

ONE Gas, Inc.
Form 10-Q
November 04, 2014

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

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 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 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, 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 October 24, 2014, the Company had 52,053,796 shares of common stock outstanding.

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ONE Gas, Inc.

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

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

INFORMATION AVAILABLE ON OUR WEBSITE

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

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

GLOSSARY

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

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
CNG	Compressed natural gas
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
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 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	

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

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ONE Gas, Inc.

STATEMENTS OF INCOME

(Unaudited)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Thousands of dollars, except per share amounts)			
Revenues	\$241,522	\$219,725	\$1,304,538	\$1,167,266
Cost of natural gas	75,070	60,492	701,757	577,912
Net margin	166,452	159,233	602,781	589,354
Operating expenses				
Operations and maintenance	101,829	99,341	309,154	292,275
Depreciation and amortization	31,217	32,347	93,995	100,118
General taxes	14,287	13,356	44,348	41,627
Total operating expenses	147,333	145,044	447,497	434,020
Operating income	19,119	14,189	155,284	155,334
Other income	8	1,831	1,005	3,909
Other expense	(652)	(478)	(1,829)	(1,980)
Interest expense	(11,160)	(15,233)	(35,886)	(45,702)
Income before income taxes	7,315	309	118,574	111,561
Income (taxes) benefit	(2,662)	125	(45,391)	(42,684)
Net income	\$4,653	\$434	\$73,183	\$68,877
Earnings per share (Note 5)				
Basic	\$0.09	\$0.01	\$1.40	\$1.32
Diluted	\$0.09	\$0.01	\$1.38	\$1.32
Average shares (thousands)				
Basic	52,361	52,319	52,353	52,319
Diluted	53,014	52,319	52,848	52,319
Dividends declared per share of stock	\$0.28	\$—	\$0.56	\$—

See accompanying Notes to Financial Statements.

ONE Gas, Inc.

STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Thousands of dollars)			
Net income	\$4,653	\$434	\$73,183	\$68,877
Other comprehensive income (loss), net of tax				
Change in pension and postretirement benefit plan liability, net of tax of \$49, \$0, \$98 and \$0, respectively	(78) —	(156) —
Total other comprehensive income (loss), net of tax	(78) —	(156) —
Comprehensive income	\$4,575	\$434	\$73,027	\$68,877
See accompanying Notes to Financial Statements.				

ONE Gas, Inc.
BALANCE SHEETS

(Unaudited)	September 30, 2014	December 31, 2013
Assets	(Thousands of dollars)	
Property, plant and equipment		
Property, plant and equipment	\$4,782,857	\$4,534,074
Accumulated depreciation and amortization	1,545,828	1,489,216
Net property, plant and equipment	3,237,029	3,044,858
Current assets		
Cash and cash equivalents	59,685	3,171
Accounts receivable, net	135,750	356,988
Natural gas in storage	217,320	166,128
Regulatory assets (Note 2)	51,900	21,657
Other current assets	40,527	54,240
Total current assets	505,182	602,184
Goodwill and other assets		
Regulatory assets (Note 2)	312,023	23,822
Goodwill	157,953	157,953
Other assets	52,790	17,658
Total goodwill and other assets	522,766	199,433
Total assets	\$4,264,977	\$3,846,475
See accompanying Notes to Financial Statements.		

ONE Gas, Inc.
BALANCE SHEETS
(Continued)

(Unaudited)	September 30, 2014	December 31, 2013
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 52,045,742 shares at September 30, 2014; authorized 1,000 shares, issued and outstanding 100 shares at December 31, 2013	520	—
Paid-in capital	1,755,539	—
Retained earnings	18,486	—
Accumulated other comprehensive income (loss)	(3,549) —
Owner's net investment	—	1,239,023
Total equity	1,770,996	1,239,023
Long-term debt, excluding current maturities	1,201,313	1,318
Long-term line of credit with ONEOK	—	1,027,631
Total equity and long-term debt	2,972,309	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	97,653	169,500
Accrued taxes other than income	43,486	32,426
Accrued liabilities	20,768	4,791
Customer deposits	57,317	57,360
Regulatory liabilities	33,546	17,796