



Steven L. Beshear
Governor

Leonard K. Peters
Secretary
Energy and Environment Cabinet

Commonwealth of Kentucky
Public Service Commission
211 Sower Blvd.
P.O. Box 615
Frankfort, Kentucky 40602-0615
Telephone: (502) 564-3940
Fax: (502) 564-3460
psc.ky.gov

David L. Armstrong
Chairman

James W. Gardner
Vice Chairman

February 10, 2012

Mr. Edward A. Baylous II
Aqualine, LLC
3520 New Hartford Road
Suite 303
Owensboro, Kentucky 42303

Re: Billing Agreements

PSC OPINION NO. 2012-006

Dear Mr. Baylous:

Commission Staff acknowledges receipt of your letter of November 21, 2011 in which you request an opinion on a water utility's authority to bill for non-utility services. I apologize for the delay in responding.

In your letter, you present the following facts:

Aqualine, LLC is a limited liability company that is organized pursuant to KRS Chapter 275. It also operates under the name "Aqualine Protection." In return for a monthly service charge, Aqualine provides repair services for customer-owned water lines. Customers execute an agreement with Aqualine for the service, but may discontinue the service without penalty.

Aqualine has approached several water utilities regarding billing for this service. It requests that the water utility bill any subscribing customer for the repair service on the customer's monthly utility bill. In return, Aqualine would compensate the water utility for all costs associated with the billing. The water utility would remit to Aqualine only those amounts that are collected. At least one water utility has questioned whether the proposed billing arrangement violates existing law.

Your letter presents the following issue: Does KRS Chapter 278 or the Commission's regulations prohibit a water utility from providing billing services for repair services?

Commission Staff is not aware of any provision in KRS Chapter 278 or the Commission's regulations that prohibits a water utility from performing bill and collection services for private non-utility entities. The Commission has previously authorized a water utility to perform billing services on behalf of private entities.¹

While neither KRS Chapter 278 nor the Commission's regulations prohibit a water utility from performing billing and collection services for a private entity, 807 KAR 5:006, Section 14, limits a utility's ability to discontinue service to "a point of delivery for nonpayment of charges incurred for utility service at that point of delivery." Therefore, a water utility may not terminate water service for a customer's failure to pay a non-utility related fee or charge, such as the monthly service fee that Aqualine proposes to assess.

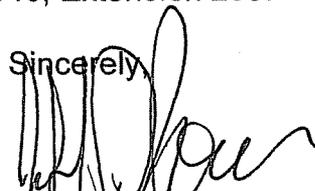
Generally accepted ratemaking practices, moreover, require any water utility that is performing billing and collection services for a private entity to properly allocate the cost of those services to that entity. In any ratemaking proceeding, the Commission will examine this allocation and, if it determines that the utility has failed to make a reasonable cost allocation, impute additional costs to the private entity to ensure that the water utility's ratepayers do not bear any of the costs associated with the private entity's billing.

Finally, when determining a utility's revenue requirement and the rates necessary to produce that requirement, the Commission may consider any revenues that a water utility derives from performing billing and collection services for a private entity as additional income to reduce the utility's revenue requirement.

This letter represents Commission Staff's interpretation of the law as applied to the facts presented. This opinion is advisory in nature and not binding on the Commission should the issues herein be formally presented for Commission resolution.

Questions concerning this opinion should be directed to Gerald Wuetcher, Executive Advisor/Attorney, at (502) 564-3940, Extension 259.

Sincerely,



Jeff Derouen
Executive Director

gw

¹ See, e.g., *Laurel County Water District No. 2*, Case No. 2000-440 (Ky.PSC Dec. 13, 2000). See also *An Investigation Into the Collection and Billing Practices of Privately-Owned Sewer Utilities*, Administrative Case No. 349 (Ky. PSC Jan. 9, 1995).

**AQUALINE
PROTECTION**

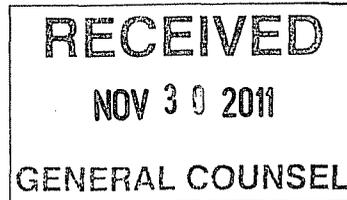


Providing superior service, improved customer relations and water conservation.

Legal

November 21, 2011

Jeff R. Dorouen
Executive Director
Kentucky Public Service Commission
PO Box 615
Frankfort, KY 40602-0615



RECEIVED

NOV 28 2011

PUBLIC SERVICE
COMMISSION

Re: Opinion on Billing Agreements

Dear Mr. Dorouen:

I am writing on behalf of Aqualine, LLC. Our company provides repair services for customer owned water lines and is beginning to solicit customers in the Commonwealth of Kentucky. To reduce cost to the consumer, we have designed our program to be billed directly by the water utility to those customers who wish to receive our service. One utility we approached expressed concern as to whether providing billing services for our company to their customer violates any statutes or regulations overseen by the Public Service Commission. Therefore, I am requesting an opinion as to whether our proposed agreement is barred or limited by any statute or regulation within the scope of the public service commission's authority.

Our contract with the utility provides the following:

- a. The utility is compensated for all costs associated with providing the billing service to Aqualine, LLC.
- b. Enrollment in the service is optional and any be discontinued at any time.
- c. The utility is responsible to remit to Aqualine, LLC only those amounts actually collected by the utility.

Enclosed is a copy of a promotional DVD we show to prospective utility customers. We understand and fully agree that it would be unlawful for a utility to discontinue water service based on a customer's failure to pay the fee for our service or to make the service mandatory.

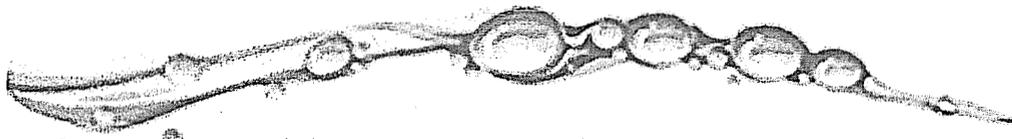
If you require any further information, please feel free to contact me.

Sincerely,

Edward A. Baylous II

3520 New Hartford Rd., Suite 303 Owensboro, Ky 42303 Phone 270-689-2121 Fax 270-689-3876

AQUALINE PROTECTION



RECEIVED

NOV 28 2011

PUBLIC SERVICE
COMMISSION

*Providing superior service, improved
customer relations and water
conservation.*

3520 New Hartford Rd., Suite 303 Owensboro, Ky 42303

Phone 270-689-2121 Fax 270-689-3876

Toll Free 855-337-3100

AquaLine Protection

The water service line is part of a deteriorating underground infrastructure of America.

Many Homeowners do not realize that they are responsible for all repairs on their water line from the property line to the home.

We will show you how to ease the problems associated with the repair or replacement of these service lines.

- Most customers are unaware that their homeowners insurance does not cover water line breaks. Therefore they get upset, even angry with their water utility and its management when confronted with a line failure.
- By using AquaLine Protection you are assuring improved relations with your customer
- This can only be done through the water utility and not individual agreements.
- Utility to handle billing, collection and call center. AquaLine Protection will reimburse the water utility for this service.

- Conservation factor (see AWWA studies)
- 80% or more participation will result in the lowest cost.
- A 1(one) year renewable agreement.
- Homeowner can opt out at any time.
- We will use a local authorized professional service agent who will handle everything including any necessary permits
- After repairs everything will be returned to original condition or better.
- No rate increase to customer
- Customer will pay a small monthly charge added to their utility bill
- Backed by a reputable insurance company
- No longer will the customer become angry at utility for not providing service

Aqualine Protection offers a program to ensure that these leaks will be repaired by qualified Licensed professionals in a timely fashion with NO CHARGE to the homeowner...

There are NO DEDUCTIBLES.

Most homeowners never imagine that their water lines will fail. But it's a fact that they do. Take the stress and expense of water line repairs out of your life. Turn costly repairs over to us with AquaLine Protection.

AquaLine Protection provides you:

- Valuable protection for your home
- Convenient billing on your water bill
- Water line repair or replacement
- Local agent management
- Guaranteed service

How will Aqualine Protection benefit me?

- When your water line breaks, you make one call, and we handle the rest. We will schedule the repair, manage the agent, and pay for the repair
- Water line repairs can cost a thousand dollars or more.
- Aqualine Protection will pay for covered repairs
- You can rest easy knowing that you have turned the stress and expense of costly water line repairs over to us.
- Don't worry about paying another bill – the low monthly fee will be billed with your water bill

Your home is your most valuable asset. Why leave it unprotected when a single water line break can cost thousands of dollars?

AquaLine Protection

- The water lines at your home are most likely very old
- A leaking water service line may cause \$1,000's of dollars to repair or replace
- Leaking water causes your bill to increase
- Protect this most valuable asset before you have to pay out thousands of dollars in repair or damage
- Protection for just pennies a day
- You can have peace of mind knowing those old pipes will be repaired or replaced at no cost to you
- There is no deductible charge for these repairs

Expenses may include:

- Cost of lost water
- Cost of sewer based on water consumption
- Cost of repair or replacement of the water line
- Cost of restoration of property to original condition

AquaLine Protection will pay for:

- All repair and/or replacement of waterline
- All charges for water loss based on average usage for the previous 12 months
- All Charges for sewer based on water consumption for previous 12 months
- All costs to restore property to original condition

AquaLine Protection will:

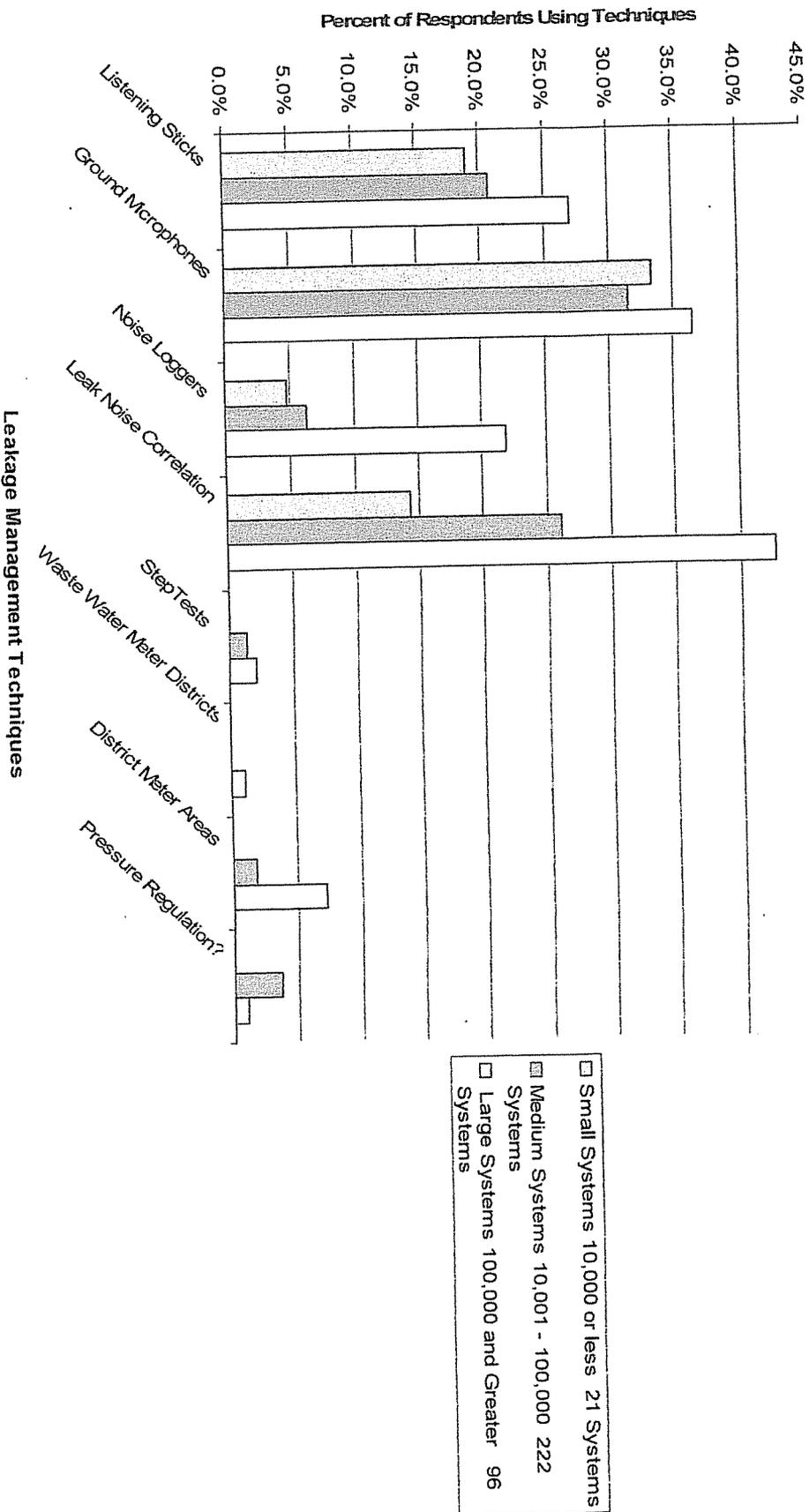
- AquaLine Protection will provide a 24 hour call center
- AquaLine Protection will respond to all calls within 2 hours
- AquaLine Protection will have the leak repaired within 48 hours

WATER: \STATS Surveys

- ◆ 1996 Survey: Covered all major aspects of utility operations
 - *Results: good response, diverse but high-level data*
- ◆ Subsequent Surveys Cover Specific Aspects of Utility Operations
 - *Rates and Finance 1999*
 - *Distribution 2002*
 - *Water Treatment*
 - *Water Quality*

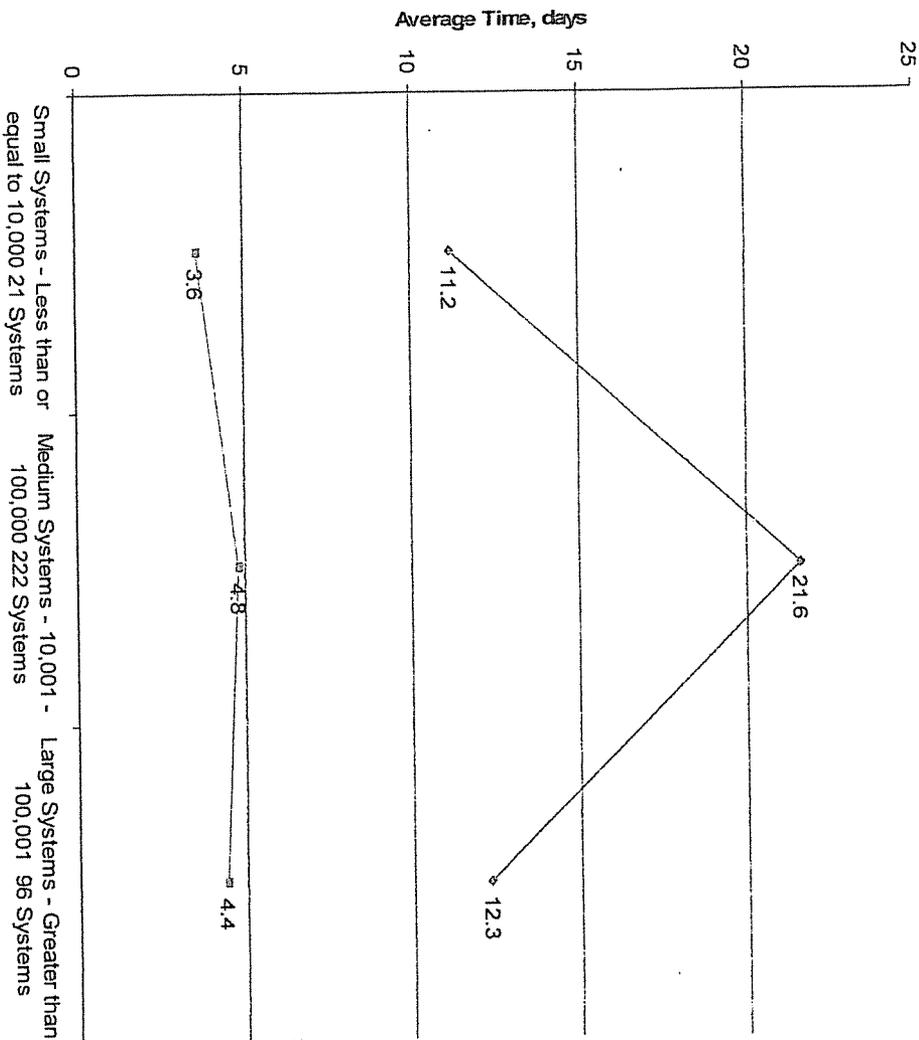
Leakage Management Techniques

WATERSTATS 2002 Distribution Survey
Leakage Management Techniques



Service Line Leak Repair Times

AWWA WATER:STATS 2002 Distribution Survey
Average Leak Repair Completion Time



◆ Average Days Until Enforcement (for Customer Repairs)
 □ Average Days to Repair a Leak (when Utility makes repairs)

Water Treatment Industry Assurance Company
c/o WaterColor Management, Inc.
P. O. Box 1132
Decatur, AL 35602

January 15, 2011

To Whom It May Concern:

Water Treatment Industry Assurance Company (WTIA) has over 25 years of experience in providing outstanding financial security in the water treatment industry.

Water Treatment Industry Assurance Company is pleased to be a partner with Aqualine Protection, providing its sound financial experience and support to this exciting new venture.

The scope of our agreement includes the United States and Canada.

Respectfully,



Carol E. Brooks
Corporate Secretary
Water Treatment Industry Assurance Company

Financial Stability: The financial condition of an insurance organization is an important element in public confidence. In this regard we believe the fundamental factors listed below are significant. The following is a Comparative Analysis of these basic factors, comparing W.T.I.A. with the *Aggregate of the insurance industry. Using these aggregates as a yardstick, a number of comparisons can be made. Some of the most significant ones are shown below. Basic significant factors of the company featured herein are derived from the annual statement as of December 31, 2008.

*Aggregate Averages of 15 large Stock and Mutual Property and Casualty Companies as of December 31, 2008.

ASSETS TO LIABILITIES Assets for each \$100 of Liabilities. A wide margin of Assets over of Loss Adjustment Liabilities can be a significant safety. This indicates financial soundness and a Company's ability to meet all obligations as they become due.

Aetna Casualty & Surety Co., CT -----	\$ 127.49
Allstate Insurance Co., IL -----	129.37
American Home Assurance Co., NY ----	120.01
Continental Casualty Co., IL -----	128.95
Farmers Insurance Exchange, CA -----	128.63

Hartford Fire Insurance Co., CT -----	153.99
Liberty Mutual Insurance Co., MA ----	116.72
National Union Fire Ins. Co, PA -----	119.21
Nationwide Mutual Insurance Co., OH	138.41
St. Paul Fire & Marine Ins. Co., MN ---	122.31

State Farm Fire & Casualty Co., IL ----	159.06
State Farm Mutual Auto Ins. Co., IL ---	203.23
Travelers Indemnity Company, CT ----	127.97
United Services Automobile Assn., TX	199.96
United States Fidelity & Guaranty, MD	119.06

Average 15 Property & Casualty Co.'s	141.10
W.T.I.A. -----	151.27

SURPLUS TO LOSS RESERVES (Surplus per \$100 Reserves, including Loss Expenses Reserve). A high ratio of factor. Surplus (included Capital, if any) per \$100 of Loss Reserves may show further proof of strength and stability.

Average 15 Property & Casualty Co.'s	\$ 57.24
W.T.I.A. -----	\$131.09

SURPLUS TO PREMIUMS WRITTEN (Surplus, including Capital, if any) Per \$100 of Premiums Written. A large surplus ratio may indicate the ability to maintain a proper balance between surplus and the volume of business written.

Average 15 Property & Casualty Co., 's	\$67.49
W.T.I.A. -----	\$134.75

INVESTED ASSETS IN CASH, BONDS & STOCK Assets in Cash, Bonds and Stocks for each \$100 of Liabilities. A substantial amount of Assets readily convertible to cash can be an indication of the ability with which an insurer may meet unforeseen emergencies that may arise.

Average 15 Property & Casualty Co.'s	\$111.90
W.T.I.A. -----	\$121.61

FINANCIAL STATEMENT SUMMARY AS OF December 31, 2008

Assets	Liabilities	Gross Surplus
\$12,713,568.	\$8,404,782.	\$4,308,786
Net Premiums Written	**Losses Incurred	**Loss Reserves
\$3,197,620	\$1,255,184.	\$3,286,962.

Premiums Earned \$3,093,282.

** Includes Loss Expenses Incurred

*** Includes Loss Adjustment Expenses Reserve

AquaLine Protection

Claim Register

Date: _____ Time: _____

Claim #: _____

Name: _____

Address: _____

Phone#: _____

Alternate Phone#: _____

Contact Person: _____

Description of Claim: _____

Response time of day: _____

Date & Time Repaired: _____

\$ Amount of Repair: _____

Repair Person: _____

The Village of Farina, in conjunction with Aqualine Protection, is excited to announce a new optional service available to its residential water customers. For monthly charge of _____, only pennies per day, the Aqualine Protection Service will provide repair or replacement of leaking or faulty water service lines for residential customers. The local water utility is responsible for maintaining the water line system up to and including the water meter. Many people are not aware that the homeowner is responsible for the cost of maintaining service lines beyond the water meter. Leaks and other failures of water lines outside the home are not typically covered by homeowner's insurance policies leaving the homeowner to pay the cost of repairs which can run into thousands of dollars.

There is a cost associated with every gallon of water produced by the Farina Water Utility. When a customer's water line leaks a difficult choice must be made as to who should pay for the water lost to the leak. If the customer is not billed for the excess water, other customer must share the cost. If the bill for excess water is not forgiven, the utility customer must bear the unexpected cost of promptly correcting the situation or incur increasing water and sewer charge while the leak is not repaired. Aqualine Protection Program eliminates these dilemmas.

Aqualine Protection Program is designed to provide homeowners with an easy, low cost way of for getting water service line failures promptly and professionally corrected. Aqualine Protection uses local professionals to assure its service will be quick and in compliance with all local requirements. With the cooperation of the local water utility, leaks can be reported directly to the local utility and the Aqualine Protection Program is conveniently billed to the customer on each month's utility bill.

In the next week to ten days you will be receiving a notice giving a detailed explanation of the Aqualine Protection Program with a prepaid response postcard. If you do not wish to participate in the Aqualine Protection Program, simply indicate this on the postcard and drop it the mail. Those who do not return the postcard will be automatically enrolled. The monthly charge for the service will begin appearing on your _____ utility bill with the Aqualine Protection Service becoming effective on that billing date.