

Big money to be made from water

... but big money needs to be spent to maintain infrastructure

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Nicholas DeBenedictis, chairman and CEO of Aqua America, was once Pennsylvania’s secretary of the Department of Environmental Resources.

Comedian Dennis Miller once said, “Only in America can you make money selling people something that falls for free from the sky.”

But whether it’s providing it, treating it, or disposing of it, there’s big money to be made in water, and that’s no joke.

The Christian Science Monitor reported last year that bottled water sales are \$50 billion

worldwide and are growing 10 percent a year.

In 2003, just 10 nations guzzled 29 billion gallons of water, and from 1997 to 2002, China's consumption of water tripled.

In an era equally marked by rampant obesity and an obsession with health, soda companies get a piece of both markets, and now count their bottled water divisions as among the most profitable.

"Auto companies want paint to stick. Power plants want to run boilers at high pressure. Soda companies want consistency," George R. Oliver, vice president of General Electric Infrastructure Water Technologies told The New York Times last year.

"Of course water is a growth business,"

Started in spring of 2001, GE's water tech division now generates \$1.4 billion a year in revenues.



Why so much?

Consider that Chevron/Texaco spends more than \$100 million a year on water treatment chemicals.

"People think water is easy to relate to: you flush it, you shower in it, you drink it," Andrew D. Seidel, chief executive of a California-based US Filter told the Times. "In fact, this is a complex business with 100,000 players providing kinds of products and services."

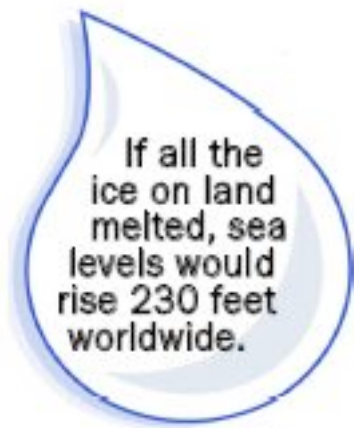
Just treating water for industry is a \$35 billion market and when you factor in municipal treatment, water-related revenue tops \$100 billion.

You don't have to tell that to Nicholas DeBenedictis, chairman and CEO of Aqua America, the largest publicly-traded water utility based in the U.S.

Founded in 1886 as the Springfield Water Company by a bunch of professors from Delaware County's Swarthmore College, it was most recently known as Philadelphia Suburban Water Company.

Aqua PA, the largest branch of Aqua America, provides 176 million gallons of drinking water to 1.2 million customers throughout Southeastern Pennsylvania.

Local customers include Perkiomen and Upper Providence townships in Montgomery County, East Nantmeal, Schuylkill and West Vincent townships in Chester County and Union and Robeson townships in Berks County.



In addition to the Schuylkill and Delaware rivers, the company draws water from area creeks including the Perkiomen, the Pickering, the Crum and the Brandywine.

Although its Pennsylvania base represents the largest branch, Aqua America has a total of 2.5 million paying customers in 13 states — and it's looking for more.

DeBenedictis — who was Pennsylvania's secretary of Department of Environmental Resources from 1983 to 1986 and director of the state's Office of Economic Development for two years prior to that — has driven the company's aggressive acquisition strategy since he took the company helm in 1993.

He explained that when suburban growth stalled in the 1970s, many water companies, including Philadelphia Suburban, diversified into other business.

"But they did not have the skills for those industries," he said,

Eventually, Aqua America went "100 percent into the water business." It's paid off.

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The company, now based in Bryn Mawr, posted \$18.9 million in revenues for the first quarter of 2005, a 21.2 percent jump from the first quarter of 2004.

DeBenedictis and his company are acquiring smaller companies in the belief that stricter federal drinking water regulations now in the works will be too expensive for the many smaller water companies that make up the more than 74,000 water providers in the U.S., all of which serve about 264 million people.

But the vast majority of those water systems, about 46,000, have fewer than 3,300 customers,

meaning all together, they serve only about 10 percent of the U.S. population, according to the U.S. Environmental Protection Agency.

More disturbing is that according to a 2000 investigation the EPA inspector general's office, those small systems accounted for 90 percent of the nation's systems "with a history of non-compliance."

Pennsylvania has more than 10,000 public water systems, the fourth highest number in the nation, according to the Pennsylvania Department of Environmental Protection.

"With EPA regulations coming down and growth slowing, going forward the advantage would be for the larger companies, who, with economies of scale, would be able to raise capital," DeBenedictis said.

Unlike small community systems, large private companies can afford the treatment upgrades the EPA will require as well as the cost of replacing aging infrastructure, DeBenedictis added.

"The ironic thing is the EPA has set a standard for (water treatment) plants that will cost hundreds of billions of dollars, and all that treated water will be sent through 100-year-old pipes," he said.

"Most of the (water) infrastructure in the Northeast is at least 100 years old," DeBenedictis said adding that most systems, even large municipal systems, don't have the financial ability or discipline to systematically replace aging pipes.

According to its Web site, the region's largest municipal water system, Philadelphia's, has 3,300 miles of water mains, 87 percent of which are made of cast iron and which are, on average, 76 years old.

The EPA has also estimated the nation faces a \$265 billion deficit in the money necessary to adequately replace and update the nation's water infrastructure, "and most of that is pipe," DeBenedictis said.

To have that cost shouldered by thousands of small private water companies "is no way to organize a basic service and it's no way to get efficient so you can afford to rebuild," said DeBenedictis, who argues "a great society is built on great infrastructure."

His company plans on "replacing 1 percent of our infrastructure each year. That might not sound like a lot, but that's one of the most aggressive schedules in the country," DeBenedictis said. "That means we're working on a 100-year cycle to replace our entire infrastructure."

In May, the company announced plans to spend more than \$80 million in infrastructure improvements throughout southeastern Pennsylvania, including a new tank in Upper Uwchlan and plant upgrades at the Pickering water treatment facility in Schuylkill.

Because the population in many cities is declining, and getting poorer, most cities can't afford to spread the cost of replacing infrastructure because their customers can't afford it.

Most cities, he argued "are on a 800- or 900-year cycle. Their answer is 'let the next mayor handle it.'"