

## **The largely unregulated service plan industry is booming in South Carolina**

Charleston City Paper

A new type of junk mail has been showing up in South Carolinians' mailboxes over the past year. The one thing that makes it stand out from the pile of coupons, scams, and credit card offers? The logo of a public utility company, bought and paid for by an out-of-state service plan provider.

At least three different companies are angling to sign Palmetto State homeowners up for an array of service plans that promise to cover certain repairs on sewage pipes, air conditioning units, household appliances, and natural gas piping, among other things, for a monthly fee. The companies' advertisements warn that these repairs are a homeowner's responsibility and that certain home insurance plans might not cover them.

The Charleston Water System's logo was the one thing that kept Matt Lee from immediately throwing away a service plan offer he received last year from HomeServe USA, a Connecticut-based company that was offering repair coverage for his home's exterior water service line at a price of \$4.49 a month. Spotting the utility's logo, he tossed the envelope into his briefcase, where it floated around for a week before he got around to opening it.

When Lee finally read the offer, it reminded him of the solicitations he had seen in the mail while living with his 90-year-old grandmother.

"It takes advantage of all the tips and tricks for what most people call elder abuse: you know, the stick-on label, the sense of urgency, the scare tactics, and the sort of officious language in this case designed to make you think your water utility is asking you to cover your pipes because they're about to blow up," Lee says.

Now, reasonable people could debate the wisdom of spending \$54 a year on \$7,000 worth of coverage for a single pipe that's maybe a few yards long. HomeServe's marketing materials claim that a water service line break can cost anywhere from \$416 to \$2,223 to repair. But that's not what this story is about.

This story is about public utilities across South Carolina taking money to endorse private companies.

Since 2013, three public utilities have agreed to take an up-front setup fee and a cut of the proceeds to help hawk HomeServe's service plans to its customers. The Charleston Water System, a municipal utility owned by its ratepayers, signed on in September 2013. The Beaufort-Jasper Water & Sewer Authority (BJWSA) and the city of Columbia's municipal water system both followed suit in January 2015, and records indicate that CWS was listed as a reference when Columbia City Council was weighing the merits of the marketing agreement.

South Carolina Electric & Gas, a regulated public utility serving much of the Midlands and Lowcountry, signed a similar marketing agreement with one of HomeServe's competitors, Virginia-based Dominion Products and Services, in April 2014. A third company, New Jersey-based American Water Resources, has submitted proposals to enter partnerships with utilities including Columbia and Charleston's but hasn't established any turf in South Carolina yet. Instead the company is mailing solicitations to homeowners and including the phrase "Information about Charleston Water System" on the outside of the envelope, according to one Charleston Water System official.

The Beaufort-Jasper Water & Sewer Authority was the second utility in South Carolina to sign a marketing deal with HomeServe USA.

The utility companies in Charleston, Beaufort, and Columbia are all governed by publicly elected boards who signed off on the marketing agreements. (A BJWSA spokesman says the decision was ultimately up to the utility's general manager, but the board of directors was advised.) In some ways their endorsement is unprecedented, analogous to the S.C. Department of Health and Environmental Control putting its stamp of approval on mailed advertisements for Pfizer pharmaceuticals.

But HomeServe has been collecting city seals and utility company logos like Pokémon cards since at least as early as August 2009, entering more than 50 "partnerships" with utilities and municipalities. South Carolina was just late to the game.

The nationwide trend of utilities entering partnerships with service plan companies is troubling to Amy Bach, a consumer advocate with the insurance watchdog group United Policyholders.

"I think it's just wrong, period," Bach says, "especially if the utility is not going to take a role in overseeing whether these products are providing value to their customers."

Open season

Why, you may ask, did public utilities and local elected bodies get into the business of selling endorsements to private companies?

If you ask officials from the Charleston Water System, they'll tell you they sought out proposals from

various service plan providers after getting phone calls from customers who were simply unaware that pipes buried under their property were their own responsibility. CEO Kin Hill estimates that the utility receives about 1,000 such phone calls a year from its network of 95,000 domestic accounts. “We decided to offer an optional service line program to customers because of the high number of calls and questions we received about leaks and breaks on customers’ private service lines,” said CEO Kin Hill when theCity Paper first started investigating the utility’s agreement with HomeServe.

Photo illustration by Scott Suchy

But that explanation doesn’t work for SCE&G, a company that doesn’t even offer water and sewer services. When Dominion Products and Services started eyeing the South Carolina market, the company recognized the trustworthiness of the SCE&G brand, according to a Dominion spokesman. Eric Boomhower, a spokesman for SCE&G’s parent company SCANA, agrees.

“The question might be ... what’s the connection between utilities and these repair programs? Well, certainly you have the value of the recognition,” Boomhower says. “We’ve been here a long time. We’re going to be here tomorrow. You don’t have to worry if this is some kind of fly-by-night company that’s coming in and trying to get business going.”

In South Carolina, it’s open season for companies like HomeServe and Dominion because they are scarcely regulated. Unlike in some other states, these companies’ service plans are not classified as insurance products. Insurance companies are required to report their loss ratio (a proportion of claims paid to premiums earned) to the S.C. Department of Insurance. Service plan providers are not. Also, in the case of SCE&G’s agreement with Dominion, the marketing deal falls under the unregulated segment of SCE&G’s business. Whereas the utility must make its case to the Public Service Commission any time it wants to make a utility rate hike, the company has free rein when it comes to selling service plans.

Last year, one mailer advertising Dominion’s service plans via SCE&G made no mention of Dominion’s name except for once in the fine print on the back. Boomhower says he hasn’t had to talk a lot about service plan sales in his role as a company spokesman.

“I just haven’t gotten any questions about them, really,” Boomhower says.

Although service plan providers are not subject to the same oversight as insurance providers in South Carolina, they could be investigated by the S.C. Department of Insurance. So far, a spokesperson says, the Department of Insurance has not received any complaints about HomeServe USA or Dominion Products and Services.

## Public relations

American Water Resources and Dominion Products and Services rarely appear in the news. But for one reason or another, if you set up a Google Alert for HomeServe USA, you're going to get bombarded by stories.

In places where HomeServe USA hasn't bought an endorsement from a local utility, public officials and utility companies have been crying foul about HomeServe's marketing techniques for years. Several times a month, a municipality somewhere in the U.S. issues a warning to its constituents clarifying that HomeServe's mailed solicitations have nothing to do with official city business.

Last October, in one typical warning, a town manager from St. Albans, Maine, told a local newspaper there, "I'm afraid that the elderly or other residents will get sucked in. It reads like there is a benefit to get if you pay, and I'm just concerned that someone will actually end up paying for it."

HomeServe USA spokesman Myles Meehan says many of the complaints come from community leaders who either "hadn't taken the time to educate their homeowners about their responsibilities" or weren't familiar with the types of services his company offers.

The City of Columbia signed a contract in January allowing HomeServe to use the city seal and a letter from the city manager in mailed advertisements.

"We've actually entered into dialogues with a lot of those communities to educate them on the types of services we provide," Meehan says.

As HomeServe's senior vice president for public relations, Meehan has his work cut out for him. On a few occasions, after local newspapers published pieces that were critical of HomeServe, they later ran letters to the editor by Meehan highlighting many of the same talking points from the company's mailed advertisements.

Meehan also performs some roles that go above and beyond an average PR professional's duties. He attended the 2014 Republican Association of Attorneys General conference as a representative of his company. In 2012 Meehan even got an article published in the peer-reviewed journal of the American Water Works Association, writing, "Many utilities are considering offering emergency repair service plans to their residential water consumers to create stable new funding and increase customer satisfaction." One way or another, HomeServe USA claims to have 1.8 million homeowners signed up for coverage. The Institute of Direct and Digital Marketing has called HomeServe USA's U.K. parent company, HomeServe plc, "the direct marketing success story of the decade" — and with good reason. In a recent profile of HomeServe plc CEO Richard Harpin, the Birmingham Post reported that the company had pulled in \$854.8

million in revenue in a single year, with strong growth in Spain and the United States.

The money pipeline

The arrival of service plan offers in South Carolina mailboxes has been accompanied by a surge of money into the state from the companies offering the plans.

HomeServe USA alone has promised \$225,000 in startup fees to its three South Carolina utility partners since 2013, plus a commission ranging from 7 percent to 12 percent. The city of Columbia, which has had a hard time funding its water system recently, also gets a cool \$10,000 per year out of the deal).

HomeServe has entered similar deals around the country, including in Alabama, where the Birmingham Water Works got a \$300,000 set-up fee just for signing the contract. After HomeServe faced censure or fines from three different states' attorney general in 2010 and 2011, the company also started giving money to the Republican and Democratic Attorneys General Associations in 2012. HomeServe has since given a total of \$75,000 to the RAGA and DAGA S.C. Attorney General Alan Wilson is a member of RAGA). Dominion Resources is a big spender, too, although the company's campaign contributions must be taken with a grain of salt. Dominion is primarily a producer and provider of natural gas and electricity, and the company's lobbying disclosures state that most of its activism at the national level has focused on issues relevant to those industries. Still, there's plenty of Dominion money entering South Carolina via political contributions — although some of it is hard to trace.

Since 2009, Dominion Resources has given \$275,000 to the Republican Governors Association of which Gov. Nikki Haley is a member) and \$70,000 to the Republican Legislative Campaign Committee.

Dominion Resources CEO Thomas F. Farrell II has given \$25,000 to the Republican Super PAC American Crossroads and \$35,000 to the right-leaning Young Guns Action Fund.

Dominion and its employees have given more than \$86,000 to Every Republican Is Crucial ERICPAC), which in turn has given \$20,000 to the campaign of Sen. Tim Scott, \$20,000 to Rep. Jeff Duncan, \$10,000 to Rep. Trey Gowdy, \$10,000 to Rep. Tom Rice, \$5,000 to Rep. Mark Sanford, and \$5,000 to Rep. Joe Wilson.

Dominion Resources' own PAC can't give as much money directly to candidates due to caps on individual contributions, but it did give a combined \$14,500 to the campaign accounts of Rep. Jim Clyburn, Sen. Lindsey Graham, and Sen. Tim Scott over the course of 2013 and 2014.

SCE&G receives an unspecified cut of the money from every service plan it sells for Virginia-based Dominion Products and Services.

As for the payouts to SCE&G, a spokesman for Dominion was unwilling to say how much his company

gave SCE&G for marketing rights, but Boomhower says the utility takes “a small percentage of the retail price” that varies depending on the type of repair program.

One more infusion of money came in December 2014 when Dominion Products and Services’ parent company, Dominion Resources, agreed to buy SCE&G’s sister company Carolina Gas Transmission Corp. from SCANA for a reported \$493 million. When the deal goes through, Dominion Resources will control 1,500 miles of natural gas pipeline in South Carolina and Georgia.

‘A newish industry’

Consumer advocate Amy Bach says service plan companies are benefiting from two advantages in South Carolina. First of all, she says, “There’s no question that this is a newish industry and they’re unregulated.” Dominion Products and Services started offering service plans in 2003, and HomeServe also opened its U.S. branch in 2003.

Second, Bach says, the companies are getting way more than their money’s worth out of the utility company logos they’ve bought the rights to use. “Just the incremental value of people opening the envelope versus tossing it, that’s a huge value,” Bach says.

Bach says there are other solutions available for utility companies that are concerned about the structural integrity of water service lines on their ratepayers’ property.

“Yes, pipes often burst and leak and home insurance covers less of that than they used to,” Bach says.

“Rather than partnering with HomeServe to help them get people to fork over money on top of what they pay for home insurance, I’d like to see utilities pressuring insurance companies to improve water damage coverage in their home policies.”

And from a regulatory standpoint, Bach says she would like to see service plans classified as insurance.

“The fact that water line repair policies are classified as a ‘warranty’ is just unfair,” Bach says. “They’re insurance: exclusions, limits, conditions, and all.”