

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

ONE Gas, Inc.
Form 10-Q
May 06, 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 March 31, 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

46-3561936

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer Identification No.)

100 West 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, 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

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 April 25, 2014, the Company had 51,974,601 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
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
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
RICE NESHAP	National Emission Standards for Hazardous Air Pollutants for Reciprocating Internal Combustion Engines
RRC	Railroad Commission of Texas
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
Tax Matters Agreement	

Transition Services Agreement
XBRL

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

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ONE Gas, Inc.

STATEMENTS OF INCOME

(Unaudited)	Three Months Ended	
	2014	2013
	(Thousands of dollars, except per share amounts)	
Revenues	\$766,178	\$635,933
Cost of natural gas	506,342	384,259
Net margin	259,836	251,674
Operating expenses		
Operations and maintenance	103,499	99,694
Depreciation and amortization	31,460	34,867
General taxes	15,524	15,275
Total operating expenses	150,483	149,836
Operating income	109,353	101,838
Other income	633	1,696
Other expense	(1,148)	(1,077)
Interest expense	(12,950)	(15,306)
Income before income taxes	95,888	87,151
Income taxes	(36,812)	(33,659)
Net income	\$59,076	\$53,492
Earnings per share (Note 5)		
Basic	\$1.13	\$1.02
Diluted	\$1.13	\$1.02
Average shares (thousands)		
Basic	52,334	52,319
Diluted	52,512	52,319

See accompanying Notes to Financial Statements.

ONE Gas, Inc.
STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)	Three Months Ended	
	March 31, 2014	2013
	(Thousands of dollars)	
Net income	\$59,076	\$53,492
Other comprehensive income (loss), net of tax		
Change in pension and postretirement benefit plan liability, net of tax of \$2,124 and \$0, respectively	(3,393)) —
Total other comprehensive income (loss), net of tax	(3,393)) —
Comprehensive income	\$55,683	\$53,492
See accompanying Notes to Financial Statements.		

ONE Gas, Inc.
BALANCE SHEETS

(Unaudited)	March 31, 2014	December 31, 2013
Assets	(Thousands of dollars)	
Property, plant and equipment		
Property, plant and equipment	\$4,628,598	\$4,534,074
Accumulated depreciation and amortization	1,516,458	1,489,216
Net property, plant and equipment	3,112,140	3,044,858
Current assets		
Cash and cash equivalents	178,646	3,171
Accounts receivable, net	398,809	356,988
Natural gas in storage	81,654	166,128
Regulatory assets (Note 2)	29,916	21,657
Other current assets	35,323	54,240
Total current assets	724,348	602,184
Goodwill and other assets		
Regulatory assets (Note 2)	333,201	23,822
Goodwill	157,953	157,953
Other assets	54,376	17,658
Total goodwill and other assets	545,530	199,433
Total assets	\$4,382,018	\$3,846,475

See accompanying Notes to Financial Statements.

ONE Gas, Inc.
BALANCE SHEETS
(Continued)

(Unaudited)	March 31, 2014	December 31, 2013
Equity and Liabilities	(Thousands of dollars)	
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 51,973,052 shares at March 31, 2014; authorized 1,000 shares, issued and outstanding 100 shares at December 31, 2013	520	—
Paid-in capital	1,752,105	—
Accumulated other comprehensive income (loss)	(3,393) —
Retained earnings	33,500	—
Owner's net investment	—	1,239,023
Total equity	1,782,732	1,239,023
Long-term debt, excluding current maturities	1,201,316	1,318
Long-term line of credit with ONEOK	—	1,027,631
Total equity and long-term debt	2,984,048	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	175,526	169,500
Current income taxes payable	18,965	—
Accrued taxes other than income	56,551	32,426
Customer deposits	58,784	57,360
Other current liabilities	54,155	42,422
Total current liabilities	363,987	769,077
Deferred credits and other liabilities		
Deferred income taxes	831,371	743,452
Other deferred credits	202,612	65,974
Total deferred credits and other liabilities	1,033,983	809,426
Commitments and contingencies (Note 7)		
Total liabilities and equity	\$4,382,018	\$3,846,475
See accompanying Notes to Financial Statements.		

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ONE Gas, Inc.
STATEMENTS OF CASH FLOWS

(Unaudited)	Three Months Ended	
	2014	2013
	(Thousands of dollars)	
Operating activities		
Net income	\$59,076	\$53,492
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	31,460	34,867
Deferred income taxes	152	33,658
Share-based compensation expense	1,794	—
Provision for doubtful accounts	891	618
Changes in assets and liabilities:		
Accounts receivable	(42,712) (59,597
Natural gas in storage	84,474	72,859
Asset removal costs	(8,107) (11,093
Affiliate payable	—	2,907
Accounts payable	6,091	(15,321
Current income taxes payable	18,965	—
Accrued taxes other than income	24,125	930
Customer deposits	1,424	269
Regulatory assets and liabilities	11,066	26,350
Other assets and liabilities	(6,601) 17,756
Cash provided by operating activities		