

Some cry foul at Charleston Water System's decision to loan its logo to private company

Charleston City Paper

Charleston Water System, a public utility, has sold a private company the rights to use its logo in advertisements for warranty plans.

CWS inked the marketing agreement late last year with HomeServe USA, a company that sells service plans for residential exterior water service lines — that is, the length of pipe that carries water from a water meter to a house. In exchange for a set-up fee of \$120,000 and a 12-percent commission on any warranties sold, CWS gave HomeServe the right to use the CWS logo on mailed advertisements and send them to any household in the utility's service area.

Matt Lee, a CWS customer and cookbook author, caught wind of the deal when he received a mailer from HomeServe bearing the utility's logo at the top of the page. The letter, which he received shortly after buying a house in West Ashley, stated that for \$4.49 per month or \$53.85 per year, he could buy a warranty that covers up to \$7,000 toward certain repairs on the single section of pipe.

"This letter is to inform you that the original water service line buried underground on your property was installed before 1937," the letter began. "If you have not replaced or maintained this line, it may be at risk for age-related leaks or ruptures." Later, the letter reads, "Charleston Water System invites you to consider Exterior Water Service Line Coverage from HomeServe that is available to eligible Charleston homeowners."

The letter might have been right about the age of the service line — Lee's house was built in 1932. Other homeowners have received letters warning that their line was installed in the 1950s or "before 1967." But after learning that CWS had sold a private company the right to use its logo, Lee says, "It takes a certain amount of chutzpah on the part of the utility to think that that's justifiable."

"I think the thing that got me most lit up was I fell for it for a second," Lee says. "The three ingredients were the Charleston Water logo — which is exactly the same one as on my water bill every month — and nailing the age of the house, and the sort of urgency of that first line that led me for a second to believe that this was official business."

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CWS' endorsement of HomeServe stands in stark contrast to municipal governments and public utilities around the country that have been cautioning consumers about buying protection plans from the company. In March 2012 in Oregon, the Portland Water Bureau issued a warning to consumers that HomeServe was not affiliated with city government. In July 2012, the town government of Greenport, N.Y., posted a warning on its website after residents received solicitation letters from HomeServe: "This is in no way connected to the town of Greenport and is a scam," the warning said, adding that residents who receive a mailer from HomeServe should "destroy the letter."

Myles Meehan, a spokesman for HomeServe USA, says the company has "entered into dialogues with a lot of those communities to educate them on the types of services we provide." He says the town of Greenport removed the warning from its website after being contacted by HomeServe, and he adds, "I think one of the issues that a lot of communities like the ones you mention have is that they either weren't familiar with the types of services that we offer or hadn't taken the time to educate their homeowners about their responsibilities."

Still, the warnings from local governments and utilities kept coming. In April 2013, the Las Vegas Valley Water District issued a consumer alert about mailers being sent out by HomeServe. "The district has not seen any evidence that would indicate [breakage in residential service lines] is a major issue of concern in Southern Nevada," states the notice, which is still on the utility's website. Reached by phone, Water District spokesman Corey Enus said they decided to issue the statement after receiving calls from customers who thought HomeServe was somehow affiliated with the public utility. "We don't know exactly what their claims were; we just felt the need to distance ourselves," Enus said.

But CWS, a public water and wastewater utility serving the greater Charleston area, is doing the opposite of distancing itself from HomeServe. In exchange for a \$120,000 startup fee and a monthly commission that comes out to an average of \$4,700 in the first 10 months, CWS has given HomeServe the right to use its logo in mailers, with the stipulation that the utility must approve any marketing materials bearing the CWS logo.

The money CWS has made from the deal represents a small fraction of the budget for the utility, which reported revenues of \$114 million in 2013. According to a spokesperson, CWS recently started donating \$2,500 per month from the HomeServe proceeds to the Good Neighbor Program, which helps pay the sewer and water bills of low-income and disabled customers.)

Kin Hill, CEO of CWS, says the utility decided to offer the optional service line program "because of the high number of calls and questions we received about leaks and breaks on customers' private service

lines.”

“We looked at providing the service in-house, but determined that was not feasible, so we invited companies that offer this service to submit a partnership proposal and selected HomeServe,” Hill says.

The fine print

According to the terms and conditions of HomeServe USA’s Exterior Water Service Line Coverage, HomeServe will pay up to \$7,000 per year for a contractor to repair or replace a leaking or permanently blocked exterior water service line — which is defined as “a line supplying fresh water to the Residential Property from your property boundary to the external wall of your home.” According to the CWS website, which advertises the protection plan, the section of pipe that is the homeowner’s responsibility generally begins at the service connection or water meter and ends at the house.

“We find that many customers don’t realize the water and sewer pipes in their yard are part of their private plumbing system and that they are responsible for any repairs, which can be expensive,” says Jenny Craft, a spokesperson for CWS.

So, exactly how common are service line breaks? Meehan says that HomeServe USA estimates “there could be up to 1.1 million residential water service line breaks” in the United States this year, and that the cost of repairing a burst exterior water service line could be anywhere from \$1,500 to \$3,000.

But the service plan’s terms and conditions list very specific conditions under which damaged pipes are covered. In a section labeled What’s Not Covered, the document lists “Damage or negligence caused by you or others, unusual circumstances, including, but not limited to, earthquake, natural disaster, flood, civil disobedience, riot, or war.” The repair plan also does not cover “any damages necessary to reasonably access the repair area.”

So what, exactly, does the policy cover? One circumstance that Meehan says would be covered by a policy is damage caused by tree roots. According to Meehan, about 7,500 Charleston-area homeowners purchased a plan from HomeServe this year, and the company has sent out contractors to do 242 repair jobs since the end of January.

Meehan draws an important distinction: He says that what HomeServe provides is a warranty, not insurance. “Our plans are really designed for normal wear and tear, which insurance plans don’t cover,” Meehan says.

Because HomeServe is not considered an insurance agency under South Carolina state law, it does not have to register as one with the state Department of Insurance. A DOI spokesperson says the company has, however, been registered as a service contract provider since 2007). Accordingly, it does not have to disclose its loss ratios to state regulators, so any claims about how often customers use their policies

are hard to verify.

United Policyholders, a consumer watchdog group, has sometimes issued warnings against consumers purchasing plans from HomeServe or its subsidiaries. In the case of the coverage plans being offered in Charleston, Executive Director Amy Bach says consumers should pay close attention to the “unusual circumstances” exception in the contract.

“That really narrows the circumstances under which they would pay,” Bach says. “Here’s the thing: Negligence of you or others, that’s a pretty giant inclusion, and so is natural disaster.”

Bach says customers should check to see whether the exterior water service line is already covered by their homeowner’s insurance. She also is critical of CWS for allowing HomeServe to use its logo in mailed advertisements.

“To me that’s deceptive. That’s deceptive advertising, and I don’t know why the utility would allow themselves to be used that way,” Bach says.

A new approach

HomeServe USA is a wholly owned subsidiary of HomeServe plc, a company that offers similar services in the United Kingdom. The U.S. branch of the company began operating in 2003.

In the U.S. company’s early days, the Better Business Bureau of Connecticut reported that the company sent out advertisements containing silhouettes of the recipients’ states, a local P.O. Box return address, and “reply-by” dates that the BBB said “imply a misleading sense of urgency to purchase its service contracts.” The BBB removed the report from its website after HomeServe addressed its complaint, and, until recently, the company had a BBB rating of A-. After the City Paper reached out to the BBB to confirm details of this story last week, the rating was changed to A+ “to reflect resolution of some out-of-date issues,” according to a bureau spokesman.

In 2010 and 2011, attorneys general in three states took action against HomeServe operating in 2010 under the name Home Service USA) for mailing what they deemed misleading letters. In Ohio, the AG wrote that the letters HomeServe sent to 436,000 residents were “unfair and deceptive in their appearance and may lead a consumer to believe the communication is from a consumer’s local water service utility” and required the company to send follow-up letters explaining that their service was optional. In Kentucky, HomeServe paid a \$7,500 fine and agreed to mail out corrective letters. And in Massachusetts, HomeServe paid a \$75,000 fine and agreed to disclose in future advertisements that the company was not a part of National Grid, a utility company that serves several states in the Northeast. In June 2010, a few months after the Ohio and Kentucky attorneys general took action against it, the company changed its name to HomeServe USA.

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At some point, HomeServe also adopted a new tack: paying utility companies for the right to use their logos. According to Meehan, HomeServe has entered deals to “partner” with almost 50 utilities and municipalities around the country the company also entered a partnership with the AARP, formerly known as the American Association of Retired Persons, in November). Not all of the partnership deals are equal. In Alabama, the Birmingham Water Works got a cool \$300,000 set-up fee just for signing a marketing contract, more than twice what CWS got out of its deal.

In May 2012, after Iowa residents began receiving mailed solicitations from HomeServe, the Ames Tribune reported that the Consumer Protection Division of the Iowa Attorney General’s Office sent a letter to HomeServe warning that it would take enforcement action if the company continued mailing its advertisements to Iowans. “It is our position that the solicitation is deceptive in several respects,” wrote Consumer Protection Division Director William Brauch, noting similar complaints to the Better Business Bureau’s report.

Today, three public utilities in Iowa have entered partnerships with HomeServe, including in the state capital Des Moines.

Charleston Water System is the first utility in South Carolina to enter a partnership with HomeServe, although Meehan says other utilities in the state have expressed an interest. According to CWS spokesperson Jenny Craft, three companies submitted proposals for establishing a warranty partnership, and CWS chose HomeServe.

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CWS’ Board of Commissioners, an elected public body, voted to recommend signing the contract with HomeServe at its meeting on Sept. 23, 2013. Board member Dean Riegel says he had originally encountered HomeServe at a national symposium for public water utilities, where the company and others like it set up booths. “I noticed these home warranties seemed to be new. There seemed to be a number of them I hadn’t seen before,” Riegel said.

Riegel said he had reservations about selling the use of the public utility’s logo to a private company. “My primary concern was loaning the Charleston Water System logo would be like loaning the City of Charleston or CARTA logo out to somebody to use as marketing,” Riegel says. Meeting minutes show that the board voted unanimously to authorize staff to sign the agreement. Riegel was absent from the meeting.

In addition to buying partnerships with public utilities, HomeServe has also begun lobbying state attorneys general via donations to the Republican and Democratic Attorneys General Associations. As detailed in a database from an investigation of attorney general lobbying practices by the New York Times, HomeServe USA gave \$25,000 to the RAGA in the first nine months of 2014. S.C. Attorney General Alan Wilson was a speaker at a June 2014 RAGA national meeting at the plush Hotel Del Coronado in Coronado, Calif., which was also attended by two representatives from HomeServe USA — one of whom was Meehan.

But while other attorneys general have penalized HomeServe for operating in their states, Wilson's spokesman Mark Powell says consumer protection is outside the scope of the South Carolina AG's office. "The duties of attorneys general offices vary widely from state to state, and in some states consumer protection and criminal investigation are part of the attorney general's office. In South Carolina we do neither," Powell says. Powell directed questions about HomeServe to the state Department of Consumer Affairs, which reported that it has not received any complaints about the company.

Ann Roberson, a spokesperson for the S.C. Department of Insurance, says anyone with questions about warranty or insurance plans can contact the department's Consumer Services division at 1-800-768-3467.

"I would urge consumers to really read the fine print of the contract," Roberson says.

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