

Edgar Filing: ONE Gas, Inc. - Form 10-Q

ONE Gas, Inc.  
Form 10-Q  
August 05, 2014

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 June 30, 2014.

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 ☒ X  
company\_\_\_

Accelerated filer \_\_\_

Non-accelerated filer \_\_\_

Smaller reporting

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

On July 25, 2014, the Company had 51,998,961 shares of common stock outstanding.

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ONE Gas, Inc.

## TABLE OF CONTENTS

<u>Part I.</u>	<u>Financial Information</u>	<u>Page No.</u>
<u>Item 1.</u>	<u>Financial Statements (Unaudited)</u>	<u>6</u>
	Statements of Income - Three and Six Months Ended June 30, 2014 and 2013	<u>6</u>
	Statements of Comprehensive Income - Three and Six Months Ended June 30, 2014 and 2013	<u>7</u>
	Balance Sheets - June 30, 2014, and December 31, 2013	<u>8</u>
	Statements of Cash Flows - Six Months Ended June 30, 2014 and 2013	<u>11</u>
	Statement of Changes in Equity - Six Months Ended June 30, 2014	<u>12</u>
	Notes to Financial Statements	<u>14</u>
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>25</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>35</u>
<u>Item 4.</u>	<u>Controls and Procedures</u>	<u>35</u>
<u>Part II.</u>	<u>Other Information</u>	<u>35</u>
<u>Item 1.</u>	<u>Legal Proceedings</u>	<u>36</u>
<u>Item 1A.</u>	<u>Risk Factors</u>	<u>36</u>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>36</u>
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>	<u>36</u>
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>	<u>36</u>
<u>Item 5.</u>	<u>Other Information</u>	<u>36</u>
<u>Item 6.</u>	<u>Exhibits</u>	<u>36</u>
<u>Signature</u>		<u>38</u>

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 1A, “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, 2013
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
DOT	United States Department of Transportation
Employee Matters Agreement	Employee Matters Agreement dated January 14, 2014, between ONEOK and ONE Gas
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
HDDs	Heating Degree Days
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 dated December 20, 2013 and effective January 31, 2014
ONE Gas Predecessor	ONE Gas, Inc.'s predecessor for accounting purposes that consists of the business attributable to ONEOK's natural gas distribution segment that was transferred to ONE Gas, Inc. in connection with its separation from ONEOK
ONEOK	ONEOK, Inc. and its subsidiaries
ONEOK Partners	ONEOK Partners, L.P. 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

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Tax Matters Agreement	Tax Matters Agreement dated January 14, 2014, between ONEOK and ONE Gas
Transition Services Agreement	Transition Services Agreement dated January 14, 2014, between ONEOK and ONE Gas
XBRL	eXtensible Business Reporting Language



## PART I - FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

ONE Gas, Inc.

## STATEMENTS OF INCOME

(Unaudited)	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
(Thousands of dollars, except per share amounts)				
Revenues	\$296,838	\$311,608	\$1,063,016	\$947,541
Cost of natural gas	120,345	133,161	626,687	517,420
Net margin	176,493	178,447	436,329	430,121
Operating expenses				
Operations and maintenance	103,826	93,240	207,325	192,934
Depreciation and amortization	31,318	32,904	62,778	67,771
General taxes	14,537	12,996	30,061	28,271
Total operating expenses	149,681	139,140	300,164	288,976
Operating income	26,812	39,307	136,165	141,145
Other income	672	382	1,305	2,078
Other expense	(337)	(425)	(1,485)	(1,502)
Interest expense	(11,776)	(15,163)	(24,726)	(30,469)
Income before income taxes	15,371	24,101	111,259	111,252
Income taxes	(5,917)	(9,150)	(42,729)	(42,809)
Net income	\$9,454	\$14,951	\$68,530	\$68,443
Earnings per share (Note 5)				
Basic	\$0.18	\$0.29	\$1.32	\$1.31
Diluted	\$0.18	\$0.29	\$1.31	\$1.31
Average shares (thousands)				
Basic	51,797	52,319	52,065	52,319
Diluted	52,446	52,319	52,481	52,319
Dividends declared per share of stock	\$0.28	\$—	\$0.28	\$—

See accompanying Notes to Financial Statements.

ONE Gas, Inc.

STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)	Three Months Ended		Six Months Ended	
	June 30, 2014	2013	June 30, 2014	2013
	(Thousands of dollars)			
Net income	\$9,454	\$14,951	\$68,530	\$68,443
Other comprehensive income (loss), net of tax				
Change in pension and postretirement benefit plan liability, net of tax of \$(2,075), \$0, \$49 and \$0, respectively	3,315	—	(78	) —
Total other comprehensive income (loss), net of tax	3,315	—	(78	) —
Comprehensive income	\$12,769	\$14,951	\$68,452	\$68,443
See accompanying Notes to Financial Statements.				

ONE Gas, Inc.  
BALANCE SHEETS

(Unaudited)	June 30, 2014	December 31, 2013
Assets	(Thousands of dollars)	
Property, plant and equipment		
Property, plant and equipment	\$4,704,681	\$4,534,074
Accumulated depreciation and amortization	1,530,201	1,489,216
Net property, plant and equipment	3,174,480	3,044,858
Current assets		
Cash and cash equivalents	161,326	3,171
Accounts receivable, net	192,104	356,988
Natural gas in storage	152,045	166,128
Regulatory assets (Note 2)	31,561	21,657
Other current assets	33,892	54,240
Total current assets	570,928	602,184
Goodwill and other assets		
Regulatory assets (Note 2)	322,691	23,822
Goodwill	157,953	157,953
Other assets	57,758	17,658
Total goodwill and other assets	538,402	199,433
Total assets	\$4,283,810	\$3,846,475
See accompanying Notes to Financial Statements.		

ONE Gas, Inc.  
BALANCE SHEETS  
(Continued)

	June 30, 2014	December 31, 2013
(Unaudited)		
Equity and Liabilities		
Equity and long-term debt		
Preferred stock, \$0.01 par value:		
authorized 50,000,000 shares; no shares issued	\$—	\$—
Common stock, \$0.01 par value:		
authorized 250,000,000 shares; issued and outstanding 51,992,547 shares at June 30, 2014; authorized 1,000 shares, issued and outstanding 100 shares at December 31, 2013	520	—
Paid-in capital	1,754,636	—
Accumulated other comprehensive income (loss)	(3,471)	) —
Retained earnings	28,401	—
Owner's net investment	—	1,239,023
Total equity	1,780,086	1,239,023
Long-term debt, excluding current maturities	1,201,314	1,318
Long-term line of credit with ONEOK	—	1,027,631
Total equity and long-term debt	2,981,400	2,267,972
Current liabilities		
Current maturities of long-term debt	6	6
Short-term note payable to ONEOK	—	444,960
Affiliate payable	—	22,403
Accounts payable	100,357	169,500
Accrued interest	19,515	129
Accrued taxes other than income	38,641	32,426
Customer deposits	57,066	57,360
Regulatory liabilities	17,983	17,796
Other current liabilities	34,794	