



Water Supply Privatization

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Introduction¹

Water continually crosses political boundaries as it circulates through the hydrological cycle. Locally managed yet transboundary, water raises difficult questions for Canadians within the context of the New American Empire. Responsibility for fresh water in Canada is fragmented, in part because water is a multiple use resource, critical for energy, agriculture, tourism, environmental health and human water supply. Fisheries, navigation, and international waters are federal responsibilities, yet water supply is a provincial responsibility and is usually municipally managed, and is as a result more decentralized than other utility sectors. These governance issues further comp

The pressure to restructure water supply utilities

The Walkerton water quality tragedy was a dramatic reminder for Canadians of the consequences of poor governance of water supply systems. After years of relative neglect, Canadians are beginning to focus on the challenges of sustainable water supply (Box 1). Some of the solutions are relatively easy to implement. Improved leakage control methods may, for example, ease the burden on the water supply system, particularly in regions where water is relatively scarce. Poor water quality can be remedied by upgrades in water treatment technology and changes in land use practices. In some cases, however, municipal governments decide that restructuring water supply management is necessary. In simple terms, restructuring changes ‘who does what’, including: ownership; organizational structure (e.g. integration or separation of water and wastewater services); operational management procedures; scale of operation; governance (allocation of decision-making responsibility and accountability); involvement of stakeholders (e.g. community involvement in decision-making); and regulation.

BOX 1: BARRIERS TO SUSTAINABLE WATER SUPPLY MANAGEMENT

Infrastructural: Supply-side and demand-side

- £# aging infrastructure
- £# declining quantity and/or quality of water resources
- £# increasing unpredictability of water resource availability (related to climate change)
- £# restricted access to water sources stemming from environmental protection measures
- £# high and/or rapidly growing per capita demand
- £# growing population
- £# consumer expectations for higher levels of service
- £# high percentage of ‘unaccounted for water’ (p)

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P3 contracts for water supply in Canada are concentrated in medium-sized communities, and currently represent a small proportion of Canadian water consumers. Most water supply systems in larger cities in Canada are publicly managed (Table 2, following page), although many municipalities have considered the P3 option. Of Canadian municipalities with populations over 350,000 (2001 census), six follow the ‘traditional’ municipal services model (Calgary, Montreal, Ottawa, Toronto, Vancouver, Winnipeg). Two others (Halifax and Edmonton) have chosen to corporatize water supply services. Hamilton has chosen a P3 for its water supply systems, and Halifax has opted for a P3 for certain elements of its wastewater treatment system. Toronto and Vancouver recently explored restructuring options (creating a stand-alone corporation in Toronto, and entering into a P3 contract for water treatment in Vancouver), which resulted in heated public debate, after which both municipalities decided to continue with direct municipal management.

Table 1: P3 Contract Types and Allocation of Responsibilities



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In order to better analyze the potential implications of deepening North American integration for Canadian's water supply, it is important to understand the diversity of approaches to water supply management in the U.S., where there are approximately 50,000 community water systems: 43 per cent are publicly owned; 33 per cent are privately owned (the majority are small, user-owned or - investor owned rather than publicly traded corporations, and most are domestic rather than multinational companies); and 24 per cent are classified as "ancillary systems" (i.e. serving very small communities such as trailer parks) (NRC 2002). Because most private systems are small, public water systems serve the majority of American households. Moreover, most of these public water systems are publicly run. The National Research Council, in a 2002 study of privatization of water services in the United States, found that 85 per cent of the population was served by publicly-run systems, a figure which had remained stable since 1945.

Private sector involvement in water supply is contentious in the U.S., as witnessed by the debate sparked by the recent decision of Atlanta to cancel its P3 contract – one of the largest in North America. The debate over private sector participation in water supply in the U.S. has received increasing attention in recent years, particularly in light of forecast needs for high levels of capital expenditure to maintain and extend infrastructure networks. Most recently, the U.S. Senate has debated various proposals for a new Water Investment Act (Senate Bills 1961, 2002 and 2813, 2002), in which measures for permitting or encouraging private sector participation in municipal water supply have been considered. This has raised concerns in Congress and the Senate. In response to a request from the Senate's Committee on Environment and Public Works the federal General Accounting Office conducted a comprehensive survey of water supply management, focusing on issues related to privatization in 2002. The GAO study found that U.S. communities require between \$30 billion and \$1 trillion USD over the next twenty years to repair and expand water supply systems. Although the private sector is one potential source of funding, the report also stressed the importance of public funding mechanisms, including municipal and state bond financing – a major source of funding for 2 0 0 12 r 0 0.32014 3r.eeds135 Te2 232.30017 4378.06128 Tm 0.08tem3ds135 Te2 232.300

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bodies that facilitate the transition to and implementation of P3s (as has occurred in Ontario's electricity sector).

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sponsored water supply schemes. Countries relying mainly on rainfed agriculture (Northern Europe) have applied sustained pressure on countries using extensive irrigation (Southern Europe) to reduce such subsidies; a similar scenario might arise between different regions of North America.

€# *Shared Groundwater* Groundwater is an ‘invisible’ resource that has received much less attention than freshwater. Many aquifers are transboundary, and many smaller and rural communities, as well as the agricultural sector, rely on groundwater supplies. Canada lags behind the U.S. in mapping and analyzing the extent and health of its groundwater resources. Shared management of groundwater may become contentious in certain ‘hotspots’, such as the Washington/B.C. Sumas Aquifer.

RECOMMENDATIONS

Recommendation 1: A political consensus, analogous to that developed for bulk water exports, should be sought on private sector involvement in water supply management, keeping in mind the overall goal of sustainable water management. Political controversy inevitably surrounds the introduction of the private sector into water supply management. The question of ‘whether to privatize’ is thus more than merely technical; it requires political debate about our worldviews of water, and of society. Debating this issue should not sidetrack Canadians from the overarching goal of improving sustainability of water supply management.

Recommendation 2: Good governance of water supply should be a focus of the debate on how to improve sustainability of water supply management. Based upon a review of relevant Canadian and international documents, a suggested list of good governance principles includes: protection of public health and safety; environmental protection; accountability for stewardship and performance; transparency; public participation; equity; efficiency; and effectiveness.

Recommendation 3: Guidelines fo

Recommendation 5: The need for independent regulation and oversight of P3 contracts in water supply at the provincial level should be considered. Without robust regulation, neither public nor private water suppliers are likely to perform well. P3s in Canada are currently regulated 'by contract'. There is potential for cost-savings and improvement in efficiency and effectiveness of regulation through centralization in a supra-municipal regulatory body. Any regulatory framework developed should be applied to all water utilities (above a minimum size), enabling systematic benchmarking and comparisons of performance.

Bibliography

€# *P3s in Canada*

For a public sector union perspective, see CUPE's WaterWatch campaign (www.cupe.ca). For an NGO perspective critical of private sector participation in water supply, see the Council of Canadians Blue Planet Project (www.canadians.org). For a business perspective supportive of private sector participation, see the Canadian Council for Public Private Partnerships (www.pppcouncil.ca). Pollution Probe's Elizabeth Brubaker has written a book (*Liquid Assets: Privatizing and Regulating Canada's Water Utilities* University of Toronto Centre for Public Management, 2002) advocating P3s and the involvement of the private sector in water supply in Canada. Maud Barlow (Council of Canadians) and Tony Clarke (Polaris Institute) argue the case against corporate management of water supply (*Blue Gold: The Battle Against Corporate Theft of the World's Water* Earthscan 2002). See also the reports commissioned by the Ontario government's SuperBuild (<http://www.superbuild.gov.on.ca>), which seek to facilitate P3s in the water sector.

€# *P3s in the United States*

NRC 2002 *Privatization of water services in the United States: An assessment of issues and experience*. Committee on privatization of water services in the United States, National Research Council. The National Academies Press (see <http://www.nap.edu/catalog/10135.html>)

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€# *Water governance in Canada*

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€# *Sustainable asset management*

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FCM 2002 Ahead of the Wave: A guide to sustainable asset management for Canadian municipalities . Prepared for the 2nd Annual Sustainable Communities Conference. February. Federation of Canadian Municipalities. Downloadable (<http://kn.fcm.ca/ev.php>)

The *National Guide to Sustainable Municipal Infrastructure* (www.infraguide.gc.ca/indexe.html) has published Best Practices Guides for a variety of topics.

€# ***Global water supply issues***

Gleick, P. 2000 'The changing water paradigm: A look at twenty-first century water resources development.' *Water International* 25(1), 127-138. (<http://www.pacinst.org/staffboard.html>)