

ONE Gas, Inc.
Form 10-Q
October 31, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2017.

OR

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____.

Commission file number 001-36108

ONE Gas, Inc.
(Exact name of registrant as specified in its charter)

Oklahoma 46-3561936
(State or other jurisdiction of (I.R.S. Employer Identification No.)
incorporation or organization)

15 East Fifth Street, Tulsa, OK 74103
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (918) 947-7000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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Emerging growth company__

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.__

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes __ No X

On October 24, 2017, the Company had 52,273,783 shares of common stock outstanding.

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ONE Gas, Inc.

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As used in this Quarterly Report, references to “we,” “our,” “us” or the “company” refer to ONE Gas, Inc., an Oklahoma corporation, and its predecessors and subsidiary, unless the context indicates otherwise.

The statements in this Quarterly Report that are not historical information, including statements concerning plans and objectives of management for future operations, economic performance or related assumptions, are forward-looking statements. Forward-looking statements may include words such as “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “believe,” “should,” “goal,” “forecast,” “guidance,” “could,” “may,” “continue,” “might,” “potential,” “scheduled” and other words of similar meaning. Although we believe that our expectations regarding future events are based on reasonable assumptions, we can give no assurance that such expectations or assumptions will be achieved. Important factors that could cause actual results to differ materially from those in the forward-looking statements are described under Part I, Item 2, Management’s Discussion and Analysis of Financial Condition and Results of Operations, “Forward-Looking Statements,” in this Quarterly Report and under Part I, Item IA, “Risk Factors,” in our Annual Report.

INFORMATION AVAILABLE ON OUR WEBSITE

We make available, free of charge, on our website (www.onegas.com) copies of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, amendments to those reports filed or furnished to the SEC pursuant to Section 13(a) or 15(d) of the Exchange Act and reports of holdings of our securities filed by our officers and directors under Section 16 of the Exchange Act as soon as reasonably practicable after filing such material electronically or otherwise furnishing it to the SEC. Copies of our Code of Business Conduct and Ethics, Corporate Governance Guidelines and Director Independence Guidelines are also available on our website, and we will provide copies of these documents upon request. Our website and any contents thereof are not incorporated by reference into this report.

We also make available on our website the Interactive Data Files required to be submitted and posted pursuant to Rule 405 of Regulation S-T.

GLOSSARY

The abbreviations, acronyms and industry terminology used in this Quarterly Report are defined as follows:

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| | |
|--|---|
| AAO | Accounting Authority Order |
| Annual Report | Annual Report on Form 10-K for the year ended December 31, 2016 |
| ASU | Accounting Standards Update |
| Bcf | Billion cubic feet |
| CERCLA | Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended |
| Clean Air Act | Federal Clean Air Act, as amended |
| Clean Water Act | Federal Water Pollution Control Amendments of 1972, as amended |
| COSA | Cost-of-Service Adjustment |
| DOT | United States Department of Transportation |
| EPA | United States Environmental Protection Agency |
| EPS | Earnings per share |
| Exchange Act | Securities Exchange Act of 1934, as amended |
| FASB | Financial Accounting Standards Board |
| GAAP | Accounting principles generally accepted in the United States of America |
| GPAC | Gas Pipeline Advisory Committee |
| GRIP | Texas Gas Reliability Infrastructure Program |
| GSRS | Kansas Gas System Reliability Surcharge |
| Heating Degree Day or HDD | A measure designed to reflect the demand for energy needed for heating based on the extent to which the daily average temperature falls below a reference temperature for which no heating is required, usually 65 degrees Fahrenheit |
| IRS | Internal Revenue Service |
| KCC | Kansas Corporation Commission |
| KDHE | Kansas Department of Health and Environment |
| LDC | Local distribution company |
| MGP | Manufactured Gas Plant |
| MMcf | Million cubic feet |
| Moody's | Moody's Investors Service, Inc. |
| NPRM | Notice of Proposed Rulemaking |
| NYMEX | New York Mercantile Exchange |
| OCC | Oklahoma Corporation Commission |
| ONE Gas | ONE Gas, Inc. |
| ONE Gas Credit Agreement | ONE Gas' \$700 million revolving credit agreement, as amended, which expires on October 5, 2022 |
| ONEOK | ONEOK, Inc. and its subsidiaries |
| PBRC | Performance-Based Rate Change |
| PHMSA | United States Department of Transportation Pipeline and Hazardous Materials Safety Administration |
| Pipeline Safety, Regulatory Certainty and Job Creation Act | Pipeline Safety, Regulatory Certainty and Job Creation Act of 2011, as amended |
| Quarterly Report(s) | Quarterly Report(s) on Form 10-Q |
| RRC | Railroad Commission of Texas |
| S&P | Standard & Poor's Ratings Services |
| SEC | Securities and Exchange Commission |
| Securities Act | Securities Act of 1933, as amended |
| Senior Notes | ONE Gas' registered notes consisting of \$300 million of 2.07 percent senior notes due 2019, \$300 million of 3.61 percent senior notes due 2024 and \$600 million of 4.658 percent notes due 2044. |

Separation and Distribution Agreement and ONE Gas
WNA
XBRL

Separation and Distribution Agreement dated January 14, 2014, between ONEOK
Weather-normalization adjustments
eXtensible Business Reporting Language

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ONE Gas, Inc.

STATEMENTS OF INCOME

| (Unaudited) | Three Months Ended | | Nine Months Ended | |
|-------------------------------|--|-----------------------|-----------------------|-----------------------|
| | September 30, 2017 | September 30, 2016 | September 30, 2017 | September 30, 2016 |
| | (Thousands of dollars, except per share amounts) | | | |
| Revenues | \$247,142 | \$232,191 | \$1,077,239 | \$986,479 |
| Cost of natural gas | 58,769 | 52,253 | 404,495 | 344,439 |
| Net margin | 188,373 | 179,938 | 672,744 | 642,040 |
| Operating expenses | | | | |
| Operations and maintenance | 95,371 | 99,402 | 305,969 | 302,652 |
| Depreciation and amortization | 38,423 | 36,241 | 113,293 | 106,490 |
| General taxes | 13,799 | 13,403 | 43,518 | 42,311 |
| Total operating expenses | 147,593 | 149,046 | 462,780 | 451,453 |
| Operating income | 40,780 | 30,892 | 209,964 | 190,587 |
| Other income | 1,042 | 911 | 3,163 | 1,345 |
| Other expense | (444) | (357) | (1,246) | (1,126) |
| Interest expense, net | (11,495) | (10,809) | (34,281) | (32,504) |
| Income before income taxes | 29,883 | 20,637 | 177,600 | 158,302 |
| Income taxes | (11,086) | (7,900) | (61,724) | (60,521) |
| Net income | | | | |