

ONE Gas, Inc.  
Form 10-Q  
August 01, 2018

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 June 30, 2018.

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

On July 24, 2018, the Company had 52,517,758 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 subsidiaries, 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,” “likely,” and terms 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 use Twitter®, LinkedIn® and Facebook® as additional channels of distribution to reach public investors. Information contained on our website, posted on our Facebook® page or disseminated through Twitter® or LinkedIn®, and any corresponding applications, 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.

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

AAO	Accounting Authority Order
ADIT	Accumulated deferred income tax
Annual Report	Annual Report on Form 10-K for the year ended December 31, 2017
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
Code	Internal Revenue Code of 1986, 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
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.
NOL	Net operating loss
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 amended and restated revolving credit agreement, 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
SAB	Staff Accounting Bulletin

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

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## PART I - FINANCIAL INFORMATION

## ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

ONE Gas, Inc.

## CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)	Three Months Ended		Six Months Ended	
	June 30, 2018	2017	June 30, 2018	2017
	(Thousands of dollars, except per share amounts)			
Revenues				
Revenues from contracts with customers	\$291,168	\$274,033	\$926,405	\$810,193
Other revenues	1,353	5,656	4,580	19,904
Total revenues	292,521	279,689	930,985	830,097
Cost of natural gas	94,159	82,572	444,578	345,726
Net margin	198,362	197,117	486,407	484,371
Operating expenses				
Operations and maintenance	102,995	96,928	205,660	201,972
Depreciation and amortization	39,757	37,851	78,647	74,870
General taxes	14,567	13,973	30,767	29,719
Total operating expenses	157,319	148,752	315,074	306,561
Operating income	41,043	48,365	171,333	177,810
Other expense, net	(2,194 )	(3,900 )	(4,358 )	(7,307 )
Interest expense, net	(12,003 )	(11,305 )	(24,355 )	(22,786 )
Income before income taxes	26,846	33,160	142,620	147,717
Income taxes	(6,427 )	(12,537 )	(31,366 )	(50,638 )
Net income	\$20,419	\$20,623	\$111,254	\$97,079
Earnings per share				
Basic	\$0.39	\$0.39	\$2.11	\$1.85
Diluted	\$0.39	\$0.39	\$2.10	\$1.83
Average shares (thousands)				
Basic	52,692	52,553	52,648	52,565
Diluted	52,899	52,969	52,898	53,012
Dividends declared per share of stock	\$0.46	\$0.42	\$0.92	\$0.84

See accompanying Notes to Consolidated Financial Statements.

ONE Gas, Inc.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)	Three Months Ended		Six Months Ended	
	June 30, 2018	2017	June 30, 2018	2017
	(Thousands of dollars)			
Net income	\$20,419	\$20,623	\$111,254	\$97,079
Other comprehensive income (loss), net of tax				
Change in pension and other postemployment benefit plan liability, net of tax of \$(68), \$(81), \$(419) and \$(161), respectively	203	129	123	258
Total other comprehensive income (loss), net of tax	203	129	123	258
Comprehensive income	\$20,622	\$20,752	\$111,377	\$97,337

See accompanying Notes to Consolidated Financial Statements.

ONE Gas, Inc.

## CONSOLIDATED BALANCE SHEETS

	June 30,	December
(Unaudited)	2018	31, 2017
Assets	(Thousands of dollars)	
Property, plant and equipment		
Property, plant and equipment	\$5,870,814	\$5,713,912
Accumulated depreciation and amortization	1,745,124	1,706,327
Net property, plant and equipment	4,125,690	4,007,585
Current assets		
Cash and cash equivalents	12,580	14,413
Accounts receivable, net	163,967	298,768
Materials and supplies	36,124	39,672
Natural gas in storage	80,482	130,154
Regulatory assets	39,402	88,180
Other current assets	18,154	17,807
Total current assets	350,709	588,994
Goodwill and other assets		
Regulatory assets	385,564	405,189
Goodwill	157,953	157,953
Other assets	48,003	47,157
Total goodwill and other assets	591,520	610,299
Total assets	\$5,067,919	\$5,206,878

See accompanying Notes to Consolidated Financial Statements.

ONE Gas, Inc.  
CONSOLIDATED BALANCE SHEETS  
(Continued)

	June 30, 2018	December 31, 2017
(Unaudited)		
Equity and Liabilities		
Equity and long-term debt		
Common stock, \$0.01 par value: authorized 250,000,000 shares; issued 52,598,005 shares and outstanding 52,516,828 shares at June 30, 2018; issued 52,598,005 and outstanding 52,312,516 shares at December 31, 2017	\$526	\$526
Paid-in capital	1,723,795	1,737,551
Retained earnings	308,652	246,121
Accumulated other comprehensive income (loss)	(5,370)	(5,493)
Treasury stock, at cost: 81,177 shares at June 30, 2018 and 285,489 shares at December 31, 2017	(5,259)	(18,496)
Total equity	2,022,344	1,960,209
Long-term debt, excluding current maturities, and net of issuance costs of \$7,614 and \$8,033, respectively	893,671	1,193,257
Total equity and long-term debt	2,916,015	3,153,466
Current liabilities		
Current maturities of long-term debt	300,008	8
Notes payable	185,000	357,215
Accounts payable	70,429	143,681
Accrued interest	19,028	18,776
Accrued taxes other than income	34,931	41,324
Accrued liabilities	20,724	30,058
Regulatory liabilities	47,867	9,438
Customer deposits	61,249	60,811
Other current liabilities	10,102	12,019
Total current liabilities	749,338	673,330
Deferred credits and other liabilities		
Deferred income taxes	628,532	599,945
Regulatory liabilities	521,717	519,421
Employee benefit obligations	160,382	172,938
Other deferred credits	91,935	87,778
Total deferred credits and other liabilities	1,402,566	1,380,082
Commitments and contingencies		
Total liabilities and equity	\$5,067,919	\$5,206,878
See accompanying Notes to Consolidated Financial Statements.		

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ONE Gas, Inc.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)	Six Months Ended	
	June 30, 2018	2017
	(Thousands of dollars)	
Operating activities		
Net income	\$ 111,254	\$ 97,079
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	78,647	74,870
Deferred income taxes	30,546	50,308
Share-based compensation expense	4,080	4,951
Provision for doubtful accounts	4,071	3,501
Changes in assets and liabilities:		
Accounts receivable	130,730	135,165
Materials and supplies	3,548	(2,792 )
Natural gas in storage	49,672	10,436
Asset removal costs	(25,774 )	(22,837 )
Accounts payable	(68,428 )	(68,992 )
Accrued interest	252	104
Accrued taxes other than income	(6,393 )	(9,009 )
Accrued liabilities	(9,334 )	(6,729 )
Customer deposits	438	(686 )
Regulatory assets and liabilities	105,967	19,782
Other assets and liabilities	(9,319 )	(5,880 )
Cash provided by operating activities	399,957	279,271
Investing activities		
Capital expenditures	(175,834 )	(154,666)
Other	—	477
Cash used in investing activities	(175,834 )	(154,189)
Financing activities		
Repayments of notes payable, net	(172,215 )	(66,000 )
Repurchase of common stock	—	(17,512 )
Issuance of common stock	2,390	2,208
Dividends paid	(48,272 )	(44,042 )
Tax withholdings related to net share settlements of stock compensation	(7,859 )	(9,286 )
Cash used in financing activities	(225,956 )	(134,632)
Change in cash and cash equivalents	(1,833 )	(9,550 )
Cash and cash equivalents at beginning of period	14,413	14,663
Cash and cash equivalents at end of period	\$ 12,580	\$ 5,113
See accompanying Notes to Consolidated Financial Statements.		

ONE Gas, Inc.  
CONSOLIDATED STATEMENT OF EQUITY

(Unaudited)	Common Stock Issued  (Shares)	Contributed-in Stock Capital  (Thousands of dollars)
January 1, 2018	52,598,005	\$526,173,551
Net income	—	—
Other comprehensive income	—	—
Common stock issued and other	—	(14,207 )
Common stock dividends - \$0.92 per share	—	451
June 30, 2018	52,598,005	\$526,172,795

See accompanying Notes to Consolidated Financial Statements.



ONE Gas, Inc.  
 CONSOLIDATED  
 STATEMENT OF  
 EQUITY  
 (Continued)

		Accumulated	
(Unaudited)	Retained Earnings	Treasury Stock	Total
	Stocks	Comprehensive Income (Loss)	Equity
	(Thousands of dollars)		