# Jefferies 2014 Global Energy Conference

*November 11, 2014*

ONE Gas

# Pierce Norton

*President and Chief Executive Officer*

# Forward-Looking Statements

Statements contained in this presentation that include company expectations or predictions should be considered forward-looking statements that are covered by the safe harbor provisions of the Securities Act of 1933 and the Securities and Exchange Act of 1934.

It is important to note that the actual results could differ materially from those projected in such forward-looking statements.

For additional information that could cause actual results to differ materially from such forward-looking statements, refer to ONE Gas' Securities and Exchange Commission filings.

All future cash dividends (declared or paid) discussed in this presentation are subject to the approval of the ONE Gas board of directors.

All references in this presentation to guidance are based on news releases issued on Dec. 2, 2013, and Nov. 3, 2014, and are not being updated or affirmed by this presentation.



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# Key Points

*Highlights*

## Competitive Strengths

- 100% regulated natural gas utility focus
- Third largest publicly traded natural gas distributor

## Regulatory Overview

- Mechanisms and timelines

## Financial

- Maintain conservative financial posture
- Capital investments result in rate base growth

## Creating value for stakeholders

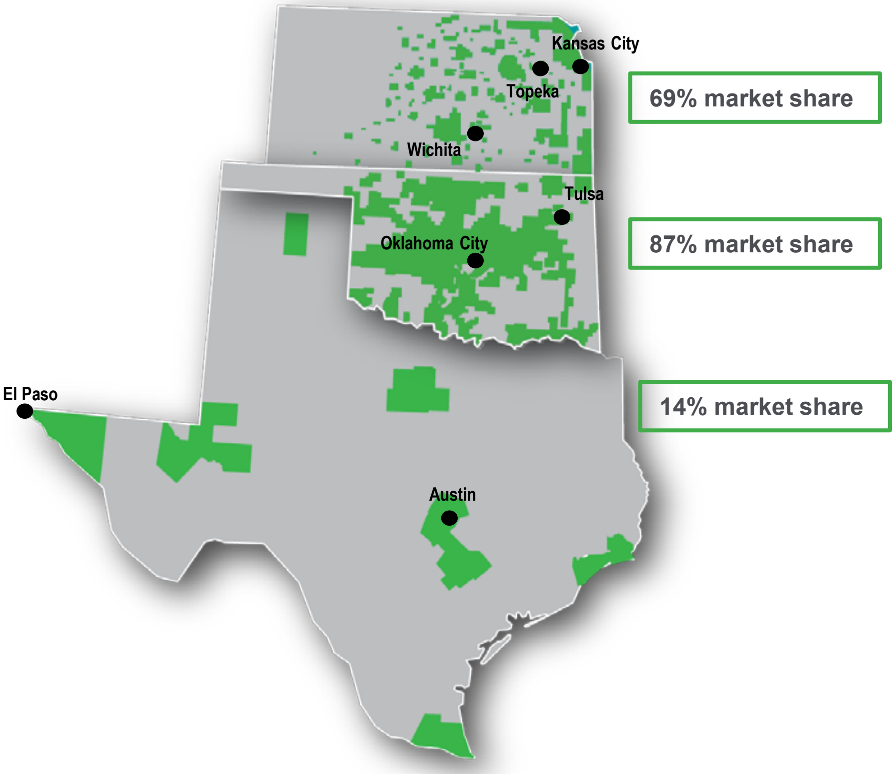
- Employees, customers, investors and communities

# Competitive Strengths

# Competitive Strengths

*Sustainable Business*

- Focused business strategy
  - 100% regulated natural gas distribution utility
  - Third largest publicly traded natural gas distributor
- Significant scale
  - 2.1 million customers
  - High percentage of  residential customers and fixed charges
- Proximity to natural gas resources
- Constructive regulatory environment
  - Multiple mechanisms and riders
- Conservative financial profile
  - Commitment to "A-level" investment-grade credit ratings

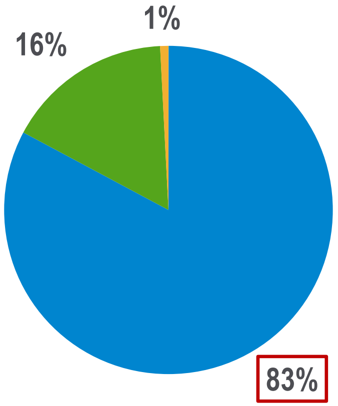


# Significant Scale

*High Percentage of Residential Customers*

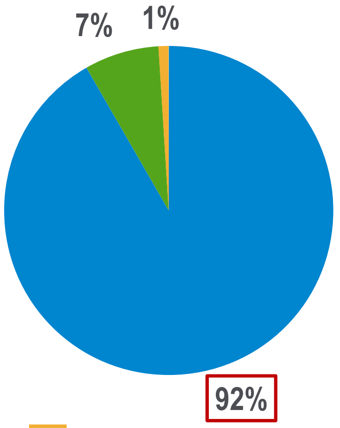
**Net Sales Margin***

*2013*




**Customer Count**

*2013*



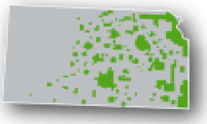

**Customer Type**

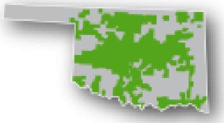
Residential — Commercial/Industrial — Other

*** Excludes transportation margin**

# Significant Scale

## *High Percentage of Fixed Charges*





| | Kansas | Oklahoma | Texas | Total |
|---|---|---|---|---|
| Fixed Charges – Sales customers[1] | 51% | 83% | 70% | 69% |
| Average Annual Heating Degree Days – Normal | 4,860 | 3,316 | 1,785 | - |
| Weather Normalization | 100% | 100% | 62% | 87% |
| Governance | Kansas Corporation Commission (three commissioners appointed by the governor to four-year staggered terms) | Oklahoma Corporation Commission (three commissioners elected to six-year staggered terms) | "Home Rule" with 10 jurisdictions (Texas Railroad Commission has appellate authority) | |

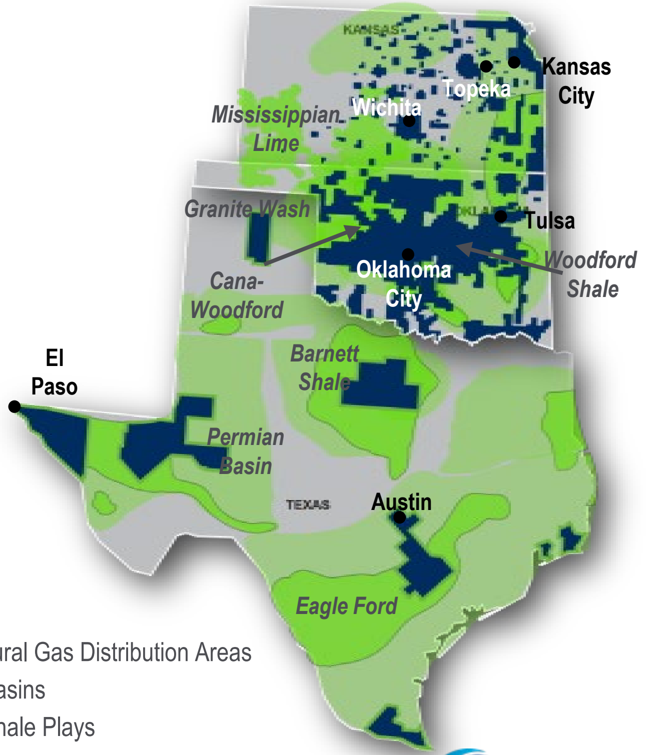
*Note: Based on 2013 annual results*

*[1] Fixed percentage of total net margin on natural gas sales*

# Proximity to Natural Gas Supply

*Location Supports Sustainability*

- Close proximity to significant natural gas reserves
- Delivered natural gas costs are comprised primarily of:
  - Cost of the commodity
  - Transportation costs
  - Storage fees




ONE Gas Natural Gas Distribution Areas
Natural Gas Basins
Natural Gas Shale Plays

# Regulatory Overview

# Regulatory Mechanisms

## *Overview*

- Oklahoma Natural Gas
  - Performance-based rate structure with a targeted ROE between 10-11 percent that provides for annual rate reviews between rate cases
- Kansas Gas Service
  - Gas System Reliability Surcharge – for incremental safety-related and government-mandated capital investments made between rate cases
- Texas Gas Service
  - Cost-of-service adjustments and El Paso Annual Rate Review (EPARR) for capital investments and certain changes in operating expenses
  - Gas Reliability Infrastructure Program for capital investments made between rate cases



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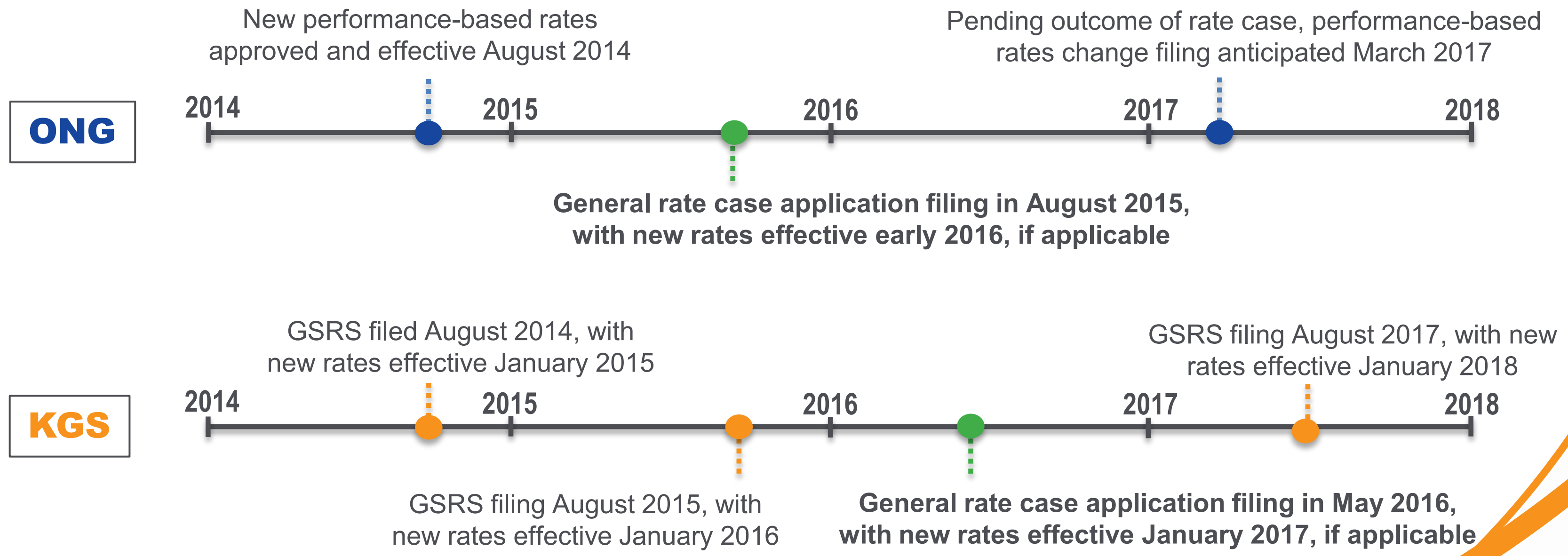
# Regulatory Filing Timeline

*Oklahoma & Kansas*



# Regulatory Filing Timeline

*Texas*

- El Paso Service Area
  - El Paso Annual Rate Review (EPARR) filing annually, with new rates effective each August, if applicable
  - Gas Reliability Infrastructure Program (GRIP) filings in remainder of service area
    - Other cities also considering EPARR
- Central Texas Service Area (includes Austin)
  - Annual GRIP filings
  - Rate case required by 2016
- Remainder of Texas
  - Annual cost of service adjustment filings in six jurisdictions
  - Annual GRIP filings in two jurisdictions
  - Rate cases as needed



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# Regulatory Update

## *Recent Activity*

- Oklahoma
  - August 2014: New rates approved, includes an increase in base rates of approximately $13.7 million and an energy-efficiency program true-up and a utility incentive adjustment of $0.9 million
- Kansas
  - August 2014: Filed a request for interim rate relief under the Gas System Reliability Surcharge (GSRS) rider for an increase in base rates of approximately $3.5 million with new rates effective January 2015
- Texas
  - May 2014: Austin City Council approved request for interim rate relief under the Gas Reliability Infrastructure Program (GRIP) statute for approximately $5.2 million
  - July 2014: City of El Paso approved an annual increase in revenues of $3.5 million, resulting from the EPARR filing
    - GRIP filing for the remainder of the El Paso service area approved with an increase in revenues of $0.6 million
  - Received approval for interim rate relief under the GRIP statute and cost-of-service adjustments in various Texas jurisdictions totaling approximately $4.0 million in 2014

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# Opportunity to Narrow the Gap

*Return on Equity*

- Goal: Minimize the gap between allowed and actual returns*
  - 2014 ROE estimate: 7.6%
  - 2013 ROE achieved: 8.0%
  - 2012 ROE achieved: 8.3%

**ROE calculations are consistent with utility ratemaking in each jurisdiction*

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# Financial Overview

# Financial Highlights

*Maintain Conservative Posture*

- ONE Gas will maintain a conservative financial posture
  - Prudent capital investment results in steady rate base growth
  - Financial metrics necessary to maintain strong investment-grade credit ratings
  - Dividend policy in line with peers
- Financings completed in conjunction with the legal separation from ONEOK
  - $700 million revolving credit facility
  - Issued $1.2 billion of long-term debt at weighted average coupon rate of 3.75 percent
  - Distributed $1.13 billion to ONEOK at separation; retained $60 million
- Utilize operating cash flows and short-term borrowings for working capital and capital expenditures

# Balance Sheet

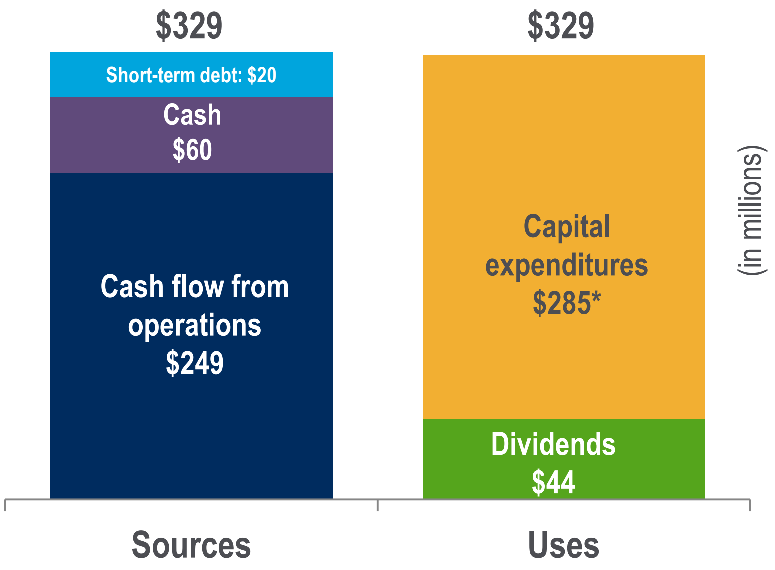
## *Commitment to Strong Investment-Grade Ratings*

- Strong investment-grade credit ratings, consistent with peers
  - **Moody's: A2 (Stable)**
  - **S&P: A- (Stable)**
- Capital structure
  - Long-term debt-to-capitalization ratio of 40%
  - Long-term debt-to-EBITDA of 3.5x
  - EBIT-to-interest of 4.0x
- Strong liquidity position will support capital expenditure and working capital needs
  - Stable operating cash flows
  - $700 million revolving credit facility
  - Commercial paper program

# Cash Flow

## *2014 Sources and Uses*

- Target dividend payout ratio of 55-65% of net income
- Capital expenditures primarily funded by cash flow from operations
- Dividend of 28 cents per share per quarter

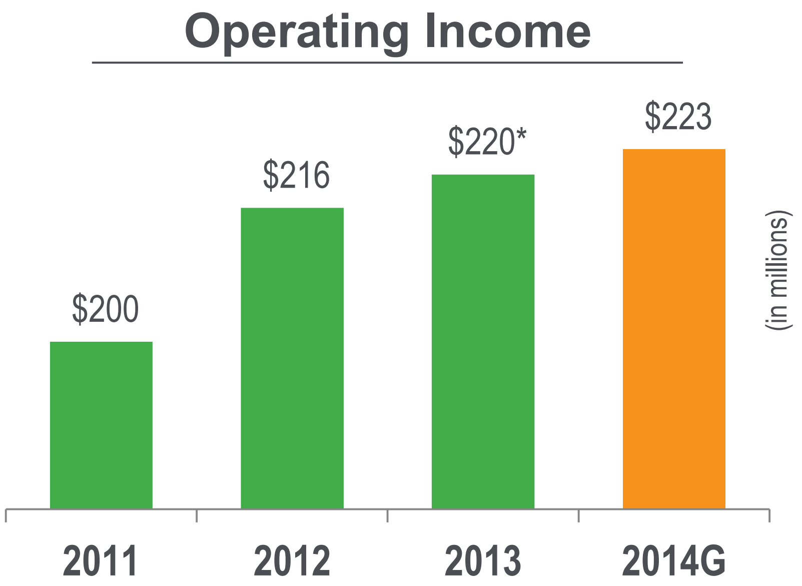



* Expected at high end of $240-$285 million range

# 2014 Guidance Increased

*Financial*

- Net income: increased range to $105-$110 million
  - Colder-than-normal weather
  - Residential customer growth
  - Lower interest expense
  - Higher operating costs
- Capital expenditures expected at high end of $240-$285 million range

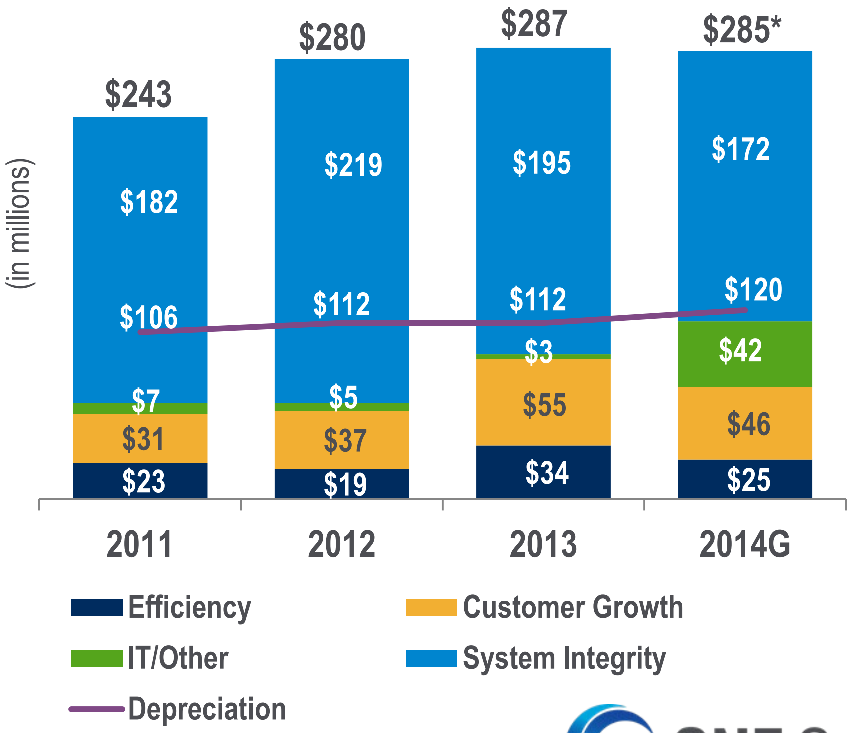



*Includes $10.2 million charge related to separation

# Capital Expenditures

*Capital Spending Exceeds Depreciation*

- Majority of capital expenditures for safety, reliability and efficiency
  - System integrity and replacements
  - Efficiency
    - Automated meter reading (64% coverage)
    - Operational efficiency efforts
- New service lines and main extensions for customer growth
- 2014 by state:
  - Oklahoma: ~40%
  - Kansas: ~30%
  - Texas: ~30%




* *Expected at <u>high end</u> of $240-$285 million range*

*Note: Capital expenditures include accruals and any adjustments in the fiscal year.*

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# Creating value for stakeholders

# Creating Value for Stakeholders

*Identify and Pursue Growth Opportunities*

- Capital investments targeted toward safety, reliability and efficiency
  - Approximately 70% of annual forecast
  - Efficiency projects reduce expenses to sustainable levels
- Minimize gap between actual and allowed returns
  - Annual filings for interim rate adjustments
  - File rate cases as warranted
- Develop incremental sources of regulated revenue
  - Transportation revenues to new compressed natural gas (CNG) stations
  - Transportation revenues to distributed generation

# Compressed Natural Gas (CNG)

*Current Environment*

- Currently operate 27 fueling stations accessible to the public
- Currently providing supply to 45 retail and 36 private CNG stations
- Increased CNG volumes 50% between Q3 2013 and Q3 2014
- Supporting industry efforts to encourage development of more vehicle options by car and truck manufacturers
- Industry
  - Increased interest in CNG for transportation, particularly by fleet operators
  - Tax incentives further contribute to positive economics
  - Increased industry investments in fueling stations
- Benefits
  - Use of CNG increases load
    - One vehicle is equivalent to one home
    - One pickup truck is equivalent to two homes
    - One refuse truck is equivalent to 12 homes
    - One transit bus is equivalent to 25 homes
    - Incremental margins from CNG demand could mitigate residential rate increases, enhancing competitive position and customer satisfaction
    - Home-fueling technology innovations could be a game changer

# Summary

*Key Investment Considerations*

## Focused business strategy

- 100% regulated natural gas distribution utility

## Constructive regulatory environment

- Multiple mechanisms and riders

## Significant scale

- 2.1 million customers
- High percentage of residential customers and fixed charges

## Conservative financial profile

- Stable earnings and cash flow
- Commitment to “A-level” investment-grade credit ratings

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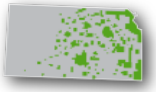
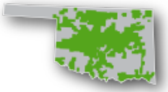
# Questions

# Appendix

# Customer and Asset Mix

*Key Statistics as of Dec. 31, 2013*

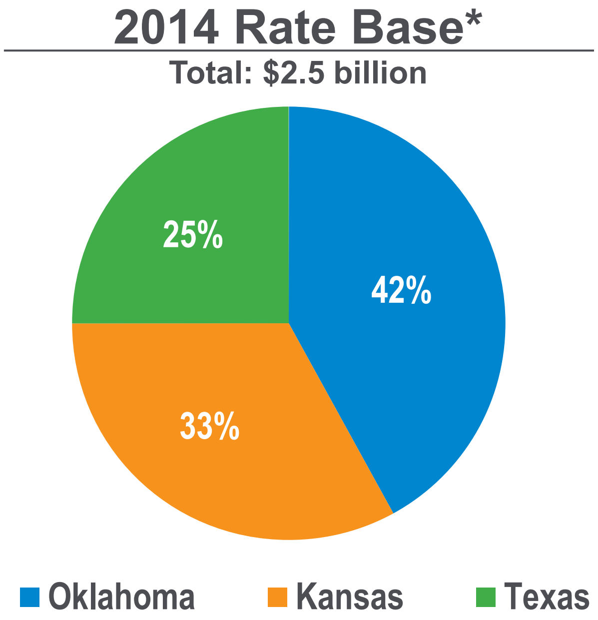

| | Kansas | Oklahoma | Texas | Total |
|---|---|---|---|---|
| **Average Number of Customers** | 632,638 | 847,023 | 634,251 | 2,113,912 |
| **Number of Employees** | 1,000 | 1,100 | 700 | 3,100* |
| **Miles of Service Lines** | 8,000 | 4,600 | 5,700 | 18,300 |
| **Distribution – Miles** | 11,400 | 18,200 | 9,600 | 39,200 |
| **Transmission – Miles** | 1,600 | 800 | 400 | 2,800 |
| **High Density Cities** | Kansas City, Topeka, Wichita | Oklahoma City, Tulsa | Austin, El Paso | 7 cities make up the majority of customers |
| **Percentage of Customers in Metropolitan Areas** | 59% | 81% | 75% | 73% |
| **Market Share - Customers Served** | 69% | 87% | 14% | |

**Includes corporate employees*

# Projected Rate Base

*By State*

- Projected rate base consists of:
  - + Property, plant and equipment
  - + Working capital
  - + / – Other rate base items
  - – Accumulated deferred income taxes
  - – Accumulated depreciation




* *Estimated average rate base for the year ending Dec. 31, 2014*

# Regulatory Information

*By State as of Sept. 30, 2014*

| | Rate Base (in millions) | Authorized Rate of Return | Authorized Return on Equity |
|---|---|---|---|
| Oklahoma Natural Gas[1] | $938 | 8.535% | 10-11% |
| Kansas Gas Service[2] | $781 | N/A | N/A |
| Texas Gas Service[1] | $542 | 8.55% | 10.4% |

*[1] The rate base, authorized rate of return and authorized return on equity presented in this table are those from the last approved rate filings for each jurisdiction. These amounts are not necessarily indicative of current or future rate bases, rates of return or returns on equity.*
*[2] Last rate case was settled without a determination of rate base, return on equity or rate of return; rate base includes the amounts included in the company's filings and is not necessarily indicative of current or future rate base.*



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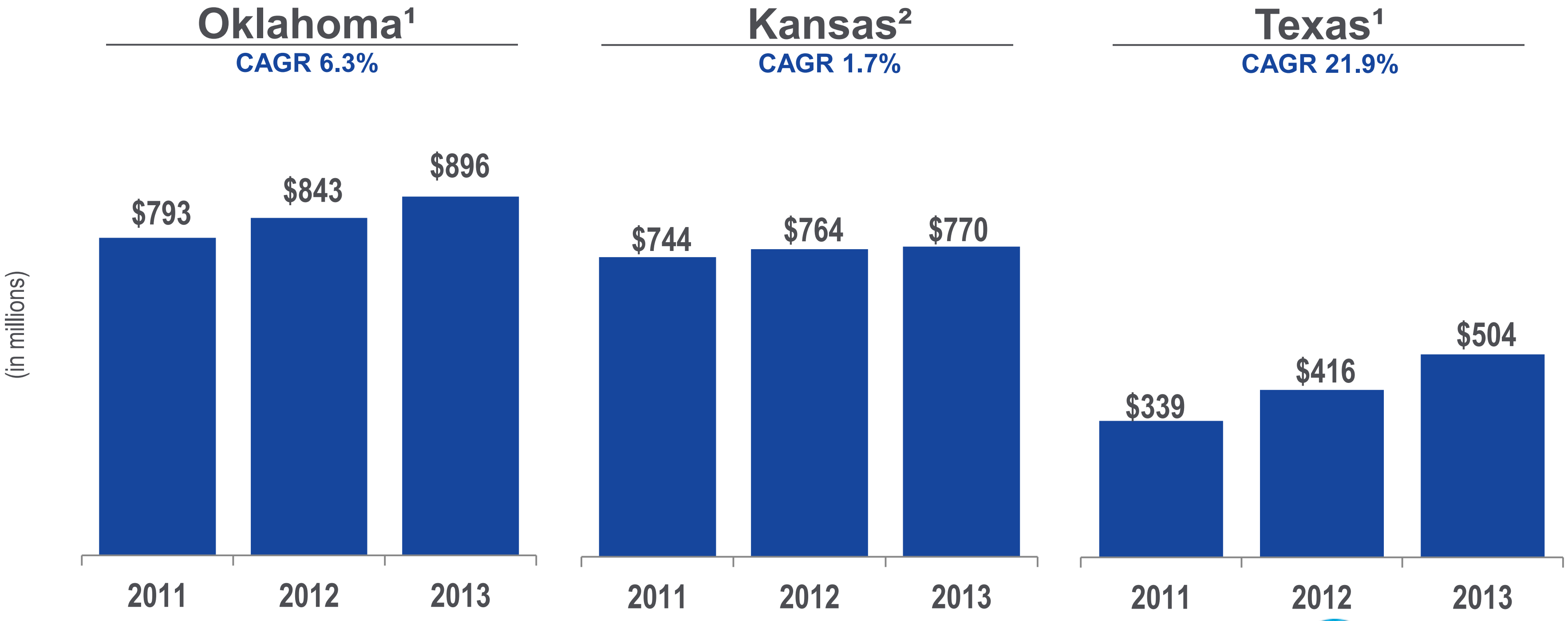
# Authorized Rate Base

*Historical by State*

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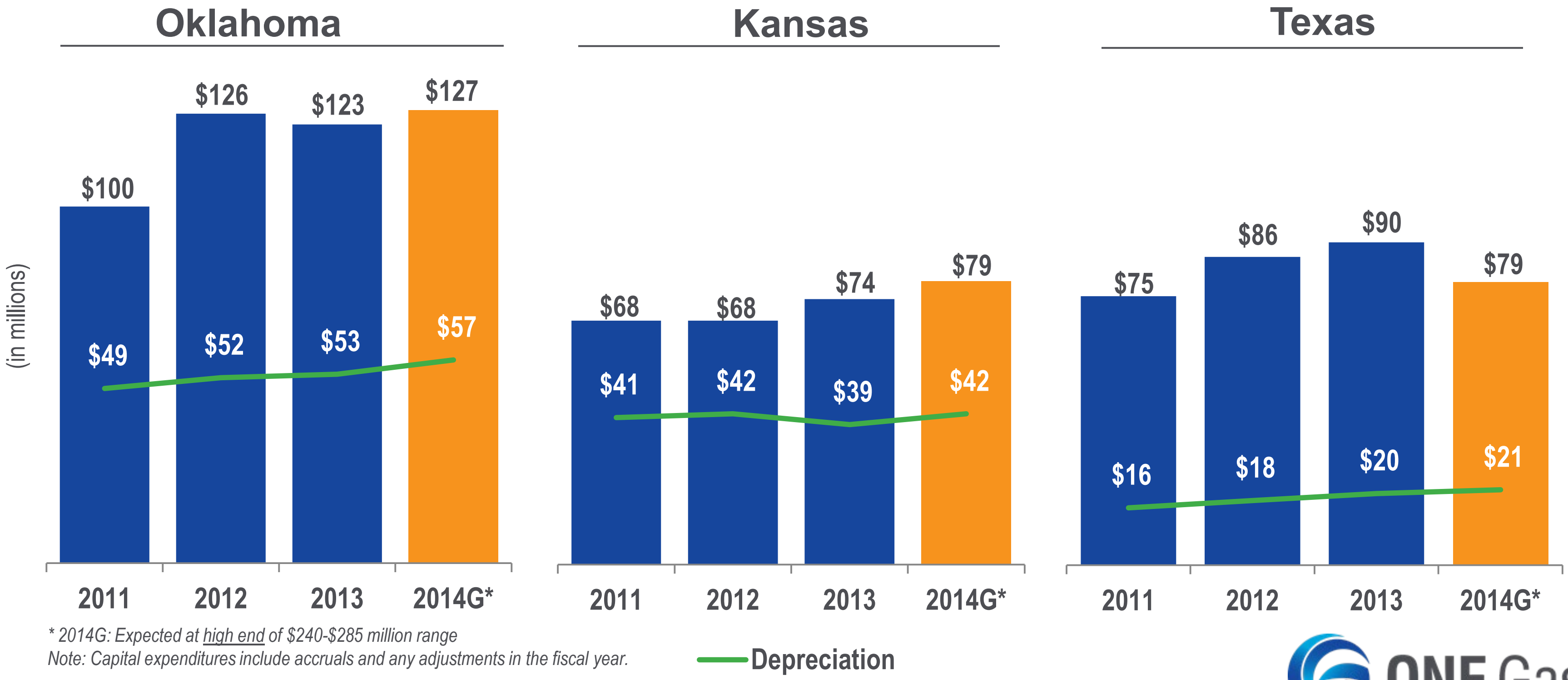
# Capital Expenditures

*By State*




* 2014G: Expected at high end of $240-$285 million range

Note: Capital expenditures include accruals and any adjustments in the fiscal year.

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# Regulatory Constructs

*By State*

| Mechanism | Oklahoma | Kansas | Texas* |
|---|---|---|---|
| Performance-based rates | X | | |
| Capital investments; safety-related riders | X** | X | X |
| Weather normalization | X | X | X |
| Purchased Gas Adjustment/Cost of Gas riders | X | X | X |
| Energy efficiency/conservation programs | X | | X |
| Pension and Other Post-Retirement Benefits Trackers | X** | X | X |
| Cost of Service Adjustment / El Paso Annual Rate Review | X** | | X |

**10 jurisdictions in Texas; not all mechanisms apply to each jurisdiction*
***Incorporated in performance-based rates*



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# Cost of Gas

*Passed Through to Customers*

- Actual costs of the commodity, transportation and storage of natural gas are passed through to customers without markup
  – Natural gas used in operations is recovered in “Purchased Gas” or “Cost of Gas” riders
    - Cost of Gas component of bad debts is included in cost of gas
- No direct commodity risk to ONE Gas divisions
- 44 Bcf of natural gas in storage at Sept. 30, 2014 for 2014/2015 heating season

# Non-GAAP Information

ONE Gas has disclosed in this presentation targeted long-term debt-to-EBITDA and EBIT-to-interest ratios, which are calculated using amounts disclosed in our financial statements in accordance with generally accepted accounting principles (GAAP) and EBITDA and EBIT amounts that are non-GAAP financial measures.

Management believes these measures provide useful information to investors as a measure of financial performance as a stand-alone public company for comparison with peer companies; however, these calculations may vary from company to company, so the Company's computations may not be comparable with those of other companies. Additionally, we have not calculated these measures for the periods in which we were part of ONEOK.

EBITDA is defined as net income adjusted for interest expense, depreciation and amortization and income taxes.  EBIT is defined as net income adjusted for interest expense and income taxes.

These measures should not be considered in isolation or as a substitute for net income, income from operations or other measures of financial performance determined in accordance with GAAP.

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