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STATE CORPORATION COMMISSION

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APPLICATION OF

VIRGINIA NATURAL GAS, INC.,

CASE NO. PUR-2024-00117

and

AGL SERVICES COMPANY

For approval related to the reorganization of an affiliate in connection with a services agreement under Chapter 4 of Title 56 of the Code of Virginia

ORDER GRANTING APPROVAL

On July 1, 2024, Virginia Natural Gas, Inc. ("VNG"), and AGL Services Company ("AGSC") (collectively, "Applicants"), filed an application ("Application") with the State Corporation Commission ("Commission") pursuant to Chapter 4 of Title 56 of the Code of Virginia ("Code")¹ to request any necessary approvals for their services agreement ("Service Company Agreement")² related to the proposed reorganization of their affiliate, Global Energy Resource Insurance Corporation ("GERIC").

¹ Code § 56-76 *et seq.* ("Affiliates Act").

² The Service Company Agreement was initially approved by the Commission in 2015. *See Application of Virginia Natural Gas, Inc. and AGL Services Company, For approval of an amendment to a services agreement under Chapter 4 of Title 56 of the Code of Virginia*, Case No. PUE-2015-00079, 2015 S.C.C. Ann. Rept. 363, Order Granting Approval (Oct. 9, 2015). Since then, it has been modified and approved by the Commission multiple times, with the most recent iteration approved in 2020. *See Application of Virginia Natural Gas, Inc., and AGL Services Company, For approval of an amendment to a services agreement under Chapter 4 of Title 56 of the Code of Virginia*, Case No. PUR-2020-00133, 2020 S.C.C. Ann. Rept. 587, Order Granting Approval (Sept. 8, 2020) ("2020 Order"). As an additional basis for their Application, Applicants cite provisions in the 2017 Service Company Agreement that require separate Commission approval if certain future allocation factor changes were desired. *See Application at 1 and 5, citing Application of Virginia Natural Gas, Inc., and AGL Services Company, For approval of a revised services agreement under Chapter 4 of Title 56 of the Code of Virginia*, Case No. PUR-2017-00093, 2017 S.C.C. Ann. Rept. 533, Order (Aug. 30, 2017), at Appendix, paragraphs (4) and (5).

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VNG is a public service company providing natural gas local distribution in its service territory in Virginia and located in Norfolk, Virginia. AGSC is a service company that provides management, administrative, and other services ("Centralized Services")³ to Southern Company Gas ("GAS") and its subsidiaries, including VNG. GERIC is a captive insurance company licensed in Georgia. VNG, AGSC, and GERIC are subsidiaries of GAS, which is a wholly owned subsidiary of Southern.

GERIC underwrites a portion of insurance coverage for GAS and its subsidiaries (collectively, "GAS's"), retaining a small amount of insured risk of up to \$1 million per type of coverage (except for automobile liability and terrorism insurance, where the self-insured retentions are higher), and purchasing insurance from third party insurers to cover risks above the self-insured amount.⁴ GERIC transacts directly with commercial reinsurers so that it can customize the terms and conditions of GAS's insurance coverage and control the costs of GAS's coverage deductibles, while at the same time minimizing brokerage and administrative costs by avoiding insurance agents, brokers, and traditional insurers.⁵ Historically, GERIC has provided property, public liability, directors and officers side A, and fiduciary insurance coverage through AGSC to VNG. GERIC primarily uses actuaries to determine the price of its insurance

³ The Service Company Agreement lists 18 categories of Centralized Services. See Application, Exhibit B, at 9-14 and Applicants' Response to the Commission's Staff ("Staff") Data Request ("DR") No. 2-7, attached to Staff's action brief filed herewith. Twelve direct and indirect subsidiaries of The Southern Company ("Southern") (including AGSC) provide direct and indirect Centralized Services to VNG (collectively, "Service Affiliates") under the Service Company Agreement. See Applicants' Response to Staff DRs 1-1 and 1-6, attached to the action brief.

⁴ See Application at 5-6.

⁵ *Id.* at 6.

premiums.⁶ GERIC's premiums do not include (a) a return on investment component, or (b) brokerage fees, and VNG is not required to contribute to a claims reserve fund.⁷

Southern, the Applicants' senior parent, plans an internal reorganization to move GERIC from being a GAS affiliate to becoming a wholly owned subsidiary of a direct Southern affiliate so that GERIC can provide insurance services to all of Southern's subsidiaries, in addition to GAS and its subsidiaries.⁸ Once GERIC becomes a Southern subsidiary, GERIC's insurance premium costs will be billed from Southern Company Services ("SCS") to AGSC, booked to AGSC Account 923 (Outside Services Employed), and then allocated to VNG.⁹ The Applicants represent that GERIC's allocation factor methodology will not change (*i.e.*, using payroll percentage for liability insurance, and property value percentage for property insurance), but the amount of GERIC's insurance allocation to VNG may change because GERIC will be underwriting insurance for more Southern subsidiaries.¹⁰

The Applicants state that GERIC's reorganization will have no impact on VNG's customers.¹¹ The Applicants further represent that no change to the current Service Company Agreement is necessary to effectuate the reorganization of GERIC,¹² and that they do not seek an

⁶ *Id.*

⁷ *Id.* at 6-7.

⁸ See Application at 7; Applicants' Responses to Staff DRs 1-2 and 1-3 attached to the Staff action brief filed concurrently with this order.

⁹ Application at 7. Staff describes indirect Centralized Services provided by third party affiliates (GERIC and SCS) through a direct affiliate (AGSC) to a Virginia utility (VNG) as "Pass Through Services."

¹⁰ *Id.*

¹¹ *Id.*

¹² *Id.*

extension of the approval end date granted in the 2020 Order. Finally, "[i]n order to assure the Commission that VNG's affiliates do not receive preferential treatment when such Centralized Services are provided by an affiliate through AGSC under the Current Agreement, VNG again commits to regularly investigate the existence of alternative markets or service providers and pay the lower of cost or market for any such Centralized Services."¹³

NOW THE COMMISSION, upon consideration of this matter, and having been advised by its Staff through Staff's action brief, and having considered the Applicants' response thereto, is of the opinion and finds that GERIC's proposed reorganization and the current Service Company Agreement are in the public interest and should be approved subject to the requirements listed in the Appendix attached to this order. We will specifically continue to require that VNG provide thirty (30) days' notice to the Commission prior to any changes in how pass through services are provided to VNG.

Accordingly, IT IS ORDERED THAT:

- 1) GERIC's reorganization and the Service Company Agreement are approved subject to the requirements listed in the Appendix to this order.
- 2) VNG must seek Commission approval at least ninety (90) days prior to any proposed modification or amendment in the approved Service Company Agreement becoming effective.
- 3) If VNG wishes to continue the Service Company Agreement beyond the timeframe approved in this Order, VNG must seek separate approval by submitting a complete filing at least ninety (90) days prior to the expiration of the Commission's approval in this matter.
- 2) This case is dismissed.

¹³ *Id.* at 9.

A COPY hereof shall be sent electronically by the Clerk of the Commission to all persons on the official Service List in this matter. The Service List is available from the Clerk of the Commission.

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APPENDIX

- 1) The Commission's approval shall extend from the effective date of the Order Granting Approval in this case through September 30, 2025. If VNG wishes to continue the Service Company Agreement beyond that date, separate approval shall be required.
- 2) VNG shall continue to provide thirty (30) days' notice to the Commission prior to any changes in how pass through services are provided to VNG.
- 3) All other Commission approval requirements¹⁴ from the 2020 Order shall remain in full force and effect for the duration of this approval.

¹⁴ The approval requirements are listed in the Appendix attached to the 2020 Order.