

**BEFORE THE STATE CORPORATION COMMISSION  
OF THE STATE OF KANSAS**

In the Matter of the Application of Kansas )  
Service, a Division of ONE Gas, Inc.'s ) Docket No. 25-KGSG-316-CON  
Submission of its Insurance Policy Agreement )  
with Utility Insurance Company, Pursuant to )  
K.S.A. 66-1402. )

**NOTICE OF FILING STAFF'S REPORT AND RECOMMENDATION**

The Staff of the Kansas Corporation Commission ("Staff" and "Commission," respectively) hereby files its Report and Recommendation, dated July 28, 2025, recommending the Commission not take action to disapprove the 2024 contract between Kansas Gas Service, a Division of ONE Gas, Inc., and its wholly-owned captive insurance company, Utility Insurance Company.

WHEREFORE, Staff presents its Report and Recommendation for the record and further determination by way of approval in a Commission Order.

Respectfully Submitted,

Brett Berry

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Andrew J. French, Chairperson  
Dwight D. Keen, Commissioner  
Annie Kuether, Commissioner

Laura Kelly, Governor

## **REPORT AND RECOMMENDATION**

### **UTILITIES DIVISION**

**TO:** Andrew J. French, Chairperson  
Dwight D. Keen, Commissioner  
Annie Kuether, Commissioner

**FROM:** Bill Baldry, Senior Auditor  
Chad Unrein, Chief of Accounting and Financial Analysis  
Justin Grady, Director of Utilities

**DATE:** July 28, 2025

**SUBJECT:** Docket Number: 25-KGSG-316-CON In the Matter of the Application of Kansas Gas Service, a Division of ONE Gas, Inc.'s Submission of its Insurance Policy Agreements with Utility Insurance Company, Pursuant to K.S.A. 66-1402.

#### **EXECUTIVE SUMMARY:**

On February 11, 2025, in the above captioned Docket, ONE Gas filed a renegotiated insurance contract with its wholly-owned captive insurance company, Utility Insurance Company (UIC), which it created in 2018. ONE Gas is required by Kansas law to file each new contract with the Commission. Over the last six years, UIC has been able to provide insurance coverage in the difficult to obtain coverage range of \$250,000 to \$2,000,000 at a reasonable cost to ONE Gas and its three distribution companies. In 2018, UIC estimated that it would initially incur additional operating expenses, but the expenses would eventually decline. Over the last 6 years, UIC did incur higher than expected operating expenses, but the expenses were offset by lower insurance premiums and cost savings compared to the public insurance market. After six years of operating as an insurance company, UIC has saved money for ONE Gas. Because of the benefits KGS receives from getting insurance coverage through UIC, Staff recommends that the Commission not take action to disapprove the new 2024 contract between ONE Gas and UIC.

#### **BACKGROUND**

The Commission derives its authority review contracts with affiliated interests from K.S.A. 66-1402, which states:

No management, construction, engineering or similar contract, hereafter made, with any affiliated interest, as defined in K.S.A. 66-1401 and amendments thereto, shall be effective unless it shall first have been filed with the commission. *If it be found that any such contract is not in the public interest, the commission, after investigation and a hearing in accordance with the provisions of the Kansas administrative procedure act, is hereby authorized to disapprove such contract.* (emphasis added)

In 2018, ONE Gas created a wholly owned pure captive insurance company, UIC. Staff reviewed the contract and costs in Docket Nos. 18-KGSG-392-CON and in 24-KGSG-460-CON and recommended that the Commission take no action to prevent the continuation of ONE Gas' wholly owned captive insurance company (UIC). UIC was established to better control the cost of insurance. UIC provides insurance coverage to KGS and the other natural gas distribution company divisions of ONE Gas in accordance with K.S.A. 66-1402. UIC provides auto liability, general liability, excess liability and employment practice liability, workers' compensation, property damage,<sup>1</sup> and cyber security<sup>2</sup> for ONE Gas.

Captive insurance is insurance that is provided within a corporate group, through a subsidiary that is controlled by a parent company. Instead of purchasing insurance from an external commercial insurance company, the parent company manages the risks of the corporate group through the subsidiary. The captive then either reinsures these risks or retains the risks itself. The parent company pays premiums to the captive insurance company.

When a company has risks that are difficult or impossible to cover with traditional insurance, a captive insurance company is a good method to use to cover those risks. The parent company may also be able to save on premium costs by using a captive insurance company because traditional insurance companies charge higher premiums to cover their own costs and earn a profit. Using a captive insurance company allows the insured entities to pay only for coverage that it needs.<sup>3</sup>

To keep the premiums at competitive prices, UIC continues to conduct pricing studies and review indications from the commercial markets each year to ensure that UIC is providing an equal or lower premium. UIC cannot pay out its profits in the form of dividends to ONE Gas without the Oklahoma Insurance Commission's approval<sup>4</sup>. UIC, to date, has not paid out any dividends.<sup>5</sup>

A captive insurance company can be a pure captive, group captive, industrial captive, or a risk retention group. A pure captive is a captive company with a single owner and provides insurance coverage only to its parent company. UIC is a pure captive. A group captive provides insurance to companies outside of a single business group. Industrial insurance captives insure the risk of an industrial insurance group. Risk retention groups allow members of an industry (such as doctors, lawyers, and hospitals) who face similar risk exposure to come together and form their own insurance company.

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<sup>1</sup> See response to Staff Data Request No. 22 in Docket No. 18-KGSG-392-CON.

<sup>2</sup> See response to Staff Data Request No. 3 in Docket No. 25-KGSG-316-CON.

<sup>3</sup> See response to Staff Data Request No. 3, page 13, in Docket No. 18-KGSG-392-CON.

<sup>4</sup> See response to Staff Data Request No. 21 in Docket No. 25-KGSG-316-CON.

<sup>5</sup> See response to Staff Data Request No. 23 in Docket No. 25-KGSG-316-CON.

Prior to the formation of UIC, ONE Gas was self-insured for claims up to \$2 million. ONE Gas purchased insurance coverage for claims greater than \$2 million from insurance companies not related to ONE Gas. By having UIC as ONE Gas' captive insurance company, ONE Gas and its subsidiaries will be self-insured for claims up to \$250,000. UIC will cover all claims greater than \$250,000 but less than \$2 million. Over the first five years, claims were favorable enough that UIC was able to expand the threshold of coverage to the range of greater than \$100,000, but less than \$2,000,000.<sup>6</sup> UIC will continue ONE Gas' current policy of purchasing insurance coverage from insurance companies unrelated to ONE Gas for claims greater than \$2 million.

### **ANALYSIS:**

Before filing the 18-392 Docket, it had been difficult for ONE Gas to get reasonable premium coverage for claims in the \$250,000 to \$2,000,000 range, causing ONE Gas to establish UIC, a captive insurance company, to provide insurance coverage for claims in this range. This Docket was filed to allow Staff to review the changes in the insurance contracts.

The benefits of having a captive insurance company are:

- Reducing the overall cost of insurance;
- Custom tailored insurance program;
- Budget stability;<sup>7</sup>
- More control over the resolution of the company's claims;
- Expansion of coverage where markets are constrained;
- Providing direct access to the re-insurance marketplace;
- Collection of risk data and loss information to better understand the risk and its volatility;<sup>8</sup>

Some specific UIC benefits for KGS are:

- UIC is in a better position in negotiations with external markets;<sup>9</sup>
- Other insurance companies would view UIC as a competitor to traditional insurance markets that might result in getting a lower rate compared to ONE Gas not owning a captive insurance company;<sup>10</sup>
- UIC allows for consistent, competitive insurance rates over the long-term, lower priced reinsurance in the retail marketplace, and premium tax savings;<sup>11</sup>
- The market has allowed ONE Gas to keep its \$2 million deductible with outside insurance companies;<sup>12</sup> and
- It is beneficial to Kansas Gas Service ratepayers.<sup>13</sup>

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<sup>6</sup> See response to Staff Data Request Nos. 5 and 6 in Docket No. 24-KGSG-460-CON.

<sup>7</sup> See response to Staff Data Request No. 3, pages 13-14 in Docket No. 18-KGSG-392-CON.

<sup>8</sup> See response to Staff Data Request No. 3, page 3 in Docket No. 18-KGSG-392-CON.

<sup>9</sup> See response to Staff Data Request No. 12, in Docket No.25-KGSG-316-CON.

<sup>10</sup> See Response to Staff Data Request No. 6, in Docket No. 18-KGSG-392-CON.

<sup>11</sup> See Response to CURB Data Request No.4 in Docket No. 24-KGSG-460-CON.

<sup>12</sup> See Response to Staff Data Request No. 6, in Docket No. 24-KGSG-460-CON.

<sup>13</sup> See Response to Staff Data Request No. 11 in Docket No. 24-KGSG-460-CON.

A retail insurance company will provide its customers with a single premium amount. Being a captive insurance company, UIC is able to be more transparent in the disclosure of its premium cost. Excluding the cost of insurance claims, examples of those costs are:

- Direct Placement Tax;
- Letter of Credit cost;
- Premium Taxes;
- Management fees of the captive insurance company;
- Audit fees;
- Actuarial fees;
- Incorporation fees;
- Government fees;<sup>14</sup>
- UIC is exposed to claims between \$100,000 and \$2 million. Claims above \$2 million are insured with a retail insurance company.<sup>15</sup>

During the review of this filing, Staff issued multiple data requests. As a whole, Staff is still supportive of the use of a captive insurance company. Any concerns Staff had, were addressed through the discovery process with KGS.

Staff's first concern was regarding the UIC contracts since 2018. Whenever ONE Gas negotiates a new insurance contract with UIC, KGS is required to file the new insurance contract with the Commission. ONE Gas has renegotiated the insurance contract every year since 2018, however ONE Gas did not file the new contracts with the Commission until the 2023 contract was renegotiated. ONE Gas filed its new 2024 contract with the Commission in a timely manner.

Staff's next concern was that there was a material increase in the annual premium costs for general insurance since 2018. The premiums UIC charges to ONE Gas and the three distribution companies have increased over the last 6 years due to:

- a. The deductibles were reduced from \$250,000 to \$100,000;
- b. Property premiums are determined based on each of ONE Gas division's statements of replacement costs;
- c. Inflation;
- d. Significant industry events that the reinsurers have had to pay out causing the overall markets to increase all property premiums;
- e. Reinsurers are seeing an increase in nuclear verdicts which has caused all premiums to go up with General Liability and Excess Liability Auto coverages.<sup>16</sup>
- f. Increased prices for materials, labor, claim settlements, inflation, nuclear verdicts, and weather storms.<sup>17</sup>

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<sup>14</sup> See Response to Staff Data Request No. 3, page 47, in Docket No. 18-KGSG-392-CON.

<sup>15</sup> See Response to Staff Data Request Nos. 5 and 6 in Docket No. 24-KGSG-460-CON.

<sup>16</sup> See response to Staff Data Request Nos. 5 and 14 in Docket No. 24-KGSG-460-CON.

<sup>17</sup> See response to Staff Data Request No. 12 in Docket No. 25-KGSG-316-CON.

Finally, in the 18-KGSG-392-CON Docket, KGS predicted that the operating costs of using a captive insurance company would end up costing ratepayers more initially compared to not creating a captive insurance company, but KGS estimated that the cost would come down over the years.<sup>18</sup> As shown in the table below, operating costs have increased over time rather than decreased as had been predicted.<sup>19</sup>

	2018	2019	2020	2021	2022	2023	2024
<b>Actuary</b>	\$45,000	\$60,000	\$50,000	\$85,500	\$73,000	\$87,000	\$85,000
<b>Audit Fee</b>	0	34,575	24,885	26,319	41,175	59,210	46,328
<b>Management Fee</b>	22,500	67,866	45,000	45,000	45,000	45,000	42,822
<b>Premium Tax</b>	16,774	18,032	23,072	26,489	31,535	36,216	45,000
<b>Grand Total</b>	<b>\$84,274</b>	<b>\$180,473</b>	<b>\$142,957</b>	<b>\$183,308</b>	<b>\$190,710</b>	<b>\$227,426</b>	<b>\$219,150</b>

Although operating costs have increased, UIC is still saving customers money due to lower premiums through UIC compared to the cost of the same amount of insurance coverage purchased from a retail insurance company.<sup>20</sup>

Based on the record, Staff did not find any evidence that the contract is not in the public interest, pursuant to K.S.A. 66-1402; therefore, Staff recommends the Commission not take action to disapprove the 2024 contract between ONE Gas and UIC.

### **RECOMMENDATION:**

UIC has been able to provide insurance coverage to ONE Gas and its subsidiaries in the \$250,000 to \$2,000,000 claims range when other insurance companies could not provide insurance at a reasonable price, but UIC's operating expenses have increased significantly since 2018.

Over the first five years, UIC incurred higher than expected operating expenses, but those expenses were more than offset by lower insurance premiums and cost savings for UIC as compared to the public insurance market. After six years of operating as an insurance company, UIC has saved money for ONE Gas. Because of the benefits KGS receives from getting insurance coverage through UIC, and because Staff does not find anything in the record to indicate the contract is not in the public interest, Staff recommends that the Commission not take action to disapprove the new 2024 contract between ONE Gas and UIC.

<sup>18</sup> See response to Staff Data Request No. 31 in Docket No. 18-KGSG-392-CON.

<sup>19</sup> See response to Staff Data Request No. 1 in Docket Nos. 24-KGSG-460-CON and 25-KGSG-316-CON.

<sup>20</sup> See response to Staff Data Request No. 20 in Docket No. 25-KGSG-316-CON.

## **CERTIFICATE OF SERVICE**

25-KGSG-316-CON

I, the undersigned, certify that a true and correct copy of the above and foregoing Notice of Filing of Staff R&R was served via electronic service this 28th day of July, 2025, to the following:

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**CERTIFICATE OF SERVICE**

25-KGSG-316-CON

*Ann Murphy*

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