ONE Gas, Inc.
Form 10-Q
July 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 June 30, 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	46-3561936
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
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 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.

Large accelerated filer X 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 X

On July 22, 2015, the Company had 52,147,285 shares of common stock outstanding.

This page intentionally left blank.

ONE Gas, Inc.
TABLE OF CONTENTS

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,” “pl “believe,” “should,” “goal,” “forecast,” “guidance,” “could,” “may,” “continue,” “might,” “potential,” “scheduled” and other w 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, 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
PHMSA	United States Department of Transportation Pipeline and Hazardous Materials Safety Administration
Pipeline Safety, Regulatory Certainty and Job Creation Act	Pipeline Safety, Regulatory Certainty and Job Creation Act of 2011, as amended
Quarterly Report(s)	Quarterly Report(s) on Form 10-Q
RRC	Railroad Commission of Texas
S&P	Standard & Poor's Ratings Services
SEC	Securities and Exchange Commission
Securities Act	Securities Act of 1933, as amended
Separation and Distribution Agreement	Separation and Distribution Agreement dated January 14, 2014, between ONEOK and ONE Gas
XBRL	eXtensible Business Reporting Language

5

PART I - FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
ONE Gas, Inc.
STATEMENTS OF INCOME

	Three Months Ended June 30,		Six Months Ended June 30,	
(Unaudited)	2015	2014	2015	2014
	(Thousands of dollars, except per share amounts)			
Revenues	$256,786	$296,838	$933,317	$1,063,016
Cost of natural gas	79,949	120,345	493,502	626,687
Net margin	176,837	176,493	439,815	436,329
Operating expenses				
Operations and maintenance	99,422	103,826	205,983	207,325
Depreciation and amortization	33,006	31,318	64,636	62,778
General taxes	13,139	14,537	28,921	30,061
Total operating expenses	145,567	149,681	299,540	300,164
Operating income	31,270	26,812	140,275	136,165
Other income	72	672	885	1,305
Other expense	(502)	(337)	(956)	(1,485)
Interest expense, net	(11,190)	(11,776)	(22,359)	(24,726)
Income before income taxes	19,650	15,371	117,845	111,259
Income taxes	(7,574)	(5,917)	(45,388)	(42,729)
Net income	$12,076	$9,454	$72,457	$68,530
Earnings per share (Note 7)				
Basic	$0.23	$0.18	$1.37	$1.32
Diluted	$0.23	$0.18	$1.36	$1.31
Average shares (thousands)				
Basic	52,767	51,797	52,737	52,065
Diluted	53,438	52,446	53,437	52,481
Dividends declared per share of stock	$0.30	$0.28	$0.60	$0.28

See accompanying Notes to Financial Statements.

6

ONE Gas, Inc.
STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)	Three Months Ended June 30, 2015	2014	Six Months Ended June 30, 2015	2014
	(Thousands of dollars)			
Net income	$12,076	$9,454	$72,457	$68,530
Other comprehensive income (loss), net of tax				
Change in pension and other postretirement benefit plan liability, net of tax of $(88), $(2,075), $(176) and $49, respectively	142	3,315	282	(78)
Total other comprehensive income (loss), net of tax	142	3,315	282	(78)
Comprehensive income	$12,218	$12,769	$72,739	$68,452

See accompanying Notes to Financial Statements.

ONE Gas, Inc.
BALANCE SHEETS

(Unaudited)	June 30, 2015	December 31, 2014
Assets	(Thousands of dollars)	
Property, plant and equipment		
Property, plant and equipment	$4,970,989	$4,850,201
Accumulated depreciation and amortization	1,590,940	1,556,481
Net property, plant and equipment	3,380,049	3,293,720
Current assets		
Cash and cash equivalents	135,886	11,943
Accounts receivable, net	142,701	326,749
Materials and supplies	31,682	27,511
Income tax receivable	12,156	43,800
Natural gas in storage	119,891	185,300
Regulatory assets (Note 2)	21,360	50,193
Other current assets	13,843	22,005
Total current assets	477,519	667,501
Goodwill and other assets		
Regulatory assets (Note 2)	452,711	478,723
Goodwill	157,953	157,953
Other assets	57,728	51,313
Total goodwill and other assets	668,392	687,989
Total assets	$4,525,960	$4,649,210

See accompanying Notes to Financial Statements.

ONE Gas, Inc.
BALANCE SHEETS
(Continued)

(Unaudited)	June 30, 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 52,598,005 shares and outstanding 52,102,754 shares at June 30, 2015; issued and outstanding 52,083,859 shares at December 31, 2014	$526	$521
Paid-in capital	1,764,170	1,758,796
Retained earnings	80,273	39,894
Accumulated other comprehensive income (loss)	(4,892)	(5,174)
Treasury stock, at cost: 495,251 shares at June 30, 2015	(21,184)	—
Total equity	1,818,893	1,794,037
Long-term debt, excluding current maturities	1,201,308	1,201,311
Total equity and long-term debt	3,020,201	2,995,348
Current liabilities		
Current maturities of long-term debt	7	6
Notes payable	—	42,000
Accounts payable	67,819	159,064
Accrued interest	18,888	18,872
Accrued taxes other than income	34,199	44,742
Accrued liabilities	14,651	26,019
Customer deposits	59,179	60,003
Regulatory liabilities	37,354	32,467
Other current liabilities	14,839	9,260
Total current liabilities	246,936	392,433
Deferred credits and other liabilities		
Deferred income taxes	900,630	894,585
Employee benefit obligations	277,878	287,779
Other deferred credits	80,315	79,065
Total deferred credits and other liabilities	1,258,823	1,261,429
Commitments and contingencies (Note 9)		
Total liabilities and equity	$4,525,960	$4,649,210

See accompanying Notes to Financial Statements.

This page intentionally left blank.

ONE Gas, Inc.
STATEMENTS OF CASH FLOWS

(Unaudited)	Six Months Ended June 30, 2015	2014
	(Thousands of dollars)	
Operating activities		
Net income	$72,457	$68,530
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	64,636	62,778
Deferred income taxes	13,152	1,880
Share-based compensation expense	3,684	3,649
Provision for doubtful accounts	2,099	3,711
Changes in assets and liabilities:		
Accounts receivable	181,949	161,173
Materials and supplies	(4,171)	2,375
Income tax receivable	31,644	—
Natural gas in storage	65,409	14,083
Asset removal costs	(20,902)	(21,557)
Accounts payable	(92,371)	(66,392)
Accrued interest	16	19,386
Accrued taxes other than income	(10,543)	6,215
Accrued liabilities	(11,368)	13,840
Customer deposits	(824)	(294)
Regulatory assets and liabilities	58,991	18,613
Other assets and liabilities	(11,306)	(26,294)
Cash provided by operating activities	342,552	261,696
Investing activities		
Capital expenditures	(125,425)	(148,617)
Cash used in investing activities	(125,425)	(148,617)
Financing activities		
Repayments of notes payable	(42,000)	—
Repurchase of common stock	(24,122)	—
Issuance of debt, net of discounts	—	1,199,994
Long-term debt financing costs	—	(11,058)
Cash payment to ONEOK upon separation	—	(1,130,000)
Issuance of common stock	4,471	693
Dividends paid	(31,533)	(14,553)
Cash provided by (used in) financing activities	(93,184)	45,076
Change in cash and cash equivalents	123,943	158,155
Cash and cash equivalents at beginning of period	11,943	3,171
Cash and cash equivalents at end of period	$135,886	$161,326

See accompanying Notes to Financial Statements.

ONE Gas, Inc.
STATEMENT OF EQUITY

(Unaudited)	Common Stock Issued (Shares)	Common Stock	Paid-in Capital
		(Thousands of dollars)	
January 1, 2015	52,083,859	$521	$1,758,796
Net income	—	—	—
Other comprehensive income	—	—	—
Repurchase of common stock	—	—	—
Common stock issued and other	514,146	5	4,829
Common stock dividends - $0.60 per share	—	—	545
June 30, 2015	52,598,005	$526	$1,764,170

See accompanying Notes to Financial Statements.

ONE Gas, Inc.
STATEMENT OF EQUITY
(Continued)

(Unaudited)	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Equity
	(Thousands of dollars)			
January 1, 2015	$39,894	$—	$(5,174)	$1,794,037
Net income	72,457	—	—	72,457
Other comprehensive income	—	—	282	282
Repurchase of common stock	—	(24,122)	—	(24,122)
Common stock issued and other	—	2,938	—	7,772
Common stock dividends - $0.60 per share	(32,078)	—	—	(31,533)
June 30, 2015	$80,273	$(21,184)	$(4,892)	$1,818,893

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 statement 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 and six months ended June 30, 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 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 Statements of Income and Comprehensive Income for the three and six months ended June 30, 2014, consist of the results of ONE Gas for the three and five months ended June 30, 2014, and the results of ONE Gas Predecessor for the one month ended January 31, 2014.
- Our Statement of Cash Flows for the six months ended June 30, 2014, consists of the results of ONE Gas for the five months ended June 30, 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 Financial Statements in our Annual Report. We evaluate our financial performance principally on operating income. For the three and six months ended June 30, 2015, and 2014, we had no single external customer from which we received 10 percent or more of our gross revenues.

Recently Issued Accounting Standards Update - In April 2015, the FASB issued ASU 2015-03, “Interest-Imputation of Interest,” which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. We do not expect this issued guidance, which is required to be adopted for our quarterly and annual reports beginning December 15, 2015, to have a material impact on our financial statements.

In April 2015, the FASB issued ASU 2015-05, “Intangibles-Goodwill and Other-Internal-Use Software,” which helps entities evaluate the accounting for fees paid by a customer in a cloud computing arrangement. We are evaluating the impact of this issued guidance, which is required to be adopted for our quarterly and annual reports beginning December 15, 2015.

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. In July 2015, FASB delayed the effective date for one year. We are evaluating the impact of this issued guidance, which is required to be adopted for our quarterly and annual reports beginning with the first quarter 2018.

2. REGULATORY ASSETS AND LIABILITIES

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

	June 30, 2015		
	Current	Noncurrent	Total
	(Thousands of dollars)		
Pension and postretirement benefit costs (see Note 8)	$19,830	$441,382	$461,212
Reacquired debt costs	812	9,325	10,137
Other	718	2,004	2,722
Total regulatory assets, net of amortization	21,360	452,711	474,071
Accumulated removal costs (a)	—	(14,566)	(14,566)
Over-recovered purchased-gas costs	(35,378)	—	(35,378)
Ad valorem tax	(1,976)	—	(1,976)
Total regulatory liabilities	(37,354)	(14,566)	(51,920)
Net regulatory assets (liabilities)	$(15,994)	$438,145	$422,151

(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)
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

15

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

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 June 30, 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 June 30, 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 in 2019, $300 million of 3.61 percent senior notes due in 2024 and $600 million of 4.658 percent senior notes due in 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. EQUITY

Treasury Shares - In the second quarter of 2015, we repurchased approximately 564 thousand treasury shares of our common stock for approximately $24.1 million, of which $4.4 million was funded by our dividend reinvestment, direct stock purchase and employee stock purchase plans. Our repurchase of treasury shares was authorized by our Board of Directors in February 2015.

Dividends - In June 2015, we paid dividends on our common stock to shareholders of record at the close of business on May 15, 2015, equal to $0.30 per share ($1.20 per share on an annualized basis). In July 2015, a dividend of $0.30 per share ($1.20 per share on an annualized basis) was declared for shareholders of record on August 14, 2015, payable September 1, 2015.

6. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

Details about Accumulated Other Comprehensive Income (Loss) Components	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014	Affected Line Item in the Statements of Income
	(Thousands of dollars)				
Pension and other postretirement benefit plan obligations (a)					
Amortization of net loss	$12,565	$8,541	$25,130	$17,083	
Amortization of unrecognized prior service cost	(373)	(303)	(746)	(606)	
	12,192	8,238	24,384	16,477	
Regulatory adjustments (b)	(11,962)	(2,848)	(23,926)	(16,604)	
	230	5,390	458	(127)	Income before income taxes
	(88)	(2,075)	(176)	49	Income tax expense
Total reclassifications for the period	$142	$3,315	$282	$(78)	Net income

(a) These components of accumulated other comprehensive income (loss) are included in the computation of net periodic benefit cost. See Note 8 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.

7. 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 June 30, 2015 Income	Shares	Per Share Amount
	(Thousands, except per share amounts)		
Basic EPS Calculation			
Net income available for common stock	$12,076	52,767	$0.23
Diluted EPS Calculation			
Effect of dilutive securities	—	671	

Net income available for common stock and common stock equivalents	$12,076	53,438	$0.23

	Three Months Ended June 30, 2014		
	Income	Shares	Per Share Amount
	(Thousands, except per share amounts)		
Basic EPS Calculation			
Net income available for common stock	$9,454	51,797	$0.18
Diluted EPS Calculation			
Effect of dilutive securities	—	649	
Net income available for common stock and common stock equivalents	$9,454	52,446	$0.18

	Six Months Ended June 30, 2015		
	Income	Shares	Per Share Amount
	(Thousands, except per share amounts)		
Basic EPS Calculation			
Net income available for common stock	$72,457	52,737	$1.37
Diluted EPS Calculation			
Effect of dilutive securities	—	700	
Net income available for common stock and common stock equivalents	$72,457	53,437	$1.36

	Six Months Ended June 30, 2014		
	Income	Shares	Per Share Amount
	(Thousands, except per share amounts)		
Basic EPS Calculation			
Net income available for common stock	$68,530	52,065	$1.32
Diluted EPS Calculation			
Effect of dilutive securities	—	416	
Net income available for common stock and common stock equivalents	$68,530	52,481	$1.31

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.

8. 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 June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(Thousands of dollars)			
Components of net periodic benefit cost				
Service cost	$3,497	$2,905	$7,021	$5,673
Interest cost	10,652	10,948	21,304	21,896
Expected return on assets	(15,362)	(14,965)	(30,724)	(29,930)
Amortization of unrecognized prior service cost	67	137	134	274
Amortization of net loss	11,055	7,549	22,110	15,099
Net periodic benefit cost	$9,909	$6,574	$19,845	$13,012

	Other Postretirement Benefits			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(Thousands of dollars)			
Components of net periodic benefit cost				
Service cost	$849	$867	$1,698	$2,041
Interest cost	2,666	2,901	5,332	5,802
Expected return on assets	(2,908)	(2,848)	(5,816)	(5,696)
Amortization of unrecognized prior service cost	(440)	(440)	(880)	(880)
Amortization of net loss	1,510	992	3,020	1,984
Net periodic benefit cost	$1,677	$1,472	$3,354	$3,251

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 authorized by the applicable utility commission.

9. 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.

19

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.