ONE Gas

Dallas, Texas | September 29, 2016

UBS Power & Utilities Conference

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 Jan. 19, 2016, and Aug. 1, 2016, and are not being updated or affirmed by this presentation.

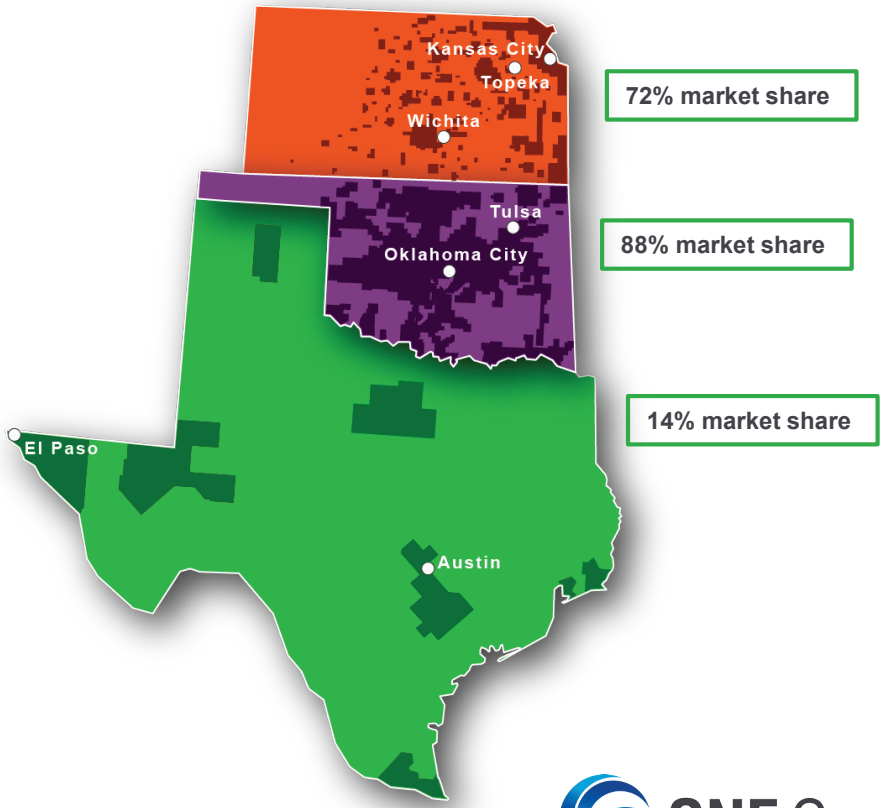
ONE Gas

Company Overview

Key Statistics

- One of the largest publicly traded natural gas distribution companies
  - 2.1 million customers
- 43,400 miles of distribution and transmission pipeline
- Estimated 2016 average rate base: $3.0 billion*
  - 43% in Oklahoma
  - 31% in Kansas
  - 26% in Texas
- ~3,400 employees

** Calculation consistent with utility ratemaking in each jurisdiction*



Competitive Strengths

Competitive Strengths

Sustainable Business

Focused business strategy	• 100% regulated natural gas distribution utility • One of the largest publicly traded natural gas distributors
Significant scale	• 2.1 million customers • High percentage of residential customers and fixed charges • More than 70% of customers in metropolitan areas
Proximity to natural gas resources	• Located near shale plays • Long-term access to affordable reserves
Constructive regulatory environment	• Multiple mechanisms and riders • Regulatory diversity
Conservative financial profile	• Commitment to “A-level” investment-grade credit ratings

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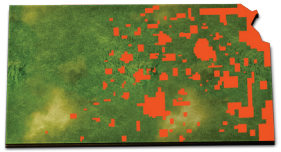
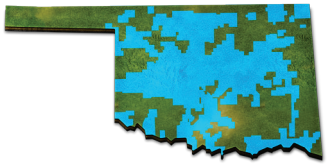
Significant Scale

High Percentage of Fixed Charges





	Kansas	Oklahoma	Texas	Total
Fixed Charges – Sales customers*	55%	87%	72%	73%
Average Annual Heating Degree Days – Normal	4,860	3,317	1,785	-
Weather Normalization	100%	100%	62%	89%
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 9** jurisdictions (Texas Railroad Commission has appellate authority)	

Note: Based on 2015 annual results

** Fixed percentage of total net margin on natural gas sales*

***In 2016, Galveston and Port Arthur jurisdictions were consolidated*

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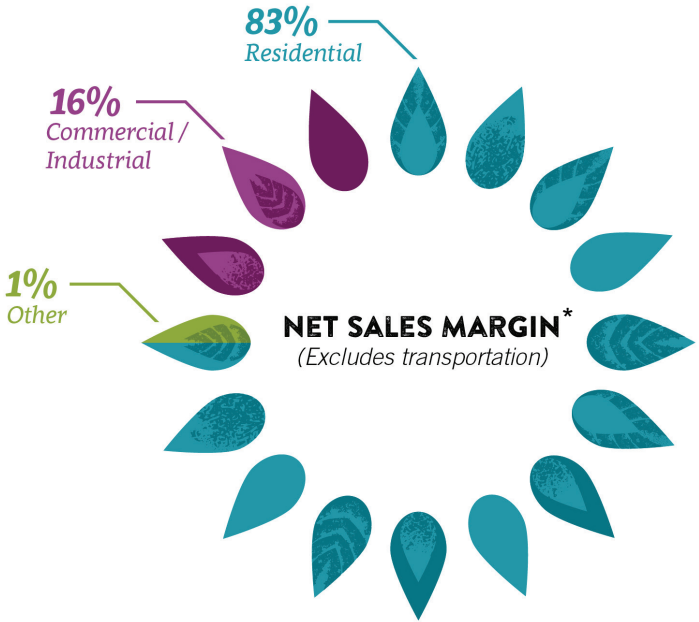
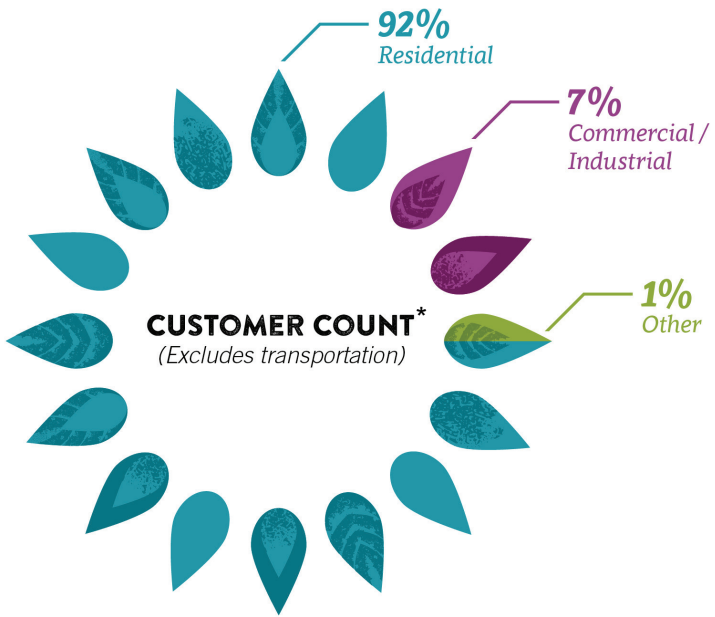
Significant Scale

High Percentage of Residential Customers





*Based on 2015 annual results

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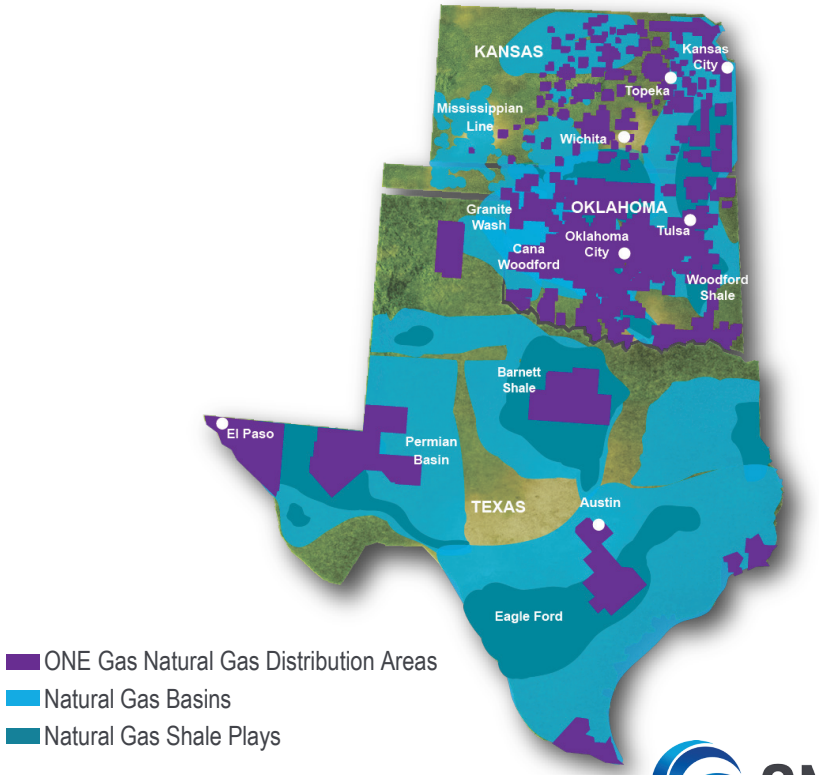
Proximity to Natural Gas Supply

Location Supports Sustainability

- Close proximity to significant natural gas reserves
  - 62 active rigs in Oklahoma*
  - 231 active rigs in Texas*
- Delivered natural gas costs are comprised primarily of:
  - Cost of the commodity
  - Transportation costs
  - Storage fees

** Source: Baker Hughes, as of August 26, 2016*



Natural Gas vs. Electricity

3-to-1 Average Advantage Continues in ONE Gas Territories

	Average retail price of electricity / kWh (1)	Natural gas price equivalent of electricity / Dth (1)	ONE Gas delivered cost of natural gas / Dth (2)	Natural gas advantage ratio (3)
Kansas	12.31¢	$36.08	$9.98	3.6x
Oklahoma	10.09¢	$29.57	$9.29	3.2x
Texas	11.67¢	$34.20	$10.39	3.3x

(1) Source: United States Energy Information Agency, www.eia.gov, for the eleven-month period ended November 30, 2015.

(2) Represents the average delivered cost of natural gas to a residential customer, including the cost of the natural gas supplied, fixed customer charge, delivery charges and charges for riders, surcharges and other regulatory mechanisms associated with the services we provide, for the year ended December 31, 2015.

(3) Calculated as the ratio of the natural gas price equivalent per dekatherm of the average retail price of electricity per kilowatt hour to the ONE Gas delivered average cost of natural gas per dekatherm.

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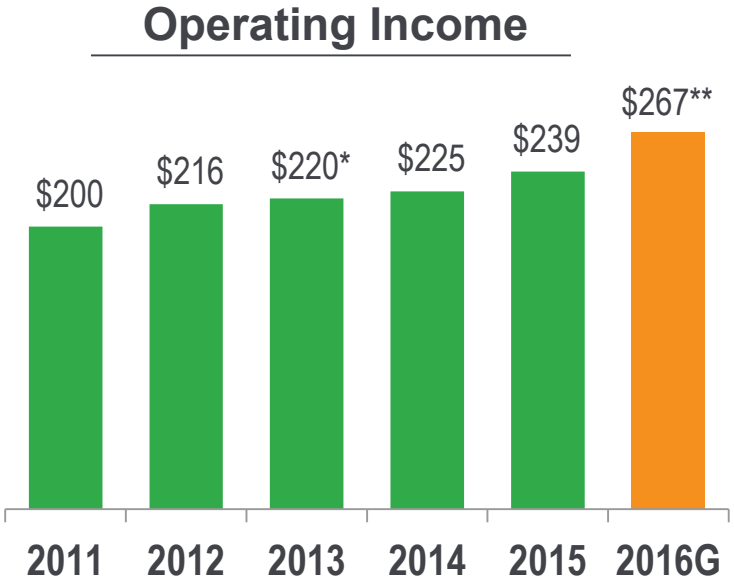
Financial Overview

2016 Guidance

Updated August 1, 2016

- Net income: range of $135-$140 million
  - Driven by lower operating expenses partially offset by warmer than normal weather in the first half of 2016, compared with original estimate
- EPS: range of $2.55 - $2.65
- Capital expenditures: $305 million[1]

[1]*Unchanged from original 2016 guidance.*

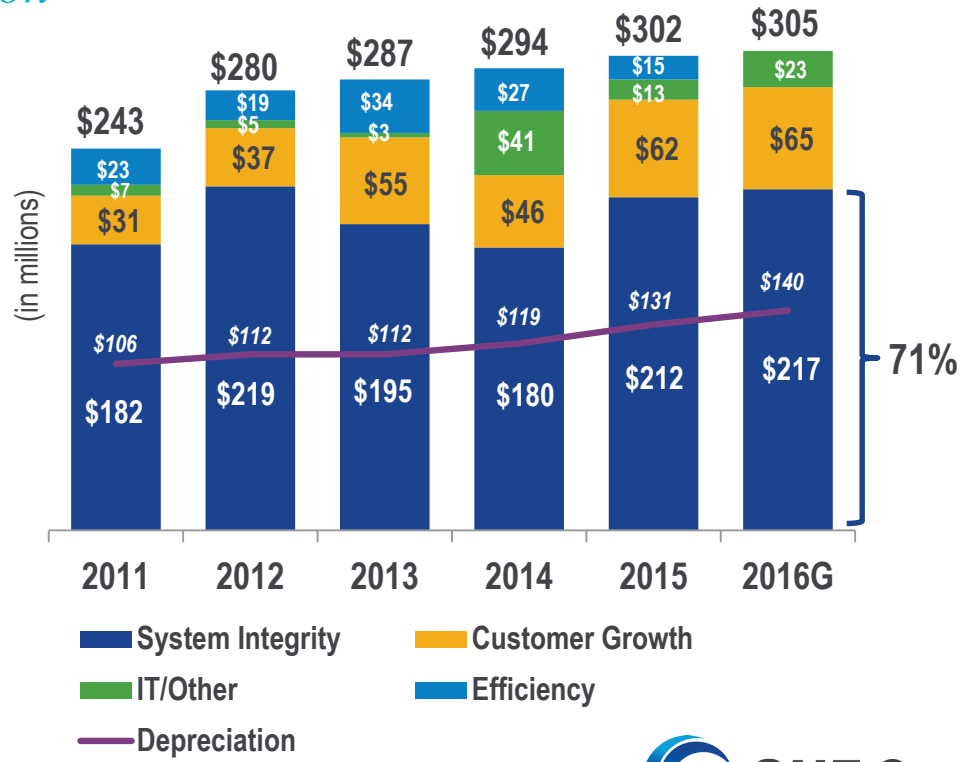


** Includes $10.2 million charge related to separation*
*** Represents midpoint of guidance range*

Well-defined Capital Investment Plan

Capital Spending Exceeds Depreciation

- Majority of capital expenditures for safety, reliability and efficiency
  - System integrity and replacements
  - Efficiency
    - Automated meter reading (75% coverage)
    - Operational efficiency efforts
- New service lines and main extensions for customer growth



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

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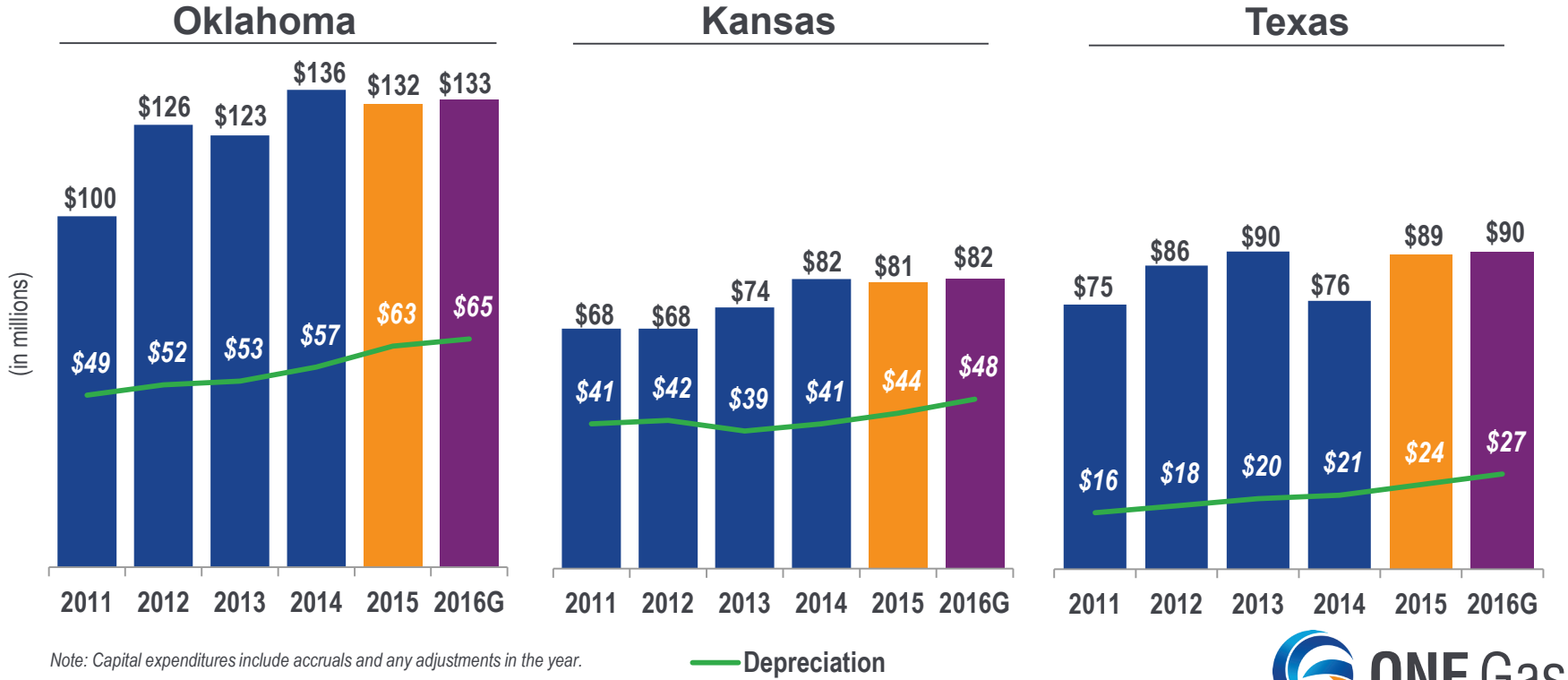
Capital Expenditures

By State



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

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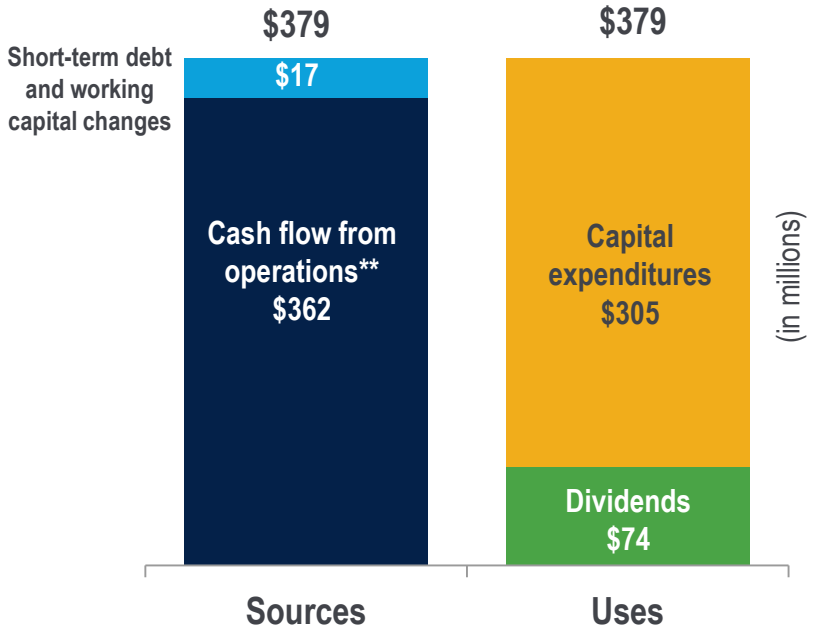
2016 Cash Flow

Sources and Uses

- Target dividend payout ratio of 55-65% of net income
- Capital expenditures primarily funded by cash flow from operations
- Dividend of 35 cents per share per quarter, resulting in an annualized dividend of $1.40 per share*



*Subject to board approval
** Before changes in working capital

Five-year Financial Outlook

Provided January 2016

- Expected average annual net income growth of 5-8% between 2015 and 2020
  - Driven by capital investments and customer growth
  - Rate base expected to grow an average of approximately 5% per year between 2015-2020
    - *Reflects the impact of bonus depreciation from recently enacted federal legislation*
- Expected average annual dividend growth of 8-10% between 2015 and 2020
- Expected capital expenditures of between $305-$325 million per year in 2016-2020

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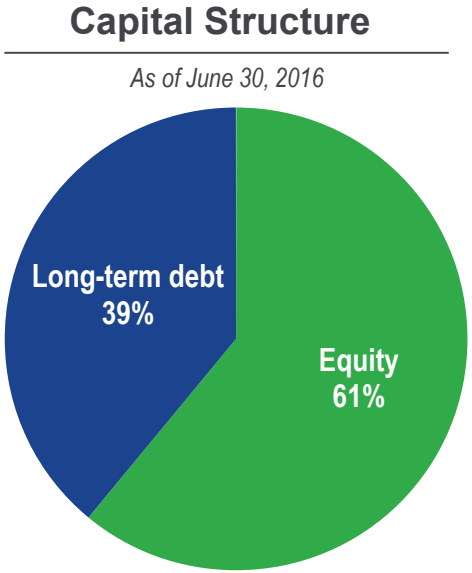
Investment Grade

Commitment to Investment-Grade Ratings

- Strong liquidity position will support capital expenditure and working capital needs
  - Stable operating cash flows
  - $700 million revolving credit facility
  - Commercial paper program
- Strong investment-grade credit ratings

Rating Agency	Rating	Outlook
Moody's	A2	Stable
S&P	A-	Positive



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Regulatory Overview

Regulatory Mechanisms

Overview

- Oklahoma Natural Gas
  - Performance-based rate structure (PBR) with a targeted ROE between 9-10 percent that provides for annual rate reviews between rate cases
- Kansas Gas Service
  - Gas System Reliability Surcharge (GSRS) – for incremental safety-related and government-mandated capital investments made between rate cases
- Texas Gas Service
  - Cost-of-service adjustments for capital investments and certain changes in operating expenses
  - Gas Reliability Infrastructure Program (GRIP) for capital investments made between rate cases
  - Rate cases as needed or required

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Oklahoma Natural Gas Rate Case

Approved January 6, 2016

Highlights	
Amount	$29.995 million
Customer impact	$2.96 per month increase for typical residential customer
Rate base	$1.2 billion
Return on equity	9.5% (midpoint of allowed band)
Common equity ratio*	60.5%
Debt costs	3.95%
Other	• Continuation of Performance Based Rate Change (PBR) plan • Regulatory asset for $2.4 million of separation costs

** The initial common equity ratio will be 60.5 percent, unchanged from the original filed request. For each future PBRC filing, the maximum allowed common equity ratio will decrease by 1 percent beginning with a 59 percent common equity ratio in the 2017 PBRC review of calendar year 2016, and end with a 56 percent common equity ratio in the 2020 PBRC review of calendar year 2019.*

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Kansas Gas Service Rate Case

Filed May 2, 2016

Highlights	
Base rates	$35.4 million total increase, $28 million net increase (already recovering $7.4 million through GSRS)
Operating income	Impact to 2017 as filed: Approximately $30 million
Customer impact	$4.34 per month increase for average residential customer
Rate base	$903 million
Capital expenditures	$230 million since previous rate case in 2012
Return on equity	10.0%
Common equity ratio	55.0% (maximum allowed under separation agreement)
Debt costs	3.95%
Other	• Each 25 bps change in requested ROE results in a change of approximately $2.1 million • Proposed Cost of Service Adjustment (COSA) mechanism to reset rates annually

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Texas Gas Service

Central Texas, South Texas Service Areas

Rate case to adjust base rates	
Base rates	$11.6 million
Customer impact	$5.28 increase in Central Texas incorporated cities and $4.19 decrease in South Texas cities per month for average residential customer
Rate base	$276 million
Return on equity	10.0%
Common equity ratio	60.5%
Debt costs	3.95%
Other	• Filed June 20, 2016: Reflects $43 million of system and facility investments • Proposed consolidation of the South Texas service area with the Central Texas service area • If approved, new rates expected to be effective no later than January 2017

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Texas Gas Service

El Paso, Dell City, Permian Service Areas

Rate case to adjust base rates	
Base rates	$12.8 million
Rate base	$266 million
Return on equity	10.0%
Common equity ratio	60.1%
Debt costs	3.95%
Other	• Filed March 30, 2016: Reflects $34 million of system and facility investments • Proposed consolidation of the El Paso, Dell City and Permian service areas into a new West Texas service area • Several cities denied request; Texas Gas Service appealed to Railroad Commission of Texas (RRC); Hearing on the Merits held July 2016 • Final decision from RRC expected October 2016

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Texas Gas Service

Other Recent Regulatory Activity

Jurisdiction	Filing Highlights	Status	Amount	Rates Effective
Galveston/South Jefferson County	• Rate case to adjust base rates • Consolidate service areas (Gulf Coast)	Approved	$2.3 million	May 2016
North Texas	• Annual COSA filing to adjust base rates	Approved	$1.3 million	July 2016

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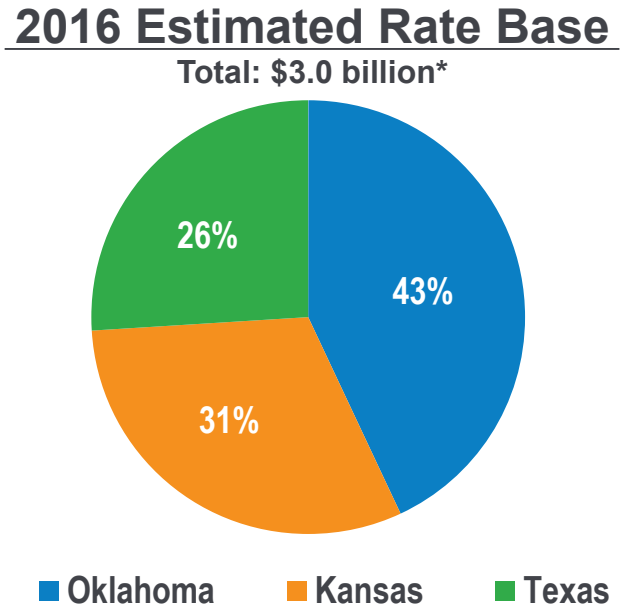
Projected Rate Base

Capital Investment Drives Rate Base Growth

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

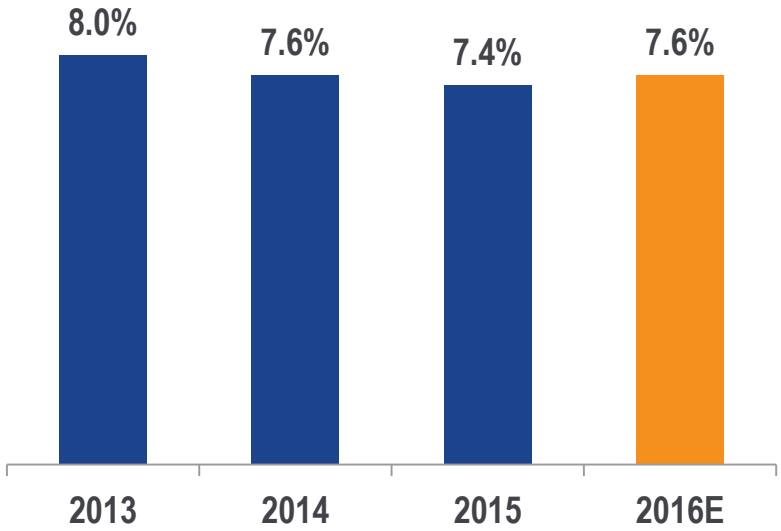


** Estimated average rate base; calculation consistent with utility ratemaking in each jurisdiction*

Opportunity to Narrow the Gap

Return on Equity

- Goal: Minimize the gap between allowed and actual returns
  - 2016 ROE estimate: 7.6%
  - 2015 ROE achieved: 7.4%
  - 2014 ROE achieved: 7.6%
  - 2013 ROE achieved: 8.0%



Key Takeaways

Focused Strategy

- Well-defined capital investment plan with 70% targeted toward system integrity
  - Rate base expected to grow an average of 5% per year between 2015-2020
- Increased focus on maintaining or lowering operating expenses to sustainable levels
- Minimize gap between actual and allowed returns
  - Annual filings for rate adjustments between rate cases
  - File rate cases as warranted
  - Incremental regulated revenue
- Committed to stable and conservative financial profile
  - Expected average annual dividend growth of 8-10% between 2015 and 2020
  - Target dividend payout ratio of 55-65% of net income

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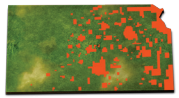
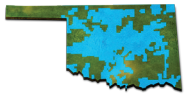
Appendix

Customer and Asset Mix

Key Statistics as of Dec. 31, 2015





	Kansas Gas Service	Oklahoma Natural Gas	Texas Gas Service	Total
Average Number of Customers	634,977	860,551	644,408	2,139,936
Average Number of Employees	1,000	1,200	800	3,400*
Distribution – Miles	12,000	18,300	10,100	40,400
Transmission – Miles	1,500	700	800	3,000
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	58%	82%	76%	73%
Market Share - Customers Served	72%	88%	14%	

* *Includes corporate employees*

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Safety and Environment

Operating Safely and Environmentally Responsibly

- Ongoing effort to replace aging assets
  - Replaced approximately 425 miles of distribution and transmission facilities in 2015
  - Replaced approximately 22 miles of cast iron pipe in 2015
  - Remaining 70 miles of cast iron pipe expected to be replaced by year end 2019
- Ranked in the top quartile of American Gas Association member companies for safe driving since 2011
  - Achieved a 7% reduction in Preventable Vehicle Incident Rate in 2015 compared with 2014
- Reduction in employee injuries of 10% in 2015 compared with 2014
- Utilize peer-review safety process and employee training to promote consistent, steady improvement in workplace safety

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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	X**		X

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

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Regulatory Filing Timeline

Oklahoma & Kansas

ONG

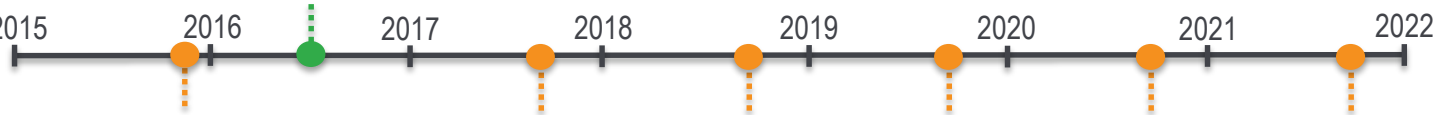
Filed general rate case application in July 2015, new rates approved and effective January 2016

General rate case application filing in June 2021, with new rates effective early 2022, if applicable

Performance-based rate filings in March 2017, 2018, 2019 and 2020

KGS

Filed general rate case application May 2016, with new rates effective January 2017



GSRS approved November 2015, with new rates effective December 2015

GSRS filing annually in August, with new rates effective in January of the following year
Rate cases as needed

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Regulatory Information

By State as of June 30, 2016 - Authorized

	Rate Base (in millions)	Rate Base per Customer	Authorized Rate of Return	Authorized Return on Equity
Oklahoma Natural Gas[1]	$1,201	$1,396	7.31%	9-10%
Kansas Gas Service[2]	$826	$1,306	N/A	N/A
Texas Gas Service[1]	$654	$1,020	8%	10.2%

[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. Rate base reflects 2013, 2014 and 2015 GSRS approvals.

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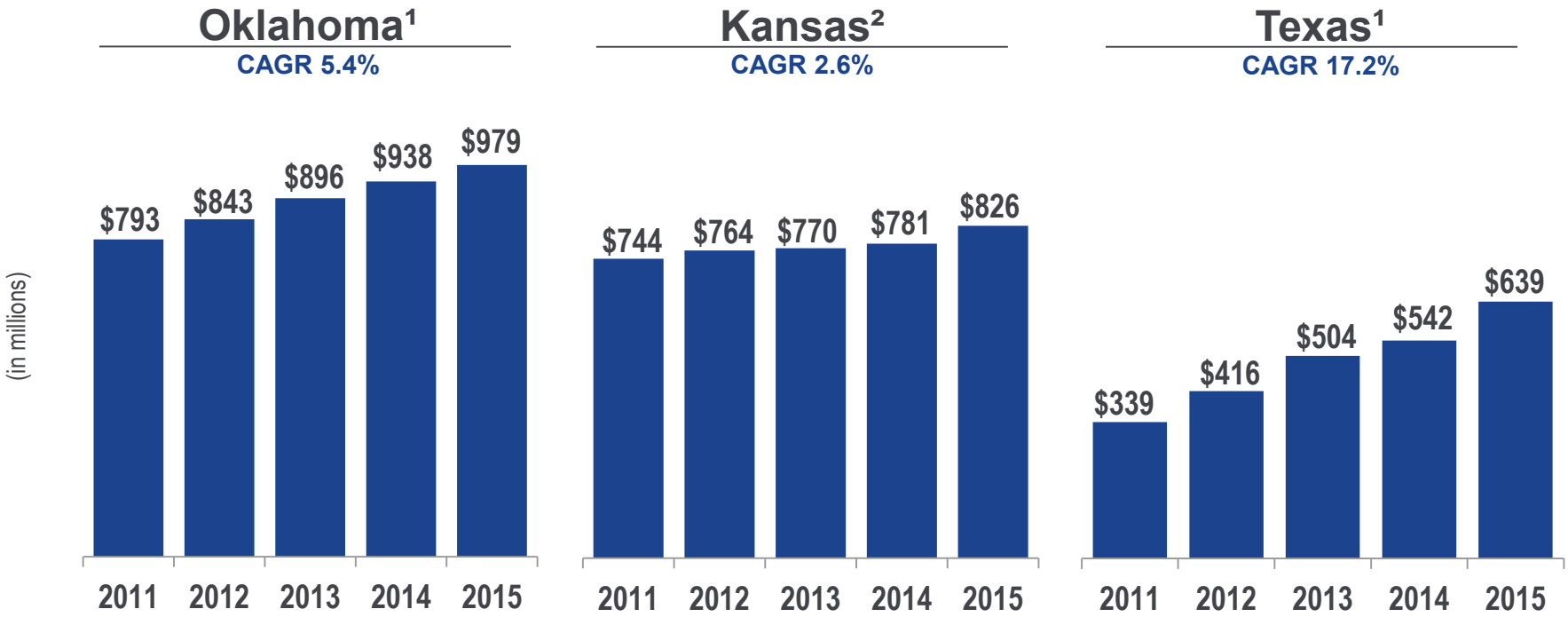
Authorized Rate Base

Historical by State at Year End



[1] *Rate bases 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.*

[2] *Last rate case was settled without a determination of rate base and includes the amounts included in the company's filings; these amounts are not necessarily indicative of current or future rate base. 2013, 2014 and 2015 rate base reflects GSRS approvals.*

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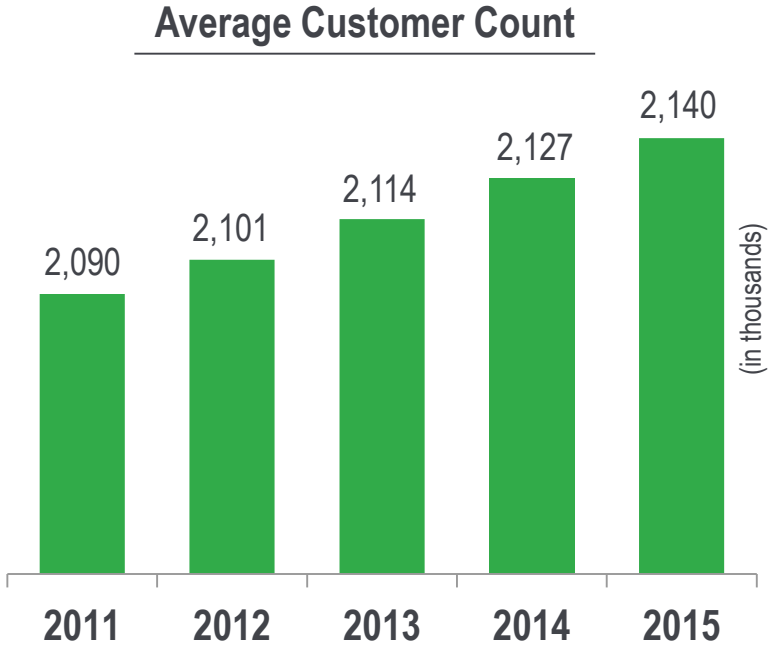
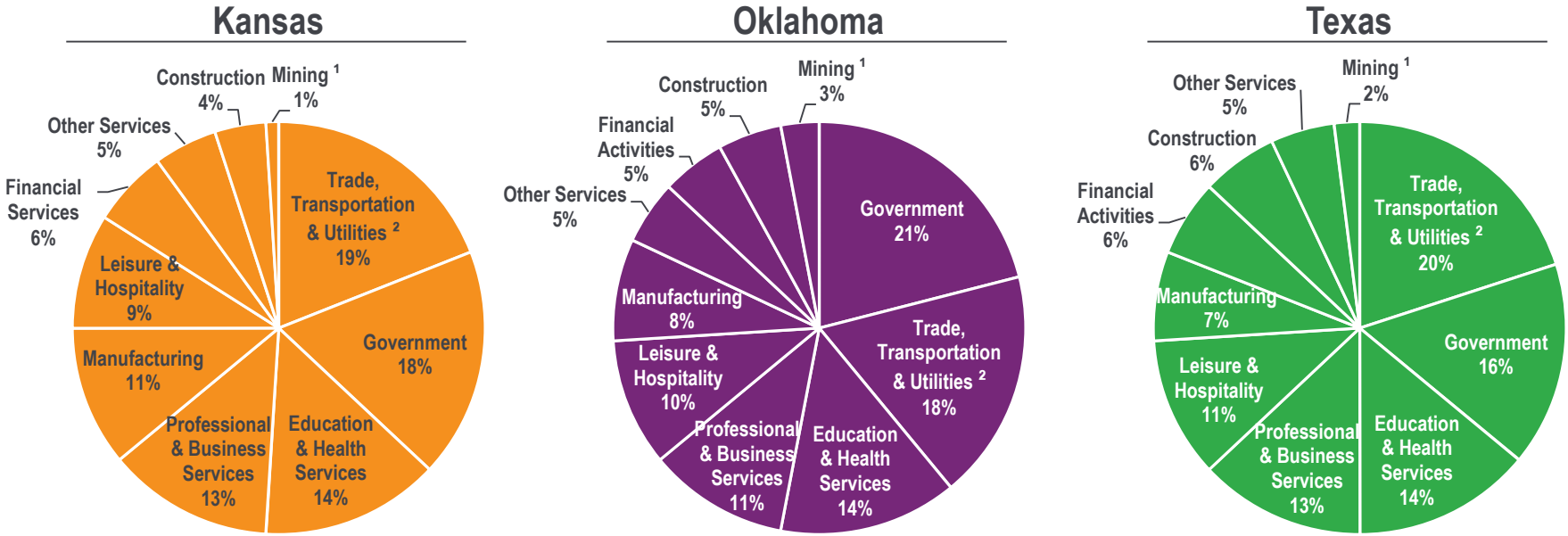
Customer Growth

Projected 2016 Customer Growth ~ 0.25% to 0.75%



Diverse Employment Mix

*State Employment by Sector**



** Non-farm employment, seasonally adjusted*

[1] Includes oil drilling, extraction and exploration & production companies

[2] Includes oil, natural gas and petroleum pipeline transportation and midstream companies

Source: U.S. Bureau of Labor Statistics, December 2015 data

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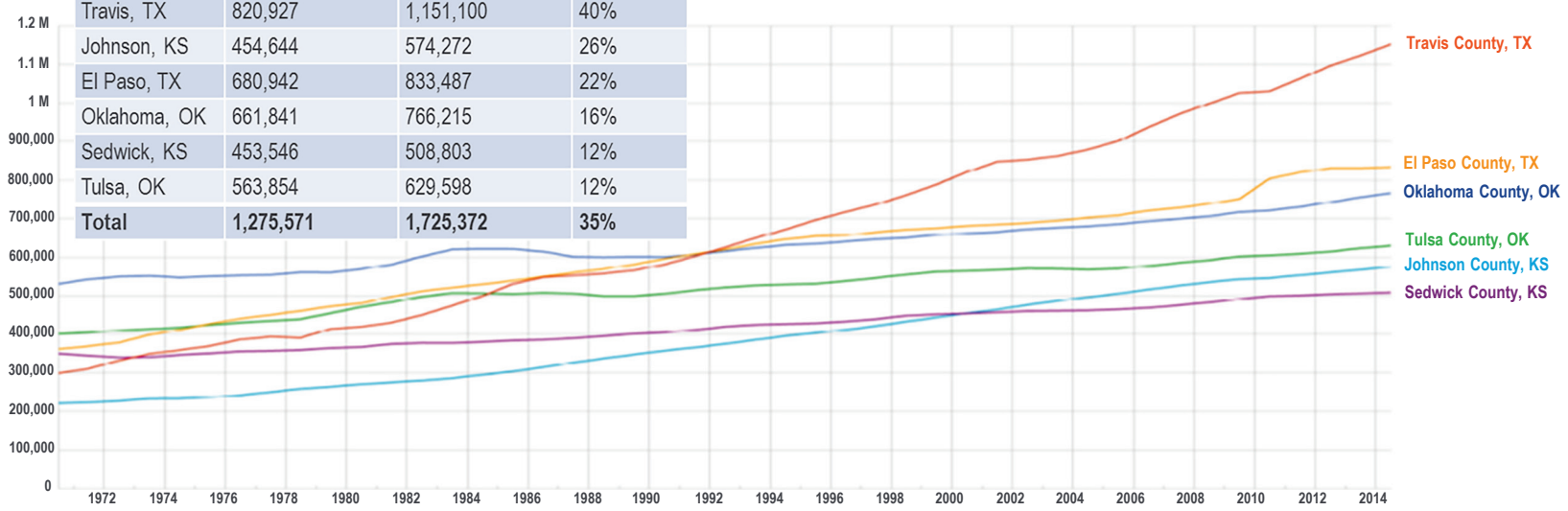
Service Territory Population Growth

1.38% CAGR

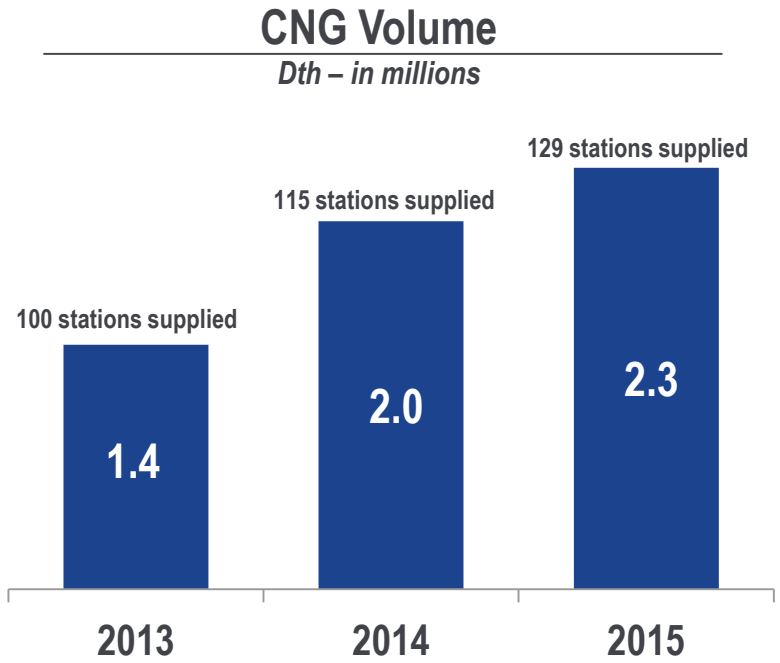
ONE Gas Major Metro U.S. Census County Population

County	2000 Population	2015 Population	% Growth
Travis, TX	820,927	1,151,100	40%
Johnson, KS	454,644	574,272	26%
El Paso, TX	680,942	833,487	22%
Oklahoma, OK	661,841	766,215	16%
Sedwick, KS	453,546	508,803	12%
Tulsa, OK	563,854	629,598	12%
Total	**1,275,571**	**1,725,372**	**35%**



Compressed Natural Gas (CNG)

Current Environment



- Currently operate 25 fueling stations accessible to the public, 4 private stations
- Currently transporting supply to 62 retail and 44 private CNG stations
- Rebate program in Oklahoma; Austin, Texas
- Industry
  - Continued interest in CNG for transportation, particularly by fleet operators
  - Tax incentives further contribute to positive economics

Note: Updated as of June 30, 2016

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Benefits of CNG

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 13 homes
- One transit bus is equivalent to 24 homes
- Incremental margins from CNG demand could mitigate residential rate increases, enhancing competitive position and customer satisfaction
- Potential innovations in home-fueling technology

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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 and hedging costs are included in cost of gas
- No direct commodity risk to ONE Gas divisions
- 31 Bcf of natural gas in storage at June 30, 2016

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Cash Flow From Operations

*Before Changes In Working Capital**

(Millions of dollars)	Updated 2016 Guidance	Previous 2016 Guidance	Change
Net Income	**$ 137**	$ 132	$ 5
Depreciation and amortization	**142**	142	–
Deferred taxes	**67**	77	(10)
Other	**16**	13	3
Cash flow from operations before changes in working capital	**$ 362**	$ 364	$ (2)

** Amounts shown are midpoints of ranges provided.*

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Non-GAAP Information

ONE Gas has disclosed in this presentation cash flow from operations before changes in working capital, which is a non-GAAP financial measure. Cash flow from operations before changes in working capital is used as a measure of the company's financial performance. Cash flow from operations before changes in working capital is defined as net income adjusted for depreciation and amortization, deferred income taxes, and certain other noncash items.

The non-GAAP financial measure described above is useful to investors as an indicator of financial performance of the company's investments to generate cash flows sufficient to support our capital expenditure programs and pay dividends to our investors. ONE Gas cash flow from operations before changes in working capital should not be considered in isolation or as a substitute for net income or any other measure of financial performance presented in accordance with GAAP.

This non-GAAP financial measure excludes some, but not all, items that affect net income. Additionally, this calculation may not be comparable with similarly titled measures of other companies. A reconciliation of cash flow from operations before changes in working capital is included in this presentation.

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