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ONE Gas, Inc.  
Form 10-Q  
April 30, 2015

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

FORM 10-Q

X Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended March 31, 2015.

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

(State or other jurisdiction of  
incorporation or organization)

46-3561936

(I.R.S. Employer Identification No.)

15 East Fifth Street, Tulsa, OK

(Address of principal executive offices)

74103

(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 X 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 X No \_\_\_

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

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Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes  No

On April 21, 2015, the Company had 52,593,748 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](http://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:

Annual Report	Annual Report on Form 10-K for the year ended December 31, 2014
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
CNG	Compressed natural gas
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
GAAP	Accounting principles generally accepted in the United States of America
GRIP	Texas Gas Reliability Infrastructure Program
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
KCC	Kansas Corporation Commission
KDHE	Kansas Department of Health and Environment
LDCs	Local distribution companies
LIBOR	London Interbank Offered Rate
MMcf	Million cubic feet
Moody's	Moody's Investors Service, Inc.
NYSE	New York Stock Exchange
OCC	Oklahoma Corporation Commission
ONE Gas	ONE Gas, Inc.
ONE Gas Credit Agreement	ONE Gas' \$700 million revolving credit agreement, which expires January, 2019
ONE Gas Predecessor	ONE Gas' predecessor for accounting purposes that consists of the business attributable to ONEOK's natural gas distribution segment that was transferred to ONE Gas in connection with its separation from ONEOK
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 Improvement Act	Pipeline Safety Improvement Act of 2002, as amended
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
Separation and Distribution Agreement	

Separation and Distribution Agreement dated January 14, 2014, between  
ONEOK  
and ONE Gas  
eXtensible Business Reporting Language

XBRL

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## PART I - FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

ONE Gas, Inc.

## STATEMENTS OF INCOME

(Unaudited)	Three Months Ended	
	2015	2014
	(Thousands of dollars, except per share amounts)	
Revenues	\$676,531	\$766,178
Cost of natural gas	413,553	506,342
Net margin	262,978	259,836
Operating expenses		
Operations and maintenance	106,561	103,499
Depreciation and amortization	31,630	31,460
General taxes	15,782	15,524
Total operating expenses	153,973	150,483
Operating income	109,005	109,353
Other income	813	633
Other expense	(454)	(1,148)
Interest expense	(11,169)	(12,950)
Income before income taxes	98,195	95,888
Income taxes	(37,814)	(36,812)
Net income	\$60,381	\$59,076
Earnings per share (Note 6)		
Basic	\$1.15	\$1.13
Diluted	\$1.13	\$1.13
Average shares (thousands)		
Basic	52,707	52,334
Diluted	53,446	52,512
Dividends declared per share of stock	\$0.30	\$—
See accompanying Notes to Financial Statements.		

ONE Gas, Inc.  
STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)	Three Months Ended	
	March 31, 2015	2014
	(Thousands of dollars)	
Net income	\$60,381	\$59,076
Other comprehensive income (loss), net of tax		
Change in pension and other postretirement benefit plan liability, net of tax of \$(88) and \$2,124, respectively	140	(3,393 )
Total other comprehensive income (loss), net of tax	140	(3,393 )
Comprehensive income	\$60,521	\$55,683
See accompanying Notes to Financial Statements.		

ONE Gas, Inc.  
BALANCE SHEETS

(Unaudited)	March 31, 2015	December 31, 2014
Assets	(Thousands of dollars)	
Property, plant and equipment		
Property, plant and equipment	\$4,904,206	\$4,850,201
Accumulated depreciation and amortization	1,578,438	1,556,481
Net property, plant and equipment	3,325,768	3,293,720
Current assets		
Cash and cash equivalents	142,502	11,943
Accounts receivable, net	308,850	326,749
Income tax receivable	5,590	43,800
Natural gas in storage	81,277	185,300
Regulatory assets (Note 2)	22,322	50,193
Other current assets	43,903	49,516
Total current assets	604,444	667,501
Goodwill and other assets		
Regulatory assets (Note 2)	465,049	478,723
Goodwill	157,953	157,953
Other assets	52,274	51,313
Total goodwill and other assets	675,276	687,989
Total assets	\$4,605,488	\$4,649,210
See accompanying Notes to Financial Statements.		

ONE Gas, Inc.  
BALANCE SHEETS  
(Continued)

(Unaudited)	March 31, 2015	December 31, 2014
Equity and Liabilities	(Thousands of dollars)	
Equity and long-term debt		
Common stock, \$0.01 par value:		
authorized 250,000,000 shares; issued and outstanding 52,590,112 shares at March 31, 2015;	\$526	\$521
issued and outstanding 52,083,859 shares at December 31, 2014		
Paid-in capital	1,759,934	1,758,796
Retained earnings	84,239	39,894
Accumulated other comprehensive income (loss)	(5,034	) (5,174
Total equity	1,839,665	1,794,037
Long-term debt, excluding current maturities	1,201,310	1,201,311
Total equity and long-term debt	3,040,975	2,995,348
Current liabilities		
Current maturities of long-term debt	6	6
Notes payable	—	42,000
Accounts payable	105,058	159,064
Accrued taxes other than income	47,859	44,742
Accrued liabilities	13,648	26,019
Customer deposits	60,856	60,003
Regulatory liabilities	54,252	32,467
Other current liabilities	18,324	28,132
Total current liabilities	300,003	392,433
Deferred credits and other liabilities		
Deferred income taxes	897,458	894,585
Employee benefit obligations	286,654	287,779
Other deferred credits	80,398	79,065
Total deferred credits and other liabilities	1,264,510	1,261,429
Commitments and contingencies (Note 8)		
Total liabilities and equity	\$4,605,488	\$4,649,210
See accompanying Notes to Financial Statements.		

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ONE Gas, Inc.  
STATEMENTS OF CASH FLOWS

(Unaudited)	Three Months Ended March 31,	
	2015	2014
	(Thousands of dollars)	
Operating activities		
Net income	\$60,381	\$59,076
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	31,630	31,460
Deferred income taxes	10,460	152
Share-based compensation expense	2,484	1,794
Provision for doubtful accounts	896	891
Changes in assets and liabilities:		
Accounts receivable	17,003	(42,712 )
Income tax receivable	38,210	—
Natural gas in storage	104,023	84,474
Asset removal costs	(8,168 )	(8,107 )
Accounts payable	(53,777 )	6,091
Current income taxes payable	—	18,965
Accrued taxes other than income	3,117	24,125
Accrued liabilities	(12,371 )	10,363
Customer deposits	853	1,424
Regulatory assets and liabilities	63,434	11,066
Other assets and liabilities	(17,085 )	(16,964 )
Cash provided by operating activities	241,090	182,098
Investing activities		
Capital expenditures	(54,914 )	(65,731 )
Cash used in investing activities	(54,914 )	(65,731 )
Financing activities		
Repayments on notes payable, net	(42,000 )	—
Issuance of debt, net of discounts	—	1,199,994
Long-term debt financing costs	—	(10,903 )
Cash payment to ONEOK upon separation	—	(1,130,000 )
Issuance of common stock	2,156	17
Dividends paid	(15,773 )	—
Cash provided by (used in) financing activities	(55,617 )	59,108
Change in cash and cash equivalents	130,559	175,475
Cash and cash equivalents at beginning of period	11,943	3,171
Cash and cash equivalents at end of period	\$142,502	\$178,646
See accompanying Notes to Financial Statements.		

ONE Gas, Inc.  
STATEMENT OF EQUITY

(Unaudited)	Common Stock Issued (Shares)	Common Stock (Thousands of dollars)	Paid-in Capital
January 1, 2015	52,083,859	\$521	\$1,758,796
Net income	—	—	—
Other comprehensive income	—	—	—
Common stock issued and other	506,253	5	875
Common stock dividends - \$0.30 per share	—	—	263
March 31, 2015	52,590,112	\$526	\$1,759,934
See accompanying Notes to Financial Statements.			



ONE Gas, Inc.  
STATEMENT OF EQUITY  
(Continued)

(Unaudited)	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Equity
	(Thousands of dollars)		
January 1, 2015	\$39,894	\$ (5,174	) \$1,794,037
Net income	60,381	—	60,381
Other comprehensive income	—	140	140
Common stock issued and other	—	—	880
Common stock dividends - \$0.30 per share	(16,036	)—	(15,773 )
March 31, 2015	\$84,239	\$ (5,034	) \$1,839,665
See accompanying Notes to Financial Statements.			

ONE Gas, Inc.

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Our accompanying unaudited financial statements have been prepared pursuant to the rules and regulations of the SEC. These statements also have been prepared in accordance with GAAP and reflect all adjustments that, in our opinion, are necessary for a fair presentation of the results for the interim periods presented. All such adjustments are of a normal recurring nature. The 2014 year-end balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. These unaudited financial statements should be read in conjunction with the audited financial statements and footnotes in our Annual Report. Due to the seasonal nature of our business, the results of operations for the three months ended March 31, 2015, are not necessarily indicative of the results that may be expected for a 12-month period.

Separation - Prior to January 31, 2014, ONE Gas, Inc. was a wholly owned subsidiary of ONEOK and comprised its former natural gas distribution business. On January 31, 2014, we became an independent, publicly traded company as a result of a distribution by ONEOK of our common stock to ONEOK's shareholders. Our common stock began trading "regular-way" under the ticker symbol "OGS" on the NYSE on February 3, 2014.

We provide natural gas distribution services to more than 2 million customers through our divisions in Oklahoma, Kansas and Texas through Oklahoma Natural Gas, Kansas Gas Service and Texas Gas Service, respectively. We serve residential, commercial, industrial and transportation customers in all three states. In addition, we also provide natural gas distribution services to wholesale and public authority customers.

Basis of Presentation - Prior to our separation from ONEOK, our financial statements were derived from ONEOK's financial statements, which included its natural gas distribution business as if we, for accounting purposes, had been a separate company for all periods presented. The financial statements for periods prior to the separation also include expense allocations for certain corporate functions historically performed by ONEOK, including allocations of general corporate expenses related to executive oversight, accounting, treasury, tax, legal, information technology and other services. We believe our assumptions underlying the financial statements, including the assumptions regarding the allocation of general corporate expenses from ONEOK, are reasonable. However, the financial statements may not include all of the actual expenses that would have been incurred by us and may not reflect our results of operations, financial position and cash flows had we been a separate publicly traded company during the periods presented prior to the separation.

All financial information presented after the separation represents the results of operations, financial position and cash flows of ONE Gas. Accordingly:

- Our Statement of Income and Comprehensive Income for the three months ended March 31, 2014, consist of the results of ONE Gas for the two months ended March 31, 2014, and the results of ONE Gas Predecessor for the one month ended January 31, 2014.

Our Statement of Cash Flows for the three months ended March 31, 2014, consists of the results of ONE Gas for the two months ended March 31, 2014, and the results of ONE Gas Predecessor for the one month ended January 31, 2014.

Use of Estimates - The preparation of our financial statements and related disclosures in accordance with GAAP requires us to make estimates and assumptions with respect to values or conditions that cannot be known with certainty that affect the reported amount of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions also affect the reported amounts of revenue and expenses during the reporting period. Items that may be estimated include, but are not limited to, the economic useful life of assets, fair value of assets and liabilities, provision for doubtful accounts, unbilled revenues for natural

gas delivered but for which meters have not been read, natural gas purchased but for which no invoice has been received, provision for income taxes, including any deferred tax valuation allowances, the results of litigation and various other recorded or disclosed amounts.

We evaluate these estimates on an ongoing basis using historical experience and other methods we consider reasonable based on the particular circumstances. Nevertheless, actual results may differ significantly from the estimates. Any effects on our financial position or results of operations from revisions to these estimates are recorded in the period when the facts that give rise to the revision become known.

Related-Party Transactions - Prior to our separation from ONEOK on January 31, 2014, we had certain transactions with ONEOK, including, but not limited to, natural gas supply, allocated corporate services, employee benefits, cash management,

derivatives and long-term lines of credit. Following the separation, any services we continue to receive from ONEOK are now third-party transactions. The remaining related-party transactions were not material.

**Segments** - We operate in one reportable business segment: regulated public utilities that deliver natural gas to residential, commercial, industrial, wholesale, public authority and transportation customers. The accounting policies for our segment are the same as described in Note 1 of our Notes to the Financial Statements in our Annual Report. We evaluate our financial performance principally on operating income. For the three months ended March 31, 2015, and 2014, we had no single external customer from which we received 10 percent or more of our gross revenues.

**Treasury Shares** - In February 2015, our Board of Directors authorized us to purchase treasury shares to be used to offset shares issued under our employee and non-employee director equity compensation, dividend reinvestment and employee stock purchase plans. The Board of Directors established an annual limit of \$20 million of treasury stock purchases, exclusive of funds received through the dividend reinvestment and employee stock purchase plans. Stock purchases may be made in the open market or in private transactions at times and in amounts that we deem appropriate. There is no guarantee as to the exact number of shares that we may purchase, and we can terminate or limit the program at any time.

**Recently Issued Accounting Standards Update** - In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers," which clarifies and converges the revenue recognition principles under GAAP and International Financial Reporting Standards. We are evaluating the impact of this recently issued guidance, which is required to be adopted for our quarterly and annual reports beginning with the first quarter 2017.

## 2. REGULATORY ASSETS AND LIABILITIES

The tables below present a summary of regulatory assets, net of amortization, and liabilities for the periods indicated:

	March 31, 2015		
	Current	Noncurrent	Total
	(Thousands of dollars)		
Pension and postretirement benefit costs (see Note 7)	\$20,218	\$453,382	\$473,600
Reacquired debt costs	812	9,527	10,339
Other	1,292	2,140	3,432
Total regulatory assets, net of amortization	22,322	465,049	487,371
Accumulated removal costs (a)	—	(15,038)	(15,038)
Weather normalization	(8,740)	—	(8,740)
Over-recovered purchased-gas costs	(44,015)	—	(44,015)
Ad valorem tax	(1,497)	—	(1,497)
Total regulatory liabilities	(54,252)	(15,038)	(69,290)
Net regulatory assets (liabilities)	\$(31,930)	\$450,011	\$418,081
(a) Included in other deferred credits in our Balance Sheets.			
	December 31, 2014		
	Current	Noncurrent	Total
	(Thousands of dollars)		
Under-recovered purchased-gas costs	\$28,712	\$—	\$28,712
Pension and postretirement benefit costs	18,108	466,684	484,792
Reacquired debt costs	812	9,730	10,542
Other	2,561	2,309	4,870
Total regulatory assets, net of amortization	50,193	478,723	528,916
Accumulated removal costs (a)	—	(15,451)	(15,451)
Weather normalization	(16,516)	—	(16,516)
Over-recovered purchased-gas costs	(13,055)	—	(13,055)

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Ad valorem tax	(2,896 )	—	(2,896 )
Total regulatory liabilities	(32,467 )	(15,451 )	(47,918 )
Net regulatory assets (liabilities)	\$17,726	\$463,272	\$480,998

(a) Included in other deferred credits in our Balance Sheets.

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Regulatory assets on our Balance Sheets, as authorized by the various regulatory commissions, are probable of recovery. Base rates are designed to provide a recovery of costs during the period rates are in effect, but do not generally provide for a return on investment for amounts we have deferred as regulatory assets. All of our regulatory assets recoverable through base rates are subject to review by the respective regulatory authorities during future rate proceedings. We are not aware of any evidence that these costs will not be recoverable through either riders or base rates, and we believe that we will be able to recover such costs, consistent with our historical recoveries.

Purchased-gas costs include the costs that have been over- or under-recovered from customers through the purchased-gas cost adjustment mechanisms and also include natural gas utilized in our operations, premiums paid and any cash settlements received from our purchased natural gas call options.

### 3. CREDIT FACILITY AND SHORT-TERM NOTES PAYABLE

ONE Gas Credit Agreement - The ONE Gas Credit Agreement contains certain financial, operational and legal covenants. Among other things, these covenants include maintaining ONE Gas' debt-to-capital ratio of no more than 70 percent at the end of any calendar quarter. The ONE Gas Credit Agreement also contains customary affirmative and negative covenants, including covenants relating to liens, indebtedness of subsidiaries, investments, changes in the nature of business, fundamental changes, transactions with affiliates, burdensome agreements and use of proceeds. In the event of a breach of certain covenants by ONE Gas, amounts outstanding under the ONE Gas Credit Agreement may become due and payable immediately. At March 31, 2015, our debt-to-capital ratio was 40 percent and we were in compliance with all covenants under the ONE Gas Credit Agreement.

The ONE Gas Credit Agreement includes a \$50 million sublimit for the issuance of standby letters of credit and also features an option to request an increase in the size of the facility to an aggregate of \$1.2 billion from \$700 million upon satisfaction of customary conditions, including receipt of commitments from new lenders or increased commitments from existing lenders. Borrowings made under the facility are available for general corporate purposes. The ONE Gas Credit Agreement contains provisions for an applicable margin rate and an annual facility fee, both of which adjust with changes in our credit rating. Based on our current credit ratings, borrowings, if any, will accrue interest at LIBOR plus 79.5 basis points, and the annual facility fee is 8 basis points.

We have a commercial paper program under which we may issue unsecured commercial paper up to a maximum amount of \$700 million to fund short-term borrowing needs. The maturities of the commercial paper notes may vary but may not exceed 270 days from the date of issue. The commercial paper notes are generally sold at par less a discount representing an interest factor.

The ONE Gas Credit Agreement is available to repay the commercial paper notes, if necessary. Amounts outstanding under the commercial paper program reduce the borrowing capacity under the ONE Gas Credit Agreement. At March 31, 2015, we had no short-term borrowings, \$1.0 million in letters of credit issued under the ONE Gas Credit Agreement and \$699.0 million of remaining credit available under the ONE Gas Credit Agreement.

### 4. LONG-TERM DEBT

Senior Notes - We have senior 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 senior notes due 2044 (collectively, our "Senior Notes"). The indenture governing our Senior Notes includes an event of default upon the acceleration of other indebtedness of \$100 million or more. Such events of default would entitle the trustee or the holders of 25 percent in aggregate principal amount of the outstanding Senior Notes to declare those Senior Notes immediately due and payable in full.



## 5. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table sets forth the effect of reclassifications from accumulated other comprehensive income (loss) on our Statements of Income for the period indicated:

Details about Accumulated Other Comprehensive Income (Loss) Components	Three Months Ended March 31,		Affected Line Item in the Statements of Income
	2015	2014	
	(Thousands of dollars)		
Pension and other postretirement benefit plan obligations (a)			
Amortization of net loss	\$12,565	\$8,542	
Amortization of unrecognized prior service cost	(373)	(303)	)
	12,192	8,239	
Regulatory adjustments (b)	(11,964)	(13,756)	)
	228	(5,517)	) Income before income taxes
	(88)	2,124	) Income tax expense
Total reclassifications for the period	\$140	\$(3,393)	) Net income

(a) These components of accumulated other comprehensive income (loss) are included in the computation of net periodic benefit cost. See Note 7 for additional detail of our net periodic benefit cost.

(b) Regulatory adjustments represent pension and other postretirement benefit costs expected to be recovered through rates and are deferred as part of our regulatory assets. See Note 2 for additional disclosures of regulatory assets and liabilities.

## 6. EARNINGS PER SHARE

Basic EPS is based on net income and is calculated based upon the daily weighted-average number of common shares outstanding during the periods presented. Also, this calculation includes fully vested stock awards that have not yet been issued as common stock. Diluted EPS includes the above, plus unvested stock awards granted under our compensation plans, but only to the extent these instruments dilute earnings per share.

The following tables set forth the computation of basic and diluted EPS from continuing operations for the periods indicated:

	Three Months Ended March 31, 2015		
	Income	Shares	Per Share Amount
	(Thousands, except per share amounts)		
Basic EPS Calculation			
Net income available for common stock	\$60,381	52,707	\$1.15
Diluted EPS Calculation			
Effect of dilutive securities	—	739	
Net income available for common stock and common stock equivalents	\$60,381	53,446	\$1.13
	Three Months Ended March 31, 2014		
	Income	Shares	Per Share Amount
	(Thousands, except per share amounts)		
Basic EPS Calculation			
Net income available for common stock	\$59,076	52,334	\$1.13



Diluted EPS Calculation

Effect of dilutive securities	—	178	
Net income available for common stock and common stock equivalents	\$59,076	52,512	\$1.13

On January 31, 2014, 51,941,236 shares of our common stock were distributed to ONEOK shareholders in conjunction with the separation. For comparative purposes, and to provide a more meaningful calculation of weighted-average shares outstanding, we have assumed this amount and any shares associated with fully vested stock awards that have not been issued to be outstanding as of the beginning of each period prior to the separation presented in the calculation of weighted-average shares.

Dividends - In April 2015, a dividend of \$0.30 per share (\$1.20 per share on an annualized basis) was declared for shareholders of record on May 15, 2015, payable June 1, 2015.

## 7. EMPLOYEE BENEFIT PLANS

The following tables set forth the components of net periodic benefit cost for our pension and other postretirement benefit plans for the periods indicated:

	Pension Benefits	
	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
	(Thousands of dollars)	
Components of net periodic benefit cost		
Service cost	\$3,524	\$2,768
Interest cost	10,652	10,948
Expected return on assets	(15,362	) (14,965
Amortization of unrecognized prior service cost	67	137
Amortization of net loss	11,055	7,550
Net periodic benefit cost	\$9,936	\$6,438
	Other Postretirement Benefits	
	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
	(Thousands of dollars)	
Components of net periodic benefit cost		
Service cost	\$849	\$1,174
Interest cost	2,666	2,901
Expected return on assets	(2,908	) (2,848
Amortization of unrecognized prior service cost	(440	) (440
Amortization of net loss	1,510	992
Net periodic benefit cost	\$1,677	\$1,779

We recover qualified pension benefit plan and other postretirement benefit plan costs through rates charged to our customers. Certain utility commissions require that the recovery of these costs be based on specific guidelines. The difference between these regulatory-based amounts and the periodic benefit cost calculated pursuant to GAAP is deferred as a regulatory asset or liability and amortized to expense over periods in which this difference will be recovered in rates, as promulgated by the applicable utility commission. Regulatory adjustments to the net periodic benefit cost were not material for the three month periods ended March 31, 2015 and 2014.

## 8. COMMITMENTS AND CONTINGENCIES

Environmental Matters - We are subject to multiple historical, wildlife preservation and environmental laws and/or regulations which affect many aspects of our present and future operations. Regulated activities include, but are not limited to, those involving air emissions, storm water and wastewater discharges, handling and disposal of solid and hazardous wastes, wetland preservation, hazardous materials transportation, and pipeline and facility construction. These laws and regulations require us to obtain and/or comply with a wide variety of environmental clearances, registrations, licenses, permits and other approvals. Failure to comply with these laws, regulations, licenses and permits may expose us to fines, penalties and/or interruptions in our operations that could be material to our results of operations. In addition, emission controls and/or other regulatory or permitting mandates under the Clean Air Act and

other similar federal and state laws could require unexpected capital expenditures. We cannot assure that existing environmental statutes and regulations will not be revised or that new regulations will not be adopted or become applicable to us. Revised or additional statutes or regulations that result in increased compliance costs or additional operating restrictions could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We own or retain legal responsibility for the environmental conditions at 12 former manufactured natural gas sites in Kansas. These sites contain potentially harmful materials that are subject to control or remediation under various environmental laws and regulations. A consent agreement with the KDHE governs all work at these sites. The terms of the consent agreement allow us to investigate these sites and set remediation activities based upon the results of the investigations and risk analysis. Remediation involves typically the management of contaminated soils and may involve removal of structures and monitoring and/or remediation of groundwater.

We have completed or addressed removal of the source of soil contamination at 11 of the 12 sites according to plans approved by the KDHE. Regulatory closure has been achieved at three of the sites. We have begun site assessment at the remaining site where no active remediation has occurred.

Our expenditures for environmental evaluation, mitigation, remediation and compliance to date have not been significant in relation to our financial position, results of operations or cash flows, and our expenditures related to environmental matters had no material effects on earnings or cash flows during 2015 and 2014. We do not expect to incur material expenditures for these matters in the future.

Pipeline Safety - We are subject to PHMSA regulations, including integrity-management regulations. PHMSA regulations require pipeline companies operating high-pressure transmission pipelines to perform integrity assessments on pipeline segments that pass through densely populated areas or near specifically designated high-consequence areas. In January 2012, the Pipeline Safety, Regulatory Certainty and Job Creation Act was signed into law. The law increased maximum penalties for violating federal pipeline safety regulations and directs the DOT and the Secretary of Transportation to conduct further review or studies on issues that may or may not be material to us. These issues include, but are not limited to, the following:

- an evaluation of whether natural gas pipeline integrity-management requirements should be expanded beyond current high-consequence areas;
- a verification of records for pipelines in class 3 and 4 locations and high-consequence areas to confirm maximum allowable operating pressures; and
- a requirement to test previously untested pipelines operating above 30 percent yield strength in high-consequence areas.

The potential capital and operating expenditures related to this legislation, the associated regulations or other new pipeline safety regulations are unknown.

Legal Proceedings - We are a party to various litigation matters and claims that have arisen in the normal course of our operations. While the results of litigation and claims cannot be predicted with certainty, we believe the reasonably possible losses from such matters, individually and in the aggregate, are not material. Additionally, we believe the probable final outcome of such matters will not have a material adverse effect on our results of operations, financial position or cash flows.

## 9. DERIVATIVE FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

Accounting Treatment - We record all derivative instruments at fair value, with the exception of normal purchases and normal sales that are expected to result in physical delivery. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, if so, the reason for holding it, or if regulatory rulings require a different accounting treatment.

If certain conditions are met, we may elect to designate a derivative instrument as a hedge to mitigate the risk of exposure to changes in fair values or cash flows.

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The table below summarizes the various ways in which we account for our derivative instruments and the impact on our financial statements:

Accounting Treatment	Recognition and Measurement	
	Balance Sheet	Income Statement
Normal purchases and normal sales	- Recorded at historical cost	- Change in fair value not recognized in earnings
Mark-to-market	- Recorded at fair value	- Change in fair value recognized in, and recoverable through, the purchased-gas cost adjustment mechanisms

We have not elected to designate any of our derivative instruments as hedges. Premiums paid and any cash settlements received associated with the commodity derivative instruments entered into by us are included in, and recoverable through, the purchased-gas cost adjustment mechanisms.

**Determining Fair Value** - We define fair value as the price that would be received from the sale of an asset or the transfer of a liability in an orderly transaction between market participants at the measurement date. We use the market and income approaches to determine the fair value of our assets and liabilities and consider the markets in which the transactions are executed. We measure the fair value of a group of financial assets and liabilities consistent with how a market participant would price the net risk exposure at the measurement date.

**Fair Value Hierarchy** - At each balance sheet date, we utilize a fair value hierarchy to classify fair value amounts recognized or disclosed in our financial statements based on the observability of inputs used to estimate such fair value. The levels of the hierarchy are described below:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 - Significant observable pricing inputs other than quoted prices included within Level 1 that are, either directly or indirectly, observable as of the reporting date. Essentially, this represents inputs that are derived principally from or corroborated by observable market data; and

Level 3 - May include one or more unobservable inputs that are significant in establishing a fair value estimate. These unobservable inputs are developed based on the best information available and may include our own internal data.

We recognize transfers into and out of the levels as of the end of each reporting period.

Determining the appropriate classification of our fair value measurements within the fair value hierarchy requires management's judgment regarding the degree to which market data is observable or corroborated by observable market data. We categorize derivatives for which fair value is determined using multiple inputs within a single level, based on the lowest level input that is significant to the fair value measurement in its entirety.

**Derivative Instruments** - At March 31, 2015, we had no purchased natural gas call options. At December 31, 2014, we held purchased natural gas call options for the heating season ended March 2015, with total notional amounts of 16.0 Bcf, for which we paid premiums of \$6.4 million, and had a fair value of \$0.1 million. The premiums paid and any cash settlements received are recorded as part of our unrecovered purchased-gas costs in current regulatory assets as these contracts are included in, and recoverable through, the purchased-gas cost adjustment mechanisms.

Additionally, changes in fair value associated with these contracts are deferred as part of our unrecovered purchase gas costs in our Balance Sheets. Our natural gas call options are classified as Level 1 as fair value amounts are based on unadjusted quoted prices in active markets including NYMEX-settled prices. There were no transfers between levels for the three months ended March 31, 2015 and 2014.

**Other Financial Instruments** - The approximate fair value of cash and cash equivalents, accounts receivable and accounts payable is equal to book value, due to the short-term nature of these items. Our cash and cash equivalents are comprised of bank and money market accounts and are classified as Level 1.

Short-term notes payable are due upon demand and, therefore, the carrying amounts approximate fair value and are classified as Level 1. The estimated fair value and book value of our long-term debt, including current maturities, was \$1.3 billion and \$1.2 billion, respectively, at both March 31, 2015 and December 31, 2014. The estimated fair value of our senior notes at March 31, 2015, was determined using quoted market prices, and are considered Level 2.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with our unaudited financial statements and the Notes to Financial Statements in this Quarterly Report, as well as our Annual Report. Due to the seasonal nature of our business, the results of operations for the three months ended March 31, 2015, are not necessarily indicative of the results that may be expected for a 12-month period.

RECENT DEVELOPMENTS

Dividend - In April 2015, a dividend of \$0.30 per share (\$1.20 per share on an annualized basis) was declared for shareholders of record on May 15, 2015, payable June 1, 2015.

Regulatory Activities - Oklahoma - As previously approved by the OCC in 2014, Oklahoma Natural Gas will file a rate case in 2015 based on a test year consisting of the 12 months ended March 31, 2015.

In March 2015, Oklahoma Natural Gas filed its energy-efficiency program true-up application for its 2014 program year, requesting a utility incentive adjustment of \$1.2 million.

In December 2014, the Public Utility Division of the OCC filed an application to close the remaining take-or-pay items associated with its rider. The OCC's final audit of the take-or-pay rider and related items included a review of the over-recovery of \$1.1 million and recommended refunding this over-recovery to customers through Oklahoma Natural Gas' Purchased Gas Adjustment Clause (PGA) mechanism. The pass-through of the over-recovery through the PGA has no impact on operating income.

Kansas - In March 2015, the KCC issued an order opening an investigation regarding accelerated replacement of obsolete pipeline materials. This order was issued after several open meetings were hosted by the KCC in the fourth quarter of 2014, discussing the status of natural gas infrastructure replacement in Kansas. The KCC requested initial briefs to be submitted by April 2015, addressing whether the KCC has the authority to establish alternative rate-making methodologies for pipe replacement beyond those outlined in Kansas' Gas System Reliability statute. If the KCC finds it has such jurisdiction, then additional questions will be posed to the affected parties outlined in the docket and the investigation will proceed. The KCC expects to issue a ruling on the jurisdictional question by May 2015.

Texas - In March 2014, Texas Gas Service and the City of El Paso agreed to enter into an annual rate review mechanism called the El Paso Annual Rate Review (EPARR). The EPARR provides for a review of Texas Gas Service's revenue requirement based upon an agreed upon capital structure and return on equity in lieu of a filing under the GRIP statute with the City of El Paso. Texas Gas Service continued to file under the GRIP statute for other incorporated cities in the El Paso service area until early 2015, when the other incorporated cities in the El Paso service area adopted the EPARR mechanism. GRIP is a capital-recovery mechanism that allows for a rate adjustment providing recovery of and a return on incremental capital investments made between rate cases.

In March 2015, Texas Gas Service filed under the EPARR requesting an increase in revenues of \$9.4 million in the City of El Paso and surrounding incorporated cities. The filing included a request to include a payroll adjustment which would increase revenues by an additional \$1.8 million, for a total increase in revenues of \$11.2 million. In April 2015, Texas Gas Service filed with the RRC under the GRIP statute, requesting an increase of \$0.4 million in revenues for the unincorporated areas of the El Paso service area.

Texas Gas Service filed requests for rate relief under the GRIP statute with the City of Austin, Texas, and surrounding communities in February 2015, for approximately \$3.7 million. If approved by the cities, new rates will become effective in May 2015.

In the normal course of business, we have received approval for increases totaling \$1.4 million in 2015 for rate relief under the GRIP and cost-of-service adjustments in other Texas jurisdictions to address investments in rate base and changes in cost of service.



## FINANCIAL RESULTS AND OPERATING INFORMATION

Selected Financial Results - The following table sets forth certain selected financial results for our operations for the periods indicated:

Financial Results	Three Months Ended		Variances		
	March 31, 2015	2014	2015 vs. 2014 Increase (Decrease)		
	(Millions of dollars, except percentages)				
Natural gas sales	\$636.8	\$724.7	\$(87.9	) (12	)%
Transportation revenues	31.4	32.5	(1.1	) (3	)%
Cost of natural gas	413.6	506.3	(92.7	) (18	)%
Net margin, excluding other revenues	254.6	250.9	3.7	1	%
Other revenues	8.4	8.9	(0.5	) (6	)%
Net margin	263.0	259.8	3.2	1	%
Operating costs	122.4	118.9	3.5	3	%
Depreciation and amortization	31.6	31.5	0.1	—	%
Operating income	\$109.0	\$109.4	\$(0.4	) —	%
Capital expenditures	\$54.9	\$65.7	\$(10.8	) (16	)%

The following table sets forth our net margin, excluding other revenues, by type of customer, for the periods indicated:

Net Margin, Excluding Other Revenues	Three Months Ended		Variances		
	March 31, 2015	2014	2015 vs. 2014 Increase (Decrease)		
	(Millions of dollars, except percentages)				
Residential	\$184.1	\$179.6	\$4.5	3	%
Commercial and industrial	37.0	37.0	—	—	%
Wholesale and public authority	2.1	1.8	0.3	17	%
Net margin on natural gas sales	223.2	218.4	4.8	2	%
Transportation revenues	31.4	32.5	(1.1	) (3	)%
Net margin, excluding other revenues	\$254.6	\$250.9	\$3.7	1	%

Our net margin on natural gas sales is comprised of two components, fixed and variable margin. Fixed margin reflects the portion of our net margin attributable to the monthly fixed customer charge component of our rates, which does not fluctuate based on customer usage in each period. Variable margin reflects the portion of our net margin that fluctuates with the volumes delivered and billed. We believe that the combination of the significant residential component of our customer base, the fixed charge component of our sales margin and our regulatory rate mechanisms that we have in place result in a stable cash flow profile. The following table sets forth our net margin on natural gas sales by revenue type for the periods indicated:

Net Margin on Natural Gas Sales	Three Months Ended		Three Months		
	March 31, 2015	2014	2015 vs. 2014 Increase (Decrease)		
	(Millions of dollars, except percentages)				
Net margin on natural gas sales	\$129.3	\$121.7	\$7.6	6	%
Fixed margin	93.9	96.7	(2.8	) (3	)%
Variable margin	\$223.2	\$218.4	\$4.8	2	%
Net margin on natural gas sales					

Net margin increased \$3.2 million for the three months ended March 31, 2015, compared with the same period last year, due primarily to the following:

- an increase of \$8.7 million from new rates primarily in Oklahoma and Texas; and
- an increase of \$1.3 million in residential sales due primarily to customer growth in Oklahoma; offset partially by

a decrease of \$2.5 million in rider and surcharge recoveries due primarily to lower ad-valorem surcharge in Kansas and the expiration of the rider associated with the recovery of take-or-pay settlements in Oklahoma, both of which are offset by lower regulatory amortization in depreciation and amortization expense;

a decrease of \$2.3 million due to lower sales volumes, net of weather normalization primarily from warmer weather in the first quarter 2015 compared with the first quarter 2014; and  
a decrease of \$1.0 million due primarily to lower transportation volumes from weather-sensitive customers in Kansas and Oklahoma.

Operating costs increased \$3.5 million for the three months ended March 31, 2015, compared with the same period last year, due primarily to the following:

an increase in employee-related costs of \$4.2 million primarily due to \$3.4 million in higher labor costs and \$2.0 million in higher benefit costs resulting primarily from a change in our discount rate associated with our pension and other postretirement benefit plans; offset partially by a decrease of \$1.2 million in lower share-based compensation; and

- an increase of \$2.1 million in information technology expenses; offset partially by
- a decrease of \$1.5 million in workers' compensation expense; and
- a decrease of \$1.0 million in expenses due primarily to our separation from ONEOK in the prior year.

Depreciation and amortization expense increased for the three months ended March 31, 2015, compared with the same period last year, due to an increase in depreciation of \$2.7 million from our capital expenditures, offset primarily by a decrease in the amortization of ad-valorem surcharge rider in Kansas and take-or-pay rider in Oklahoma of \$2.5 million.

Capital Expenditures - Our capital expenditures program includes expenditures for pipeline integrity, extending service to new areas, modifications to customer service lines, increasing system capabilities, pipeline replacements and information technology assets. It is our practice to maintain and upgrade our infrastructure, facilities and systems to ensure safe, reliable and efficient operations.

Capital expenditures decreased \$10.8 million for the three months ended March 31, 2015, compared with the same period last year, due primarily to information technology hardware and software assets acquired due to our separation from ONEOK in the prior year.

Selected Operating Information - The following tables set forth certain selected operating information for the periods indicated:

(in thousands)	Three Months Ended March 31,								Variances 2015 vs. 2014			
	2015				2014				Increase (Decrease)			
Average Number of Customers	OK	KS	TX	Total	OK	KS	TX	Total	OK	KS	TX	Total
Residential	788	586	606	1,980	782	589	603	1,974	6	(3)	)3	6
Commercial and industrial	74	51	35	160	73	51	35	159	1	—	—	1
Wholesale and public authority	—	—	3	3	—	—	3	3	—	—	—	—
Transportation	5	6	1	12	5	6	1	12	—	—	—	—
Total customers	867	643	645	2,155	860	646	642	2,148	7	(3)	)3	7

Volumes (MMcf)	Three Months Ended March 31,	
	2015	2014
Natural gas sales		
Residential	60,112	63,413
Commercial and industrial	17,144	18,321
Wholesale and public authority	1,109	809
Total volumes sold	78,365	82,543

Transportation	60,772	66,976
Total volumes delivered	139,137	149,519

Residential and commercial and industrial natural gas sales volumes and transportation volumes delivered decreased for the three months ended March 31, 2015, compared with the same period last year, due primarily to warmer temperatures in the first quarter of 2015. The impact on residential and commercial margins was mitigated largely by weather-normalization mechanisms.

Wholesale sales represent contracted natural gas volumes that exceed the needs of our residential, commercial and industrial customer base and are available for sale to other parties. The impact to net margin from changes in volumes associated with these customers is minimal.

	Three Months Ended March 31,				2015 vs 2014		2015			2014		
	Actual		Normal		Actual Variance		Actual as a percent of Normal			Actual as a percent of Normal		
Heating Degree Days												
Oklahoma	1,911	1,803	2,142	1,803	(11	)%	106	%	119	%		
Kansas	2,515	2,502	2,879	2,502	(13	)%	101	%	115	%		
Texas	1,102	994	984	997	12	%	111	%	99	%		

Normal HDDs are established through rate proceedings in each of our rate jurisdictions for use primarily in weather normalization billing calculations. See further discussion on weather normalization in our Regulatory Overview section in Part 1, Item 1, "Business," of our Annual Report. Normal HDDs disclosed above are based on:

- 10-year weighted average HDDs as of December 31, 2008, for years 1999-2008, as calculated using 11 weather stations across Oklahoma and weighted on average customer count for Oklahoma;
- 30-year average for years 1981-2010 published by the National Oceanic and Atmospheric Administration, as calculated using 13 weather stations across Kansas and weighted on HDDs by weather station and customers for Kansas; and
- a rolling 10-year average of actual natural gas distribution sales volumes by service area for Texas.

Actual HDDs are based on quarter-to-date and year-to-date, weighted average of:

- 11 weather stations and customers by month for Oklahoma;
- 13 weather stations and customers by month for Kansas; and
- 9 weather stations and natural gas distribution sales volumes by service area for Texas.

## CONTINGENCIES

Legal Proceedings - We are a party to various litigation matters and claims that have arisen in the normal course of our operations. While the results of litigation and claims cannot be predicted with certainty, we believe the reasonably possible losses from such matters, individually and in the aggregate, are not material. Additionally, we believe the probable final outcome of such matters will not have a material adverse effect on our results of operations, financial position or cash flows.

## LIQUIDITY AND CAPITAL RESOURCES

General - We have relied primarily on operating cash flow, commercial paper and the ONE Gas Credit Agreement for our liquidity and capital resource requirements. We fund operating expenses, working capital requirements, including purchases of natural gas, and capital expenditures primarily with cash from operations, commercial paper and bank credit facilities.

We believe that the combination of the significant residential component of our customer base, the fixed-charge component of our natural gas sales net margin and our regulatory rate mechanisms that we have in place result in a stable cash flow profile. Because the energy consumption of residential customers is less volatile compared with

commercial and industrial customers, our business historically has generated stable and predictable net margin and cash flows. Additionally, we have several regulatory rate mechanisms in place to reduce the lag in earning a return on our capital expenditures. We anticipate that our cash flow generated from operations and our expected short- and long-term financing arrangements will enable us to maintain our current and planned level of operations and provide us flexibility to finance our infrastructure investments.

Our ability to access capital markets for debt and equity financing under reasonable terms depends on market conditions and our financial condition and credit ratings. We believe that stronger credit ratings will provide a significant advantage to our business. By maintaining a conservative financial profile and stable revenue base, we believe that we will be able to maintain

an investment-grade credit rating, which we believe will provide us access to diverse sources of capital at favorable rates in order to finance our infrastructure investments. Credit rating agencies perform independent analyses when assigning credit ratings.

**Short-term Financing** - The ONE Gas Credit Agreement contains certain financial, operational and legal covenants. Among other things, these covenants include maintaining a debt-to-capital ratio of no more than 70 percent at the end of any calendar quarter. The ONE Gas Credit Agreement also contains customary affirmative and negative covenants, including covenants relating to liens, indebtedness of subsidiaries, investments, changes in the nature of business, fundamental changes, transactions with affiliates, burdensome agreements, and use of proceeds. In the event of a breach of certain covenants by us, amounts outstanding under the ONE Gas Credit Agreement may become due and payable immediately. At March 31, 2015, our debt-to-capital ratio was 40 percent, and we were in compliance with all covenants under the ONE Gas Credit Agreement.

The ONE Gas Credit Agreement includes a \$50 million sublimit for the issuance of standby letters of credit and also features an option to request an increase in the size of the facility to an aggregate of \$1.2 billion from \$700 million, upon satisfaction of customary conditions, including receipt of commitments from new lenders or increased commitments from existing lenders. Borrowings made under the facility are available for general corporate purposes. The ONE Gas Credit Agreement contains provisions for an applicable margin rate and an annual facility fee, both of which adjust with changes in our credit rating. Based on our current credit ratings, borrowings, if any, will accrue interest at LIBOR plus 79.5 basis points, and the annual facility fee is 8 basis points. The total amount of short-term borrowings authorized by ONE Gas' Board of Directors is \$1.2 billion.

We have a commercial paper program under which we may issue unsecured commercial paper up to a maximum amount of \$700 million to fund short-term borrowing needs. The maturities of the commercial paper notes may vary but may not exceed 270 days from the date of issue. The commercial paper notes are generally sold at par less a discount representing an interest factor.

The ONE Gas Credit Agreement is available to repay the commercial paper notes, if necessary. Amounts outstanding under the commercial paper program reduce the borrowing capacity under the ONE Gas Credit Agreement. At March 31, 2015, we had no short-term borrowings and \$1.0 million in letters of credit issued under the ONE Gas Credit Agreement. At March 31, 2015, we had approximately \$142.5 million of cash and cash equivalents and \$699.0 million of remaining credit available under the ONE Gas Credit Agreement.

**Long-Term Debt** - We have senior 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 senior notes due 2044 (collectively, our "Senior Notes"). The indenture governing our Senior Notes includes an event of default upon the acceleration of other indebtedness of \$100 million or more. Such events of default would entitle the trustee or the holders of 25 percent in aggregate principal amount of the outstanding Senior Notes to declare those Senior Notes immediately due and payable in full.

**Treasury Shares** - In February 2015, our Board of Directors authorized us to purchase treasury shares to be used to offset shares issued under our employee and non-employee director equity compensation, dividend reinvestment and employee stock purchase plans. The Board of Directors established an annual limit of \$20 million of treasury stock purchases, exclusive of funds received through the dividend reinvestment and employee stock purchase plans. Stock purchases may be made in the open market or in private transactions at times and in amounts that we deem appropriate. There is no guarantee as to the exact number of shares that we may purchase, and we can terminate or limit the program at any time.

**Credit Ratings** - Our credit ratings as of March 31, 2015, were:

Rating Agency	Rating	Outlook
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Moody's	A2	Stable
S&P	A-	Stable

Our commercial paper is currently rated Prime-1 by Moody's and A-2 by S&P. We intend to maintain strong credit metrics while we pursue a balanced approach to capital investment and a return of capital to shareholders via a dividend that we believe will be competitive with our peer group.

Capitalization structure - As of March 31, 2015, our total capitalization structure is 40 percent debt to 60 percent equity.



Pension and Other Postretirement Benefit Plans - Information about our pension and other postretirement benefits plans, including anticipated contributions, is included under Note 12 of the ONE Gas Notes to Financial Statements in our Annual Report. See Note 7 of the Notes to Financial Statements in this Quarterly Report for additional information.

## CASH FLOW ANALYSIS

We use the indirect method to prepare our statements of cash flows. Under this method, we reconcile net income to cash flows provided by operating activities by adjusting net income for those items that impact net income but may not result in actual cash receipts or payments and changes in our assets and liabilities not classified as investing or financing activities during the period. Items that impact net income but may not result in actual cash receipts or payments include, but are not limited to, depreciation and amortization, deferred income taxes, share-based compensation expense and provision for doubtful accounts.

The following table sets forth the changes in cash flows by operating, investing and financing activities for the periods indicated:

	Three Months Ended March 31,		Variances 2015 vs. 2014
	2015	2014	Increase (Decrease)
	(Millions of dollars)		
Total cash provided by (used in):			
Operating activities	\$241.1	\$182.1	\$59.0
Investing activities	(54.9	) (65.7	) 10.8
Financing activities	(55.6	) 59.1	(114.7
Change in cash and cash equivalents	130.6	175.5	(44.9
Cash and cash equivalents at beginning of period	11.9	3.1	8.8
Cash and cash equivalents at end of period	\$142.5	\$178.6	\$(36.1

**Operating Cash Flows** - Operating cash flows are affected by earnings from our business activities. Changes in natural gas prices and demand for our services or natural gas, whether because of general economic or weather conditions, changes in supply or increased competition from other service providers, could affect our earnings and operating cash flows. Typically, our cash flows from operations are greater in the first half of the year compared with the second half of the year.

Cash flows from operating activities increased for the three months ended March 31, 2015, compared with the same period in 2014. The net increase was due primarily to the collection of trade and income tax receivables, payment of trade payables and the recovery of natural gas purchase costs through our purchased-gas cost mechanisms. The timing of cash collections from customers and payments to vendors and suppliers varies from period to period in the normal course of business and directly impacts our cash flows from operations.

**Investing Cash Flows** - Cash used in investing activities decreased for the three months ended March 31, 2015, compared with the prior period due primarily to capital expenditures for information technology assets associated with our separation from ONEOK.

**Financing Cash Flows** - The changes in cash flows from financing activities are primarily the result of our \$1.19 billion debt issuance and \$1.13 billion cash payment to ONEOK for the three months ended March 31, 2014, in connection with our separation from ONEOK, compared with repayments of commercial paper and dividends paid to shareholders for the three months ended March 31, 2015.

ENVIRONMENTAL, SAFETY AND REGULATORY MATTERS

Environmental Matters - We are subject to multiple historical, wildlife preservation and environmental laws and/or regulations, which affect many aspects of our present and future operations. Regulated activities include, but are not limited to, those involving air emissions, storm water and wastewater discharges, handling and disposal of solid and hazardous wastes, wetland preservation, hazardous materials transportation, and pipeline and facility construction. These laws and regulations require us to obtain and/or comply with a wide variety of environmental clearances, registrations, licenses, permits and other approvals. Failure to comply with these laws, regulations, licenses and permits may expose us to fines, penalties and/or interruptions in our operations that could be material to our results of operations. In addition, emission controls and/or other regulatory or permitting mandates under the Clean Air Act and other similar federal and state laws could require unexpected

capital expenditures at our facilities. We cannot assure that existing environmental statutes and regulations will not be revised or that new regulations will not be adopted or become applicable to us. Revised or additional statutes or regulations that result in increased compliance costs or additional operating restrictions could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We own or retain legal responsibility for the environmental conditions at 12 former manufactured natural gas sites in Kansas. These sites contain potentially harmful materials that are subject to control or remediation under various environmental laws and regulations. A consent agreement with the KDHE governs all work at these sites. The terms of the consent agreement allow us to investigate these sites and set remediation activities based upon the results of the investigations and risk analysis. Remediation involves typically the management of contaminated soils and may involve removal of structures and monitoring and/or remediation of groundwater.

We have completed or addressed removal of the source of soil contamination at 11 of the 12 sites according to plans approved by the KDHE. Regulatory closure has been achieved at three of the sites. We have begun site assessment at the remaining site where no active remediation has occurred.

Our expenditures for environmental evaluation, mitigation, remediation and compliance to date have not been significant in relation to our financial position, results of operations or cash flows, and our expenditures related to environmental matters had no material effects on earnings or cash flows during the three months ended March 31, 2015 and 2014. We do not expect to incur material expenditures for these matters in the future.

**Pipeline Safety** - We are subject to PHMSA regulations, including integrity-management regulations. PHMSA regulations require pipeline companies operating high-pressure transmission pipelines to perform integrity assessments on pipeline segments that pass through densely populated areas or near specifically designated high-consequence areas. In January 2012, the Pipeline Safety, Regulatory Certainty and Job Creation Act was signed into law. The new law increased maximum penalties for violating federal pipeline safety regulations and directs the DOT and the Secretary of Transportation to conduct further review or studies on issues that may or may not be material to us. These issues include, but are not limited to, the following:

- an evaluation of whether natural gas pipeline integrity-management requirements should be expanded beyond current high-consequence areas;
- a verification of records for pipelines in class 3 and 4 locations and high-consequence areas to confirm maximum allowable operating pressures; and
- a requirement to test previously untested pipelines operating above 30 percent yield strength in high-consequence areas.

The potential capital and operating expenditures related to this legislation, the associated regulations or other new pipeline safety regulations are unknown.

**Air and Water Emissions** - The Clean Air Act, the Clean Water Act, analogous state laws and/or regulations promulgated thereunder, impose restrictions and controls regarding the discharge of pollutants into the air and water in the United States. Under the Clean Air Act, a federally enforceable operating permit is required for sources of significant air emissions. We may be required to incur certain capital expenditures for air-pollution-control equipment in connection with obtaining or maintaining permits and approvals for sources of air emissions. We do not expect that these expenditures will have a material impact on our respective results of operations, financial position or cash flows. The Clean Water Act imposes substantial potential liability for the removal of pollutants discharged to waters of the United States and remediation of waters affected by such discharge.

Federal, state and regional initiatives to measure and regulate greenhouse gas emissions are underway. We monitor relevant federal and state legislation to assess the potential impact on our operations. The EPA's Mandatory Greenhouse Gas Reporting Rule requires annual greenhouse gas emissions reporting as carbon dioxide equivalents

from affected facilities and for the natural gas delivered by us to our natural gas distribution customers who are not otherwise required to report their own emissions. The additional cost to gather and report this emission data did not have, and we do not expect it to have, a material impact on our results of operations, financial position or cash flows. In addition, Congress has considered, and may consider in the future, legislation to reduce greenhouse gas emissions, including carbon dioxide and methane. Likewise, the EPA may institute additional regulatory rulemaking associated with greenhouse gas emissions. At this time, no rule or legislation has been enacted that assesses any costs, fees or expenses on any of these emissions.

CERCLA - The federal CERCLA, also commonly known as Superfund, imposes strict, joint and several liability, without regard to fault or the legality of the original act, on certain classes of “persons” (defined under CERCLA) that caused and/or contributed to the release of a hazardous substance into the environment. These persons include but are not limited to the owner or operator of a facility where the release occurred and/or companies that disposed or arranged for the disposal of the hazardous substances found at the facility. Under CERCLA, these persons may be liable for the costs of cleaning up the hazardous substances released into the environment, damages to natural resources and the costs of certain health studies. We do not expect that our responsibilities under CERCLA will have a material impact on our respective results of operations, financial position or cash flows.

Pipeline Security - The United States Department of Homeland Security’s Transportation Security Administration issued updated pipeline security guidelines in April 2012. Our pipeline facilities have been reviewed according to the current guidelines and no material changes have been required to date.

Environmental Footprint - Our environmental and climate change strategy focuses on taking steps to minimize the impact of our operations on the environment. These strategies include: (1) developing and maintaining an accurate greenhouse gas emissions inventory according to current rules issued by the EPA; (2) improving the efficiency of our various pipelines; (3) following developing technologies for emission control; and (4) utilizing practices to reduce the loss of methane from our facilities.

We participate in the EPA’s Natural Gas STAR Program to voluntarily reduce methane emissions. We continue to focus on maintaining low rates of lost-and-unaccounted-for natural gas through expanded implementation of best practices to limit the release of natural gas during pipeline and facility maintenance and operations.

Regulatory - Several regulatory initiatives impacted the earnings and future earnings potential of our business. See discussion of our regulatory initiatives in Management’s Discussion and Analysis of Financial Condition and Results of Operations.

#### IMPACT OF NEW ACCOUNTING STANDARDS

Information about the impact of new accounting standards, if any, is included in Note 1 of the Notes to Financial Statements in this Quarterly Report.

#### ESTIMATES AND CRITICAL ACCOUNTING POLICIES

The preparation of our financial statements and related disclosures in accordance with GAAP requires us to make estimates and assumptions with respect to values or conditions that cannot be known with certainty that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions also affect the reported amounts of revenue and expenses during the reporting period. Although we believe these estimates and assumptions are reasonable, actual results could differ from our estimates.

Information about our estimates and critical accounting policies is included under Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations, “Estimates and Critical Accounting Policies,” in our Annual Report.

#### FORWARD-LOOKING STATEMENTS

Some of the statements contained and incorporated in this Quarterly Report are forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. The forward-looking statements relate to our anticipated financial performance, liquidity, management’s plans and objectives for our future operations,

our business prospects, the outcome of regulatory and legal proceedings, market conditions and other matters. We make these forward-looking statements in reliance on the safe harbor protections provided under the Private Securities Litigation Reform Act of 1995. The following discussion is intended to identify important factors that could cause future outcomes to differ materially from those set forth in the forward-looking statements.

Forward-looking statements include the items identified in the preceding paragraph, the information concerning possible or assumed future results of our operations and other statements contained or incorporated in this Quarterly Report identified by words such as “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “believe,” “should,” “goal,” “guidance,” “could,” “may,” “continue,” “might,” “potential,” “scheduled,” and other words and terms of similar meaning.

One should not place undue reliance on forward-looking statements, which are applicable only as of the date of this Quarterly Report. Known and unknown risks, uncertainties and other factors may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by forward-looking statements. Those factors may affect our operations, markets, products, services and prices. In addition to any assumptions and other factors referred to specifically in connection with the forward-looking statements, factors that could cause our actual results to differ materially from those contemplated in any forward-looking statement include, among others, the following:

- our ability to recover operating costs and amounts equivalent to income taxes, costs of property, plant and equipment and regulatory assets in our regulated rates;
- our ability to manage our operations and maintenance costs;
- changes in regulation, including the application of market rates by state and local agencies;
- the economic climate and, particularly, its effect on the natural gas requirements of our residential and commercial industrial customers;
- competition from alternative forms of energy, including, but not limited to, solar power, wind power, geothermal energy and biofuels;
- variations in weather, including seasonal effects on demand, the occurrence of storms and disasters, and climate change;
- indebtedness could make us more vulnerable to general adverse economic and industry conditions, limit our ability to borrow additional funds and/or place us at competitive disadvantage compared with competitors;
- our ability to secure reliable, competitively priced and flexible natural gas supply;
- the mechanical integrity of facilities operated;
- operational hazards and unforeseen operational interruptions;
- adverse labor relations;
- the effectiveness of our strategies to reduce earnings lag, margin protection strategies and risk mitigation strategies;
- our ability to generate sufficient cash flows to meet all our cash needs;
- changes in the financial markets during the periods covered by the forward-looking statements, particularly those affecting the availability of capital and our ability to refinance existing debt and fund investments and acquisitions;
- actions of rating agencies, including the ratings of debt, general corporate ratings and changes in the rating agencies' ratings criteria;
- changes in inflation and interest rates;
- our ability to purchase and sell assets at attractive prices and on other attractive terms;
- our ability to recover the costs of natural gas purchased for our customers;
- impact of potential impairment charges;
- volatility and changes in markets for natural gas;
- possible loss of LDC franchises or other adverse effects caused by the actions of municipalities;
- payment and performance by counterparties and customers as contracted and when due;
- changes in regulation of natural gas distribution services, particularly those in Oklahoma, Kansas and Texas;
- changes in law resulting from new federal or state energy legislation;
- changes in environmental, safety, tax and other laws to which we and our subsidiaries are subject;
- advances in technology;
- acts of nature and the potential effects of threatened or actual terrorism, including cyber attacks, and war;
- the sufficiency of insurance coverage to cover losses;
- the effects of our strategies to reduce tax payments;
- the effects of litigation and regulatory investigations, proceedings, including our rate cases, or inquiries;
- changes in accounting standards and corporate governance;
- our ability to attract and retain talented management and directors;
- the results of financing efforts, including our ability to obtain financing on favorable terms, which can be affected by various factors, including our credit ratings and general economic conditions;
- declines in the market prices of equity securities and resulting funding requirements for our defined benefit pension plans;

the ability to successfully complete merger, acquisition or divestiture plans, regulatory or other limitations imposed as a result of a merger, acquisition or divestiture, and the success of the business following a merger, acquisition or divestiture;

the final resolutions or outcomes with respect to our contingent and other corporate liabilities related to the natural gas distribution business and any related actions for indemnification made pursuant to the Separation and Distribution Agreement;

our ability to operate effectively as a separate, publicly traded company;



the costs associated with becoming compliant with the Sarbanes-Oxley Act of 2002 as a stand-alone company and the consequences of failing to implement effective internal controls over financial reporting as required by Section 404 of the Sarbanes-Oxley Act of 2002; and

- the costs associated with increased regulation and enhanced disclosure and corporate governance requirements pursuant to the Dodd-Frank Wall Street Reform and the Consumer Protection Act of 2010.

These factors are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in any of our forward-looking statements. Other factors could also have material adverse effects on our future results. These and other risks are described in greater detail in Item 1A, Risk Factors, in our Annual Report. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these factors. Other than as required under securities laws, we undertake no obligation to update publicly any forward-looking statement whether as a result of new information, subsequent events or change in circumstances, expectations or otherwise.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our quantitative and qualitative disclosures about market risk are consistent with those discussed in Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk, in our Annual Report.

#### Commodity Price Risk

Our commodity price risk, driven primarily by fluctuations in the price of natural gas, is mitigated by our purchased-gas cost adjustment mechanisms. Additionally, we inject natural gas into storage during the summer months and withdraw the natural gas during the winter heating season. Pursuant to programs that are approved by the state commissions, we use derivative instruments to mitigate the volatility of natural gas prices for anticipated natural gas purchases during the winter heating months. Premiums paid and any cash settlements received associated with these derivative instruments are included in, and recoverable through our purchased-gas cost adjustment mechanisms.

#### Interest-Rate Risk

We would be exposed to interest-rate risk with any new debt financing. We are able to manage interest-rate risk through the use of fixed-rate debt, floating-rate debt and, at times, interest-rate swaps. Fixed-rate swaps may be used to reduce our risk of increased interest costs during periods of rising interest rates. Floating-rate swaps may be used to convert the fixed rates of long-term borrowings into short-term variable rates.

#### Counterparty Credit Risk

We assess the creditworthiness of our customers. Those customers who do not meet minimum standards are required to provide security, including deposits and other forms of collateral, when appropriate. With more than 2 million customers across three states, we are not exposed materially to a concentration of credit risk. We maintain a provision for doubtful accounts based upon factors surrounding the credit risk of customers, historical trends, consideration of the current credit environment and other information. In most jurisdictions, we are able to recover the natural gas cost component of our uncollectible accounts through our purchased-gas cost mechanisms.

### ITEM 4. CONTROLS AND PROCEDURES

Quarterly Evaluation of Disclosure Controls and Procedures - Our Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer) have concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report based on the evaluation of the controls and procedures required by Rules 13(a)-15(b) of the Exchange Act.

Changes in Internal Control Over Financial Reporting - There have been no changes in our internal control over financial reporting during the three months ended March 31, 2015, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

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## ITEM 1. LEGAL PROCEEDINGS

We are a party to various litigation matters and claims that have arisen in the normal course of our operations. While the results of litigation and claims cannot be predicted with certainty, we believe the reasonably possible losses from such matters, individually and in the aggregate, are not material. Additionally, we believe the probable final outcome of such matters will not have a material adverse effect on our results of operations, financial position or cash flows.

## ITEM 1A. RISK FACTORS

Our investors should consider the risks set forth in Part I, Item 1A, Risk Factors, of our Annual Report that could affect us and our business. Although we have tried to discuss key factors, our investors need to be aware that other risks may prove to be important in the future. New risks may emerge at any time, and we cannot predict such risks or estimate the extent to which they may affect our financial performance. Investors should carefully consider the discussion of risks and the other information included or incorporated by reference in this Quarterly Report, including “Forward-Looking Statements,” which are included in Part I, Item 2, Management’s Discussion and Analysis of Financial Condition and Results of Operations.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Not Applicable.

## ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable.

## ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

## ITEM 5. OTHER INFORMATION

On February 17, 2015, our Board of Directors amended our Equity Compensation Plan and the forms of the Performance Unit Award Agreement and the Restricted Unit Award Agreement (which each evidence awards made under our Equity Compensation Plan) to implement a so-called “double trigger” change-in-control vesting provision. Prior to the amendments, outstanding stock awards generally became fully exercisable, vested and payable upon a change-in-control of the company. As a result of the amendments, stock incentive awards will now become fully exercisable, vested and payable following both a change-in-control and either an officer’s termination without cause or resignation for good reason within two years of the change in control.

The description of our Equity Compensation Plan and the forms of the Performance Unit Award Agreement and the Restricted Unit Award Agreement, in each instance as amended to date, is qualified in its entirety by reference to the full text of the Equity Compensation Plan and the forms of the Performance Unit Award Agreement and the Restricted Unit Award Agreement which are attached hereto or incorporated by reference as Exhibits 10.1, 10.2 and 10.3.

## ITEM 6. EXHIBITS

Readers of this report should not rely on or assume the accuracy of any representation or warranty or the validity of any opinion contained in any agreement filed as an exhibit to this Quarterly Report, because such representation, warranty or opinion may be subject to exceptions and qualifications contained in separate disclosure schedules, may represent an allocation of risk between parties in the particular transaction, may be qualified by materiality standards

that differ from what may be viewed as material for securities law purposes, or may no longer continue to be true as of any given date. All exhibits attached to this Quarterly Report are included for the purpose of complying with requirements of the SEC. Other than the certifications made by our officers pursuant to the Sarbanes-Oxley Act of 2002 included as exhibits to this Quarterly Report, all exhibits are included only to provide information to investors regarding their respective terms and should not be relied upon as constituting or providing any factual disclosures about us, any other persons, any state of affairs or other matters.

The following exhibits are filed as part of this Quarterly Report:

Exhibit No.	Exhibit Description
10.1	ONE Gas, Inc. Equity Compensation Plan (incorporated by reference to Appendix A to ONE Gas, Inc.'s Definitive Proxy Statement on Schedule 14A filed on April 1, 2015 (File No. 1-36108)).
10.2	Form of 2015 Performance Unit Award Agreement.
10.3	Form of 2015 Restricted Unit Award Agreement.
31.1	Certification of Pierce H. Norton II pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Curtis L. Dinan pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Pierce H. Norton II pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished only pursuant to Rule 13a-14(b)).
32.2	Certification of Curtis L. Dinan pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished only pursuant to Rule 13a-14(b)).
101.INS	XBRL Instance Document.
101.SCH	XBRL Schema Document.
101.CAL	XBRL Calculation Linkbase Document.
101.LAB	XBRL Label Linkbase Document.
101. PRE	XBRL Presentation Linkbase Document.
101.DEF	XBRL Extension Definition Linkbase Document.

Attached as Exhibit 101 to this Quarterly Report are the following XBRL-related documents: (i) Document and Entity Information; (ii) Statements of Income for the three months ended March 31, 2015 and 2014; (iii) Statements of Comprehensive Income for the three months ended March 31, 2015 and 2014; (iv) Balance Sheets at March 31, 2015 and December 31, 2014; (v) Statements of Cash Flows for the three months ended March 31, 2015 and 2014; (vi) Statement of Equity for the three months ended March 31, 2015; and (vii) Notes to Financial Statements.

We also make available on our website the Interactive Data Files submitted as Exhibit 101 to this Quarterly Report.

SIGNATURE

Pursuant to the requirements of the Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: April 30, 2015

ONE Gas, Inc.  
Registrant

By: /s/ Curtis L. Dinan  
Curtis L. Dinan  
Senior Vice President,  
Chief Financial Officer and Treasurer  
(Principal Financial Officer)