it offers – better monitoring of consumption, more transparent information on the functioning of the service, more attention to consumers’ expectations – have re-established direct contact with users.

The public service now guarantees access to water for everybody

Making the right to water effective in any circumstances is another strong commitment made at the time of the reform of the water public service in Paris that Bernard Barraqué totally fails to mention.

As soon as the return to a city operated-system was effective, the municipality implemented, with the support of Eau de Paris, a whole range of social measures targeted to the most underprivileged. This started with a water solidarity allowance to help households encountering difficulties in paying their
water bills. This was the first initiative of its kind in France. For households who have unpaid bills, a support fund is available to which Eau de Paris contributes up to €500,000, which represents a contribution almost three times higher than that of the private operators.

Eau de Paris has gone even further by developing partnerships with Paris social housing agencies to install water-saving kits in order to bring down water and energy bills for the most underprivileged.

Homeless people are not forgotten in this package of measures: the installation of water fountains in the city that provide permanent and free access to water; the distribution of jerry cans, tumblers, and flasks to the social organizations who are in contact with these populations; the water supply maintained in squats; etc, all these actions contribute to the implementation of the right to water for all, for which Paris is considered as one of the leading French local authorities (Smets, 2011).

The remunicipalization of water as an example

The remunicipalization of water in Paris is obviously a crack in the commercial façade of French water multinationals, even if Bernard Barraqué does not recognize it by claiming that ‘This change, however, was not as dramatic as presented in the media.’ This was explicitly recognized by the representatives of Suez and Veolia: the loss of the Paris market, of course, had a detrimental effect on them from a financial point of view but its impact was even more negative on their image. In the entire world, these companies always presented the management of water in Paris as a model.

Has the Paris experience rocked the French water sector to its core? Can it bring other French local authorities in its wake? France is historically the heartland of the delegation of water services to the private sector, which has permitted groups such as Suez and Veolia to gain the stature they now have. The supporters of public management have so far been a minority but the fact that Paris returned to public management has inevitably added force to their arguments. Many delegation contracts are due for renewal and renegotiation in the coming years. More and more local authorities are thinking about returning to municipal management because this system seems appropriate to all the water services, even in complex situations where large investments are needed. The cities of Rouen and Brest have already returned to a city operated system, others, such as Bordeaux, Rennes and Nice, have announced it.

Of course, a number of local authorities have not yet made the decision, but they have used the threat of a remunicipalization to renegotiate existing contracts and, in particular, to obtain lower prices and a better control by the organizing authority. Why then does Bernard Barraqué not recognize the impact of the Paris reform about which nobody disagrees, not even its opponents?

According to Bernard Barraqué, the remunicipalization only ‘opened a Pandora’s box of water production and reorganisation at the regional level’. For an equivalent quality of water and service, the price of water in Paris remains much lower than that charged by other services in the Paris urban area. The wish of other local authorities to get their water from Eau de Paris facilities is therefore perfectly legitimate. For instance, the Communauté d’Agglomération des Lacs de l’Essonne (CALE), to take only this example cited by Bernard Barraqué, signed a cooperation agreement with the Paris public utility in June 2012. According to this partnership, Eau de Paris will provide water to the distribution service recently created by the Communauté d’Agglomération at a price of €0.42/m³, taxes not included.

This kind of partnership allows greater efficiency in the production of drinking water in a context where consumption continues to diminish, without impacting the safe water supply in the capital. It also enables the pooling of production facilities, which is consistent with the wish of the City of
Paris to preserve water resources over the long term. The closure of the Ivry-sur-Seine water treatment plant in 2010 reflects this concern to save water, and the continuous drop in water consumption – minus 28% in 20 years – and has absolutely not been decided after a conflict with the local authorities of the sector, as implied by Bernard Barraqué!

Conclusion

Today, the water market is not as stable as it used to be. The economic parameters have changed, the democratic demands are stronger and strategies for the sector are evolving. The case of Paris typifies these changes in many respects.

Through its decision to remunicipalize its water supply service and to create a single public operator, the City of Paris has succeeded in offering Parisians a service close to its users, transparent and taking fully into account sustainability issues (environmental, social and assets management).

References


Discussion

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