



**Lisa Crossett says one-on-one relationships and a focus on strict regulations are key to developing successful investor-owned utilities.**

**Utilities, Inc.**

# Positive Flow

**T**he provision of potable water, wastewater treatment, and reclaimed water via investor-owned utilities presents a complex picture, from an economic, regulatory, and technological standpoint. State and local utility commissions restrict the rates, while environmental and safety initiatives elevate the capitalization needs. Still, Northbrook, Ill.-based Utilities, Inc., aspires to be part of as many of those pictures as possible. Currently operating more than 500 water utilities systems across 17 states, Utilities, Inc. reaches more than 1 million people.

Growth has been strong since the company began in 1965. Initially local to the Chicago area, today, the company's largest operations are in the Carolinas and Florida. Geographies range from urban New Jersey to the Nevada desert, while infrastructure age runs from just-developed communities to aging utilities that could not comply with the Safe Drinking Water Act of 1974 and the Clean Water Act of 1977 before Utilities, Inc.'s ownership.

"We've balanced organic growth with acquisitions," said COO Lisa Crossett. Initially owned by local investors, it was sold to Dutch energy production and distribution giant Nuon during its brief presence in the US. Today, Utilities, Inc. is a portfolio company of AIG Highstar Capital II, whose ownership, Crossett said, "gives us tremendous access to capital for this highly capital intensive industry. Private equity ownership has brought innumerable benefits to our company."

Utilities, Inc. is not the 1910 brick complex complete with smokestack and Palladian windows that marks a conventional municipal waterworks. "Some of our sourcing challenges are big ones," Crossett said. "Demands from population growth and increased consumption are depleting aquifers in many areas, and salt water is encroaching into freshwater in coastal areas. Many areas are saddled with arsenic, radium, or other contaminants in their sources."

For some of these areas, reverse osmosis and other sophisticated processes are becoming the norm. Not to mention that many acquisitions require significant upgrades in distribution and collection infrastructures along with the upgrades to water quality.

"One of the things that differentiates our company from others is that our revenue is fairly evenly split between both water and wastewater. Having the wastewater side of the utility gives us a unique opportunity to help reduce the use of potable water for irrigation by providing reuse to many areas," Crossett said.

The company is on record for preferring areas with regulatory rigor; Florida and North Carolina are two good examples. "We appreciate this kind of backdrop because our company works well in an environment where the rules are clear and the enforcement is consistent. When it is clear what is expected and how you will be treated when you follow the rules, it is much easier to make sound business decisions." Crossett said.

Utilities, Inc. depends on close relationships with regulatory commissions. "In a regulated market, commissions play the role of competition, overseeing quality service and working to ensure competitive rates," Crossett said.

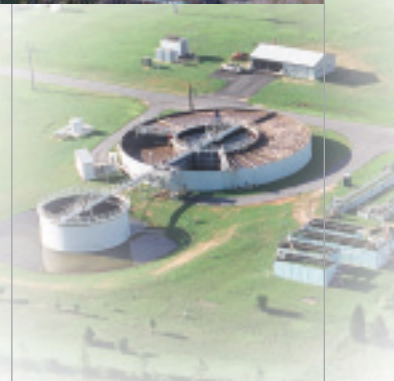
"It's a balancing act," she continued. "If a utility doesn't earn a fair return on its investment, investors will be reluctant to infuse capital into that company. If it looks like companies are earning too much, commissioners need to protect the customer to ensure that they are getting service commensurate with the rates they are paying. We're able to resolve things because we sit down at the table with the same objectives as the other players: a quality product at prices that are fair to everyone."

Fair dealing is also part of the company's strategy for winning new business, and Crossett believes in a one-on-one approach. "As with regulators, we depend on close relationships with developers," Crossett explained. "We depend on developers to keep their fingers on the pulse of local needs. Much of the work we do is educational; for example, explaining how investor-owned utilities can work with them or demonstrating how

centralized systems are superior to wells and septic systems. It has to be win-win or it won't work in the long run." Crossett said to some extent, the company knows it is doing a good job when it hears almost nothing from end users. "But we do allocate considerable thought and resources to customer service. We've made things like bill paying and service requests on our Web site as easy as possible, and people have responded positively to the ability to get things moving any time."

It helps that the product is good: in a recent blind taste test by the Florida Section of the American Water Works Association, of 11 candidates drawn from all areas of the state, the water at Utilities, Inc.-run Four Lakes water system was selected as the best tasting water in Florida. ■

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