

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

ONE Gas, Inc.
Form 10-Q
October 29, 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 September 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

(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 October 20, 2015, the Company had 52,154,655 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, 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
EPARR	El Paso Annual Rate Review
EPS	Earnings per share
EPSA	El Paso Service Area
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
PGA	Purchased Gas Adjustment Clause
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
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 September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(Thousands of dollars, except per share amounts)			
Revenues	\$225,226	\$241,522	\$1,158,543	\$1,304,538
Cost of natural gas	54,724	75,070	548,226	701,757
Net margin	170,502	166,452	610,317	602,781
Operating expenses				
Operations and maintenance	98,698	101,829	304,681	309,154
Depreciation and amortization	33,956	31,217	98,592	93,995
General taxes	12,897	14,287	41,818	44,348
Total operating expenses	145,551	147,333	445,091	447,497
Operating income	24,951	19,119	165,226	155,284
Other income	166	8	1,051	1,005
Other expense	(1,884)	(652)	(2,840)	(1,829)
Interest expense, net	(11,233)	(11,160)	(33,592)	(35,886)
Income before income taxes	12,000	7,315	129,845	118,574
Income taxes	(4,629)	(2,662)	(50,017)	(45,391)
Net income	\$7,371	\$4,653	\$79,828	\$73,183
Earnings per share				
Basic	\$0.14	\$0.09	\$1.52	\$1.40
Diluted	\$0.14	\$0.09	\$1.50	\$1.38
Average shares (thousands)				
Basic	52,408	52,361	52,627	52,353
Diluted	53,072	53,014	53,315	52,848
Dividends declared per share of stock	\$0.30	\$0.28	\$0.90	\$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,	
	2015	2014	2015	2014
	(Thousands of dollars)			
Net income	\$7,371	\$4,653	\$79,828	\$73,183
Other comprehensive income (loss), net of tax				
Change in pension and other postretirement benefit plan liability, net of tax of \$(88), \$49, \$(264) and \$98, respectively	141	(78)	) 423	(156)
Total other comprehensive income (loss), net of tax	141	(78)	) 423	(156)
Comprehensive income	\$7,512	\$4,575	\$80,251	\$73,027
See accompanying Notes to Financial Statements.				

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ONE Gas, Inc.
BALANCE SHEETS

(Unaudited)	September 30, 2015	December 31, 2014
Assets	(Thousands of dollars)	
Property, plant and equipment		
Property, plant and equipment	\$5,040,313	\$4,850,201
Accumulated depreciation and amortization	1,604,509	1,556,481
Net property, plant and equipment	3,435,804	3,293,720
Current assets		
Cash and cash equivalents	52,974	11,943
Accounts receivable, net	103,406	326,749
Materials and supplies	33,400	27,511
Income tax receivable	23,725	43,800
Natural gas in storage	159,912	185,300
Regulatory assets	31,703	50,193
Other current assets	12,227	22,005
Total current assets	417,347	667,501
Goodwill and other assets		
Regulatory assets	440,312	478,723
Goodwill	157,953	157,953
Other assets	54,905	51,313
Total goodwill and other assets	653,170	687,989
Total assets	\$4,506,321	\$4,649,210
See accompanying Notes to Financial Statements.		

ONE Gas, Inc.
BALANCE SHEETS
(Continued)

(Unaudited)	September 30, 2015	December 31, 2014
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 52,151,279 shares at	\$526	\$521
September 30, 2015; issued and outstanding 52,083,859 shares at December 31, 2014		
Paid-in capital	1,762,508	1,758,796
Retained earnings	71,746	39,894
Accumulated other comprehensive income (loss)	(4,751	) (5,174
Treasury stock, at cost: 446,726 shares at September 30, 2015	(19,108) —
Total equity	1,810,921	1,794,037
Long-term debt, excluding current maturities	1,201,306	1,201,311
Total equity and long-term debt	3,012,227	2,995,348
Current liabilities		
Current maturities of long-term debt	7	6
Notes payable	—	42,000
Accounts payable	57,240	159,064
Accrued interest	7,647	18,872
Accrued taxes other than income	40,429	44,742
Accrued liabilities	18,000	26,019
Customer deposits	58,331	60,003
Regulatory liabilities	41,337	32,467
Other current liabilities	10,478	9,260
Total current liabilities	233,469	392,433
Deferred credits and other liabilities		
Deferred income taxes	907,647	894,585
Employee benefit obligations	274,073	287,779
Other deferred credits	78,905	79,065
Total deferred credits and other liabilities	1,260,625	1,261,429
Commitments and contingencies		
Total liabilities and equity	\$4,506,321	\$4,649,210
See accompanying Notes to Financial Statements.		

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ONE Gas, Inc.
STATEMENTS OF CASH FLOWS

(Unaudited)	Nine Months Ended September 30,	
	2015	2014
	(Thousands of dollars)	
Operating activities		
Net income	\$79,828	\$73,183
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	98,592	93,995
Deferred income taxes	19,384	2,828
Share-based compensation expense	3,863	5,651
Provision for doubtful accounts	2,951	5,019
Changes in assets and liabilities:		
Accounts receivable	220,392	216,219
Materials and supplies	(5,889	) 6,238
Income tax receivable	20,075	(4,862)
Natural gas in storage	25,388	(51,192)
Asset removal costs	(33,744	) (34,963)
Accounts payable	(104,948	) (70,063)
Accrued interest	(11,225	) 7,521
Accrued taxes other than income	(4,313	) 11,060
Accrued liabilities	(8,019	) 15,977
Customer deposits	(1,672	) (43)
Regulatory assets and liabilities	64,368	23,308
Other assets and liabilities	(15,493	) (49,868)
Cash provided by operating activities	349,538	250,008
Investing activities		
Capital expenditures	(199,678	) (224,619)
Cash used in investing activities	(199,678	) (224,619)
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	—	(11,078)
Cash payment to ONEOK upon separation	—	(1,130,000)
Issuance of common stock	4,471	1,330
Dividends paid	(47,178	) (29,121)
Cash provided by (used in) financing activities	(108,829	) 31,125
Change in cash and cash equivalents	41,031	56,514
Cash and cash equivalents at beginning of period	11,943	3,171
Cash and cash equivalents at end of period	\$52,974	\$59,685
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	—	—	—
Repurchase of common stock	—	—	—
Common stock issued and other	514,146	5	2,914
Common stock dividends - \$0.90 per share	—	—	798
September 30, 2015	52,598,005	\$526	\$1,762,508
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	79,828	—	—	79,828
Other comprehensive income	—	—	423	423
Repurchase of common stock	—	(24,122	)—	(24,122)