

In the Matter of the Application of Kansas )  
Gas Service, a Division of ONE Gas, Inc. for )  
Adjustment of its Natural Gas Rates in the ) Docket No. 18-KGSG-<sup>560</sup>\_\_\_\_ - RTS  
State of Kansas. )

**DIRECT TESTIMONY**  
**OF**  
**ASHLEY D. DAVIDSON**  
**ON BEHALF OF KANSAS GAS SERVICE**  
**A DIVISION OF ONE GAS, INC.**

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1       **I.       POSITION AND QUALIFICATIONS**

2       **Q.       Please state your name and business address.**

3       A.       My name is Ashley D. Davidson. My business address is 15 East Fifth Street in Tulsa,  
4               Oklahoma.

5       **Q.       By whom are you employed and in what capacity?**

6       A.       I am employed by ONE Gas, Inc., (“ONE Gas” and/or “OGS”) as a Rates Analyst II.

7       **Q.       Please describe your educational background and professional experience.**

8       A.       I received a Bachelor’s of Science Degree in Finance with a minor in Economics from Oklahoma  
9               State University in 2003 and have 16 years of accounting and finance experience. I began my  
10              employment with ONE Gas in February 2017 as a Rates Analyst II. Prior to joining ONE Gas, I  
11              worked in the Risk Control department of Continuum Energy Services from November 2007  
12              to December 2016 with the last two years as the Director of Risk Control. From October 2005  
13              to November 2007, I worked as a Financial Analyst II as well as an Auditor II at ONEOK, Inc.  
14              From June 2002 to October 2005, I worked as an Auditor for the State of Oklahoma.

15      **Q.       Have you previously testified before any state regulatory commissions?**

16      A.       No, I have not.

17      **Q.       Have you prepared any exhibits in connection with your testimony?**

18

1 A. Yes, I have prepared and sponsor Exhibit ADD-1 attached to my testimony containing the  
2 Company's Corporate Allocation Manual ("CAM") that documents the methodology used by  
3 the Company to allocate indirect costs.

4 **Q. Are you supporting any of the minimum filing requirement schedules?**

5 A. Yes, I am supporting Schedules 12-A and 12-B.

6 **Q. What is the purpose of your testimony?**

7 A. The purpose of my testimony is to: 1) explain and support the Company's cost allocation  
8 methodology, including the ONE Gas Distrigas<sup>1</sup> formula; 2) explain and support the  
9 Company's operating expense adjustments for corporate expenses allocated to Kansas Gas  
10 Service ("KGS"), including KGS's direct short-term incentive compensation.

11 **II. COST ALLOCATION METHODOLOGY**

12 **Q. What is the purpose of cost allocations?**

13 A. The purpose of cost allocations is to reasonably allocate each business entity's proportionate  
14 share of costs for services it receives from ONE Gas. Because the costs to provide these  
15 services are "shared" by multiple business entities, cost responsibility for these services must  
16 be reasonably allocated among the various ONE Gas business entities. This allocation is  
17 accomplished by applying the Company's cost allocation methodology.

18 **Q. Please describe the methodology employed by ONE Gas to allocate costs among its business  
19 entities.**

20 A. Costs incurred by ONE Gas or any of its business entities can be described as either "direct"  
21 or "indirect." To the extent that responsibility for costs can be specifically attributed to a  
22 business entity, those costs are directly assigned. Conversely, indirect costs are those costs

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Distrigas of Mass. Corp., Opinion No. 291, 41 FERC 61,205 (1987) ("Distrigas").  
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1 that cannot be specifically attributed to a business entity and thus are allocated in accordance  
2 with principles of cost causation. For instance, if costs cannot be directly assigned, but a  
3 specific measurement can be identified, then these indirect costs are allocated using a specific  
4 causal relationship, such as customer count. Any remaining indirect costs are allocated  
5 according to an allocation formula that has been approved in Oklahoma and Texas. Similarly,  
6 the Staff of the Kansas Corporation Commission (KCC) has accepted ONE Gas's allocation  
7 methodology in a 2012 Kansas Gas Service ("KGS") rate case and in its most recent 2016 rate  
8 case. This formula is known as the "Modified Distringas" methodology, referred to in the CAM  
9 as "ONE Gas Distringas" (and/or "OGS Distringas").

10 **Q. Please briefly explain "direct costs."**

11 A. Direct costs are those charges that can be specifically attributed to a business entity, such as  
12 KGS and therefore, are charged directly to KGS. Examples of directly assigned costs incurred  
13 at the business entity level include certain information technology ("IT") services, line location  
14 services, and facilities management costs. Examples of corporate costs directly assigned to  
15 each of the OGS business entities include services such as: Internal audit services provided to  
16 the business entity being audited; property accounting labor and benefits to each division for  
17 which the employee has accounting responsibility; certain regulatory affairs costs assigned to  
18 the entity receiving the benefits of the services provided; and, the costs associated with  
19 environmental management and safety programs are assigned to the entity responsible for  
20 the environment or safety cost incurred.

21 **Q. Please explain "indirect costs."**

22 A. Indirect or shared costs are those costs incurred to provide services that cannot be directly  
23 assigned to a specific business entity. Therefore, these costs are shared among multiple  
24 business entities. Examples of corporate indirect costs are discussed below.

1       **Q.     How are indirect costs allocated?**

2       A.     Indirect costs are allocated either on a causal basis or through OGS Dstrigas. Costs allocated  
3             using causal relationships are based on specific measurements such as participation level,  
4             activity level, output level, or resource consumption. Employee health and welfare benefits  
5             for active employees are an example of an indirect cost allocated on a causal basis as  
6             measured by output level. These costs are allocated using the causal relationship of employee  
7             headcount for each respective business entity. Employee health and welfare benefits for  
8             active employee costs initially allocated to corporate departments (HR, Accounting, IT, etc.)  
9             are then reallocated to the business entities through OGS Dstrigas, as discussed below.

10            Other examples of causal allocation factors include percentages based on: customer  
11            counts for the Billing Control Group; percentages based on gross plant, property, and  
12            equipment for Property Accounting; and percentages based on invoice processing volume  
13            used by each business entity, for Accounts Payable. A summary containing the factors used  
14            to calculate the annual causal allocation percentages is included as Section 12-B in the  
15            Application filed in this case.

16            All other costs that cannot be charged directly or cannot be associated with an identifiable  
17            causal relationship are allocated through OGS Dstrigas.

18       **Q.     Please describe those services and costs allocated through Dstrigas.**

19       A.     ONE Gas provides numerous services that benefit all its business entities. Certain centralized  
20             corporate services activities are recorded initially on the corporate general ledger and include  
21             functions necessary for the overall governance of any large, publicly held company and are  
22             then allocated to the various ONE Gas business entities using the Dstrigas factor.

1 A limited summary of services is provided below and a complete list containing a more  
2 detailed explanation of each service can be found in the CAM attached to my testimony as  
3 Exhibit ADD-1:

- 4 • Human Resources – Provides professional development and training programs for active  
5 employees;
- 6 • Information Technology – Supports ONE Gas’ business entities by developing and  
7 administering disaster recovery, data backup and recovery, data center and support of all  
8 Company technology;
- 9 • Finance and Accounting – Supports ONE Gas’ business entities by administering processes  
10 related to corporate accounting, financial reporting, tax, credit, risk and insurance,  
11 internal audit, financial planning and business development;
- 12 • General Counsel – Supports ONE Gas’ business entities by administering processes related  
13 to legal aspects of day-to-day business activities;
- 14 • Corporate Communications – Provides a variety of communication related support  
15 generally related to corporate communications efforts directed to employees and  
16 external stakeholders; and
- 17 • Corporate Services – Supports ONE Gas’ various business entities by developing and  
18 administering programs and processes that facilitate general day-to-day business  
19 activities such as purchasing, facilities, business continuity and environmental safety and  
20 health initiatives.

21 Finally, as noted in the CAM, certain miscellaneous costs such as corporate rent and  
22 associated utilities, impacting all business entities are also allocated.

23 **Q. Would KGS require the same types of services as those provided by ONE Gas if it were a**  
24 **stand-alone business entity?**

1 A. Yes. These services would be provided or incurred even if the KGS was a standalone entity.  
2 Having these services performed centrally allows for economies of scale and for the costs of  
3 those services to be spread across the business entities and service areas for which the  
4 services are provided. These services are necessary for the operation of any gas utility  
5 business, regardless of whether the service is performed centrally or on a decentralized basis  
6 at the service area level.

7 **Q. Please describe the history of the Distrigas allocation methodology.**

8 A. The Distrigas method was first approved by the Federal Energy Regulatory Commission  
9 (“FERC”) in a rate proceeding for a natural gas transmission company, Distrigas of  
10 Massachusetts Corporation. The formula used by Distrigas was a slight modification of the  
11 old Massachusetts formula (a three-part formula consisting of gross plant, gross revenues and  
12 payroll) which, prior to the acceptance of the Distrigas method, was widely accepted by  
13 numerous regulatory agencies across the country. In its opinion, FERC accepted the Modified  
14 Distrigas method (a three-part formula consisting of gross plant, net revenues and payroll) as  
15 a reasonable and acceptable methodology for allocating costs for ratemaking purposes.

16 **Q. Has the Staff of the Commission previously reviewed the cost allocation methodology used**  
17 **by the Company in preparing this filing?**

18 A. Yes. As stated earlier, the Commission Staff reviewed and accepted ONE Gas’s allocation  
19 methodology in a 2012 KGS rate case and in its most recent 2016 rate case. This methodology  
20 has been used by the Company and its predecessor since 1994 to allocate corporate  
21 administrative costs, and has not changed despite the separation from its predecessor,  
22 ONEOK. It is important to ONE Gas to have a common allocation methodology approved by  
23 the respective regulatory agencies to ensure that the method is fair to each of the ONE Gas  
24 business entities and their customers. Additionally, the Railroad Commission of Texas and

1 the Oklahoma Corporation Commission have approved the refinement of the Modified  
2 Distringas allocation method used by ONE Gas.

3 **Q. Please further describe the ONE Gas Distringas Method.**

4 A. ONE Gas' Distringas method uses a three-factor formula comprised of: (1) gross plant and  
5 investments; (2) operating income (income before interest expense and income taxes); and  
6 (3) labor expense. As with the standard Distringas method, the factors are individually  
7 calculated and then a simple average is calculated using the three component percentages.  
8 A summary showing the factors used to calculate the quarterly ONE Gas Distringas allocation  
9 percentages is included as Section 12-A in the Application filed in this case.

10 **Q. How has ONE Gas modified the original Distringas formula?**

11 A. The minor modifications ONE Gas has made to OGS Distringas include utilizing 'gross plant and  
12 investments' rather than just 'gross plant' in the event ONE Gas includes investment in  
13 businesses that are not directly operated by ONE Gas.<sup>2</sup> ONE Gas also uses 'operating income'  
14 rather than 'net revenues' as an allocator to eliminate the cost of gas component. These  
15 modifications further refine the Distringas method to fairly and reasonably allocate the costs  
16 to the ONE Gas business entities, including KGS.

17 **Q. Is the OGS Distringas Method used for all ONE Gas business entities?**

18 A. Yes, the OGS Distringas method is used for all ONE Gas business entities. This ensures that ONE  
19 Gas allocates corporate costs to each business entity on a consistent basis applying the same  
20 cost-causation principles and methodology. A summary showing the quarterly factors used  
21 to calculate the OGS Distringas allocation factors is included in Section 12, Schedule 12-A of the  
22 Application filed in this case.

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<sup>2</sup> Currently, the Company has no investment in businesses that are not operated by ONE Gas.  
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1 **Q. Is ONE Gas' cost allocation methodology reasonable?**

2 A. Yes, it is. As explained above, the ONE Gas cost allocation methodology allows ONE Gas to  
3 allocate corporate costs to each of its business entities on a consistent basis achieved by  
4 applying the same cost-causation principles and methodologies. Furthermore, this practice  
5 has been accepted as a reasonable means of allocating corporate costs by this Commission  
6 Staff, FERC, the Texas Railroad Commission and the Oklahoma Corporation Commission.

7 **Q. Has the Company removed certain expenses from its rate filing?**

8 A. Yes. The Company may incur expenses that are not included in the revenue requirement for  
9 one reason or another. Examples of these types of expenses include contributions to political  
10 organizations and expenses associated with legislative advocacy. Nevertheless, the costs of  
11 these services are billed to the business entities using the Company's cost allocation  
12 methodology, regardless of whether the business entities request recovery of those costs  
13 from customers. These costs are charged using separate accounts specifically established to  
14 enable the Company to identify and track these expenditures so they can be removed when  
15 preparing regulatory filings and are therefore not included in the request for recovery from  
16 customers.

17 **Q. Have any other costs been removed from this filing?**

18 A. Yes, and I detail the adjustment related to these costs below.

19 **III. ADJUSTMENTS**

20 **Q. You indicated earlier that you are sponsoring adjustments to test year corporate operating**  
21 **expenses allocated to KGS. Please identify those adjustments.**

22 A. The adjustments I am sponsoring are summarized below in Table 1:  
23

Adjustment Number	Description	KGS Direct	Corporate Costs allocated on a causal basis	Distrigas Adjustment Amount	Total Increase (Decrease) to Operating Income	Page
IS 30	Miscellaneous Corporate Charges			\$1,620,449	\$1,620,449	10
IS 31	Distrigas Change in Allocation Ratio			\$(1,601,057)	\$(1,601,057)	10
IS 32	Normalized Compensation (STI)	\$522,637		\$1,092,084	\$1,614,721	11
IS 33	Corporate OPEB, Pension, and Health Benefits			\$(776,225)	\$(776,225)	11

2

3

**A. Corporate Cost Adjustments**

4

**Q. Please provide an explanation for Income Statement Adjustment IS 30.**

5

A. IS 30 reduces Operating Expenses \$1,620,449. This adjustment removes costs related to governmental relations, civic activities, any legacy non-utility activity, aviation, contributions and donations, non-recurring expenses, and other corporate support costs for which management has elected not to seek recovery in this case. This adjustment also includes the annualization of corporate office lease costs and insurance

10

Recently, ONE Gas formed a wholly-owned captive insurance subsidiary, Utility Insurance

11

Company ("UIC"), to provide insurance to ONE Gas, Inc., and its Divisions. Company witness

12

Mark Smith provides testimony describing UIC and the services it provides.

1 UIC premiums to ONE Gas and KGS were included in the calculation of Income Statement  
2 Adjustment IS 30. The adjustment for the known and measurable change in insurance  
3 premiums accounts for \$1,128,319 of the IS 30 adjustment. During the 2017 test year, the  
4 majority of the insurance premium costs were recorded to the ONE Gas corporate books and  
5 allocated to KGS. However, in the last quarter of 2017, ONE Gas bought policies from UIC and  
6 began to record some policy premiums directly to the division level instead of the corporate  
7 level resulting in a change in how costs were previously recorded. Therefore, IS 30 reflects  
8 the decrease in corporate operating expenses for insurance while IS 18 reflects the increase  
9 in division operating expenses. Adjustment IS 18 is sponsored by witness Lorna Eaton.

10 **Q. Please provide an explanation for Income Statement Adjustment IS 31.**

11 A. IS 31 increases Operating Expenses \$1,601,057. This adjustment reflects the annualization of  
12 corporate costs allocated through OGS Distrigas based upon the first quarter 2018 KGS  
13 Distrigas ratio.

14 **Q. Please provide an explanation for Income Statement Adjustment IS 32.**

15 A. IS 32 reduces expenses by \$1,614,721 related to ONE Gas' 2017 short-term incentive (STI)  
16 compensation. This adjustment includes the amounts that were direct charged to KGS, as  
17 well as the amounts that were allocated through OGS Distrigas. The adjustment reflects  
18 removal of STI in excess of 100 percent, resulting in a normalized level of STI costs. An  
19 additional adjustment was made to remove prior year activity recorded during the test year.

20 **Q. Please provide an explanation for Income Statement Adjustment IS 33.**

21 A. IS 33 increases expenses \$776,225. This adjustment annualizes the known and measurable  
22 changes in Other Post-Employment Benefits ("OPEB"), Pension, and Employee Health Benefit  
23 costs associated with corporate employees.

24

1      **Q.**      **Does this conclude your testimony?**

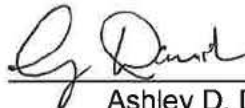
2      A.      Yes, it does.

3

**VERIFICATION**


STATE OF OKLAHOMA            )  
  ) ss.  
COUNTY OF TULSA            )

Ashley D. Davidson, being duly sworn upon her oath, deposes and states that she is a Rates Analyst II for ONE Gas, Inc.; that she has read and is familiar with the foregoing Direct Testimony filed herewith; and that the statements made therein are true to the best of her knowledge, information, and belief.

  
\_\_\_\_\_  
Ashley D. Davidson

Subscribed and sworn to before me this 19<sup>th</sup> day of June 2018.



  
\_\_\_\_\_  
NOTARY PUBLIC

My appointment Expires:  
2.5.20



## CORPORATE ALLOCATION MANUAL

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Revised February 16, 2018  
Corporate Accounting Department

The Corporate Allocation Manual provides documentation for current practices used by ONE Gas, Inc. (ONE Gas) for allocation of corporate administrative costs to ONE Gas business entities. A business entity is defined as a division or subsidiary of ONE Gas. Corporate administrative costs that are incurred for the direct benefit of one specific business entity, known as direct costs, are not addressed in this manual because the objective and scope of this manual pertains to general charges that cannot be assigned to a single operating business entity.

ONE Gas maintains a fully distributed cost model that provides a reasonable and justifiable method of cost assignment, so that each business entity receives its proportionate share of corporate administrative costs and prevents subsidization.

Proper classification of costs is the responsibility of each employee and his or her supervisor when preparing, approving, and processing any accounting document (invoices, amortizations, journal entries, etc.). The classification of costs includes assigning the appropriate account coding string as defined in our Classification of Accounts Manual (which includes codes for company, cost center, natural account, expense indicator and RFU) when processing the transaction. The account coding string is the basis upon which costs are identified as costs to be allocated in our process.

### **Three-Step Allocation Process**

The application of our fully distributed cost allocations occurs through a "three-step" allocation method. The first step begins with the premise that to the extent practical, direct costs specifically attributed to a business entity are charged directly to that business entity. In the second step, indirect costs that are significant in amount, but which cannot be charged directly are allocated to business entities on the basis of a causal relationship.

The causal relationships are specific measurements based on the type of cost, which can be a measure of participation level, activity level, output level, or resource consumption. In the third step, any remaining costs, which cannot be charged directly or associated with an identifiable causal relationship, are allocated to business entities using the ONE Gas's Modified Distringas Allocation methodology (ONE Gas Distringas).

### **ONE GAS Distringas Methodology**

The Distringas Cost Allocation Methodology (Distringas Method) was first approved by the Federal Energy Regulatory Commission (FERC) in a rate proceeding for a natural gas transmission company, Distringas of Massachusetts, L.L.C. The Distringas formula is a slight modification of the Massachusetts Allocation Method (a three part formula consisting of gross plant, gross revenues and payroll) which, prior to the acceptance of the Distringas

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formula, was widely accepted by numerous regulatory agencies across the country as a just and reasonable method of allocating corporate overhead and other costs. In its preceding at the FERC, Distrigas of Massachusetts, L.L.C. argued that the Massachusetts formula was flawed in that it over-allocated costs to utilities due to its inclusion of the cost of fuel in gross revenues. This had the effect of inflating the allocation of costs to utility operations which benefitted non-utility operations. The FERC agreed and accepted the modified version of the formula, which is generally known as the Distrigas Method, as a reasonable and acceptable methodology for allocating costs for ratemaking purposes

ONE Gas, Inc. has used the Distrigas Method as the basis for its methodology to allocate corporate administrative costs since 1994. It is important to ONE Gas to have a common allocation methodology that is broadly accepted by our regulatory authorities and that results in a justifiable and reasonable allocation of corporate administrative costs to each of ONE Gas's business entities.

The ONE Gas Distrigas methodology uses a three factor formula comprised of the average of gross plant and investments, net operating income and labor expenses (excluding contract labor).

To calculate the overall allocation factor for each business entity, the three allocation factor amounts are determined for each business entity and calculated as a percentage of the consolidated total. In cases when a business entity has an operating loss, a factor of zero is used for the operating income allocation factor. The three component allocation factors for each business entity are then combined using a simple average to derive the overall allocation factor.

ONE Gas periodically reviews its existing allocation methodologies to ensure that costs are being appropriately allocated. ONE Gas's Distrigas allocation factors are updated quarterly or when significant changes to its corporate structure occur, such as acquisitions, divestitures, or corporate restructuring.

ONE Gas uses the following methodology to allocate costs when costs cannot be charged directly or allocated using a causal relationship to a business entity. The allocation methodology allows the allocation of costs to the business entities that receive the benefit of the administrative costs. The allocation methodology is described as follows:



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Methodology Name	Cost Center	Description
OGS-Distrigas	1007	Calculates allocation percentages using the respective allocation factors for the business entities of ONE Gas's business entities including Oklahoma Natural Gas, Kansas Gas Service, Texas Gas Service, and Utility Insurance Company

Appendix A provides an example calculation of ONE Gas's Distrigas methodology.

### Allocated Costs

Costs to be allocated can be aggregated in the following general categories:

- Executive
- Human Resources (HR)
- Information Technology (IT)
- Finance and Accounting
- General Counsel
- Corporate Communications
- Corporate Services (includes Environmental Health & Safety, Engineering, and Resource Management)
- Customer Service
- Other

The costs allocated in these general categories are allocated in accordance with our "three step allocation methodology" described above. The following sections provide a general description of the types of costs allocated in each general category and the method in which those costs are allocated.

#### Executive

The executive organization provides leadership and strategic direction for ONE Gas's business activities. Examples of costs incurred in this area are related to salaries and expenses of the President and Chief Executive Officer, his or her direct reports, and corporate officers with responsibility for corporate administrative functions that are not assigned to a specific business entity. These costs are primarily allocated through the OGS-Distrigas methodology.



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### Human Resources

The HR organization supports our various business entities and the employees of ONE Gas by developing and administering plans and processes related to compensation, employee benefits, employee development and payroll. Typical examples of costs incurred in this area are related to:

<b>Types of Costs</b>	<b>Allocation Methodology</b>
Administrative fees for all defined plans, health & welfare and retirement plans	<ol style="list-style-type: none"> <li>1. These costs are allocated using the causal relationship of plan participant count for each respective business entity.</li> <li>2. Cost allocated to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities through the OGS-Distrigas methodology.</li> </ol>
Health and welfare benefits for active employees	<ol style="list-style-type: none"> <li>1. These costs are allocated using the causal relationship of employee headcount or plan participant count for each respective business entity.</li> <li>2. Cost allocated to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities through the OGS-Distrigas methodology.</li> </ol>
Retirement benefits for active and retired employees	<ol style="list-style-type: none"> <li>1. These costs are allocated using the causal relationship of plan participant count for each respective business</li> </ol>

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	<p>entity where the plan participant works at each measurement date or where the plan participant worked immediately prior to retirement.</p> <p>2. Plan participant or retiree costs allocated to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities through the OGS-Distrigas methodology.</p>
Workforce development support and training programs for all active employees	Allocated through the OGS-Distrigas methodology.
HR administration and financial services support, including compensation, payroll and benefits accounting and IT support	<p>1. These costs are allocated using the causal relationship of employee headcount for each respective business entity.</p> <p>2. Cost allocated to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities through the OGS-Distrigas methodology.</p>

### Information Technology

The IT organization supports our various business entities by developing and administering plans and processes related to technology solutions and security to facilitate day to day business activities. Typical examples of costs incurred in this area are related to:

<b>Types of Costs</b>	<b>Allocation Methodology</b>
IT administrative functions such as administration, financial planning, accounting and reporting	Allocated through the OGS-Distrigas methodology



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Disaster recovery, data backup and recovery, change management and problem management	Allocated through the OGS-Distrigas methodology.
Websites, intranet, business intelligence, legal applications, imaging and scanning, and document management technologies	Allocated through the OGS-Distrigas methodology.
ONE Gas customer billing system	Allocated using the causal relationship of customer count for each of the business entities.
Data center and support of all of the company technology	<ol style="list-style-type: none"> <li>1. Allocated through the OGS- Distrigas methodology.</li> <li>2. Labor and benefits for employees supporting ONE Gas's business entities are allocated equally.</li> </ol>
Cell phones, local and long distance telephone service, pagers and internet expenses	<ol style="list-style-type: none"> <li>1. Charged directly to the business entity receiving benefit of the service.</li> <li>2. Costs not attributable to a specific business entity or costs charged directly to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities through the OGS-Distrigas methodology.</li> </ol>
Financial and HR systems and related systems such as fixed asset accounting, project estimation and accounting, financial reporting and HR reporting	Allocated through the OGS-Distrigas methodology.
Supporting the operational accounting systems and the measurement systems used for non-residential gas meters	Charged directly to the business entity that is providing service to the non-residential gas meter.
Support and maintenance of the corporate and operations applications such as cash management systems	<ol style="list-style-type: none"> <li>1. Labor and benefit costs are allocated based on an</li> </ol>



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	<p>internally developed analysis.</p> <ol style="list-style-type: none"> <li>2. Other costs are charged directly to the business entity receiving benefit of the service.</li> <li>3. Costs not attributable to a specific business entity or costs charged directly to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities through the OGS-Distrigas methodology.</li> </ol>
Supporting systems related to field operations including construction and engineering	<ol style="list-style-type: none"> <li>1. Charged directly to the business entity receiving benefit of the service.</li> <li>2. Costs not attributable to a specific business entity are allocated to the business entities through the OGS-Distrigas methodology.</li> </ol>
Support of the Sarbanes-Oxley compliance software and network security monitoring	Allocated through the OGS-Distrigas methodology.
Pipeline Support Systems	Charged directly to the business entity receiving benefit of the service.

### Finance and Accounting

The Finance and accounting organization supports our various business entities by administering processes related to corporate accounting, financial reporting, tax, credit, risk and insurance, internal audit, financial planning and business development. Typical examples of costs incurred in this area are related to payroll and business expenses associated with departments responsible for:

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<b>Types of Costs</b>	<b>Allocation Methodology</b>
Corporate general accounting and consolidations, corporate financial planning and business development	Allocated through the OGS-Distrigas methodology.
SEC and external reporting for ONE Gas	Allocated through the OGS- Distrigas methodology.
Accounts payable	<ol style="list-style-type: none"> <li>1. Allocated using a causal relationship derived from an internally developed analysis of invoice processing volume by business entity.</li> <li>2. Costs not attributable to a specific business entity or costs charged directly to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities through the OGS-Distrigas methodology.</li> </ol>
Investor relations	Allocated through the OGS-Distrigas methodology.
Treasury Services	Allocated through the OGS-Distrigas methodology.
Federal and state income tax, ad valorem, sales & use tax and franchise tax filings	<ol style="list-style-type: none"> <li>1. Taxes incurred are charged directly to the business entity incurring the tax obligation.</li> <li>2. General administrative costs, including labor and benefits are charged directly to the business entity receiving benefit of the service.</li> <li>3. Costs not attributable to a specific business entity or costs charged directly to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities through the OGS-Distrigas methodology.</li> </ol>



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Maintaining long-term financing and short-term working capital	<ol style="list-style-type: none"> <li>1. General administrative costs associated with our finance department are allocated through the OGS-Distrigas methodology.</li> </ol>
Risk mitigation and insurance	<ol style="list-style-type: none"> <li>1. Labor, benefits and administrative expenses associated with administration of our insurance programs are allocated to the business entities through the OGS- Distrigas methodology.</li> <li>2. Costs associated with specific insurance programs are allocated as follows:             <ol style="list-style-type: none"> <li>a. Primary &amp; Excess Workers' Compensation: Allocated using the causal relationship of employee headcount for each respective business entity.</li> <li>b. Vehicle: Allocated using the causal relationship of vehicle count for each respective business entity.</li> <li>c. Excess Liability: Allocated through the OGS-Distrigas methodology.</li> <li>d. Directors &amp; Officers Liability: Allocated through the OGS-Distrigas.</li> <li>e. Property and Terrorism: Allocated using the causal relationship of property values for each respective business entity.</li> <li>f. Various others (e.g. Fiduciary Liability, Blanket Crime, Mail and Transit, etc.): Allocated through the OGS- Distrigas methodology</li> </ol> </li> </ol>
Internal audit services (which includes our costs related to	<ol style="list-style-type: none"> <li>1. Charged directly to the business entity being audited.</li> </ol>



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compliance with the Sarbanes-Oxley Act of 2002)	<ol style="list-style-type: none"> <li>Costs not attributable to a specific business entity or costs charged directly to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities through the OGS-Distrigas methodology.</li> </ol>
Independent auditor fees	<ol style="list-style-type: none"> <li>Charged directly to the business entity being audited.</li> <li>Costs not attributable to a specific business entity or costs charged directly to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities through the OGS-Distrigas methodology.</li> </ol>
Property Accounting - centralized accounting for the property, plant & equipment	<ol style="list-style-type: none"> <li>Labor and benefits are charged directly to each business entity for which the employee has accounting responsibility.</li> <li>General and administrative supplies and expenses are allocated based on the causal relationship of gross property, plant, and equipment values.</li> </ol>
Billing Control - centralized accounting for the customer billing process	Allocated to the business entity based on the causal relationship of customer count.

### General Counsel

The general counsel organization supports our various business entities by administering processes related to legal aspects of our day-to-day business activities. Typical examples of costs incurred in this area are related payroll and business expenses (including third party legal costs) associated with departments responsible for:

Types of Costs	Allocation Methodology
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Third-party damages and workers' compensation claims	<ol style="list-style-type: none"> <li>1. Charged directly to the business entity incurring the damages or workers' compensation claim.</li> <li>2. Costs not attributable to a specific business entity or costs charged directly to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities through the OGS-Distrigas methodology.</li> </ol>
Commercial contracts	<ol style="list-style-type: none"> <li>1. Charged directly to the business entity named in the commercial contract.</li> <li>2. Costs not attributable to a specific business entity or costs charged directly to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities through the OGS-Distrigas methodology.</li> </ol>
Regulatory affairs	<ol style="list-style-type: none"> <li>1. Allocated directly based on the business entity receiving benefits of the services provided.</li> <li>2. Cost charged directly to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities through the OGS-Distrigas methodology.</li> </ol>
Human resources	<ol style="list-style-type: none"> <li>1. Allocated using the causal relationship of employee headcount for each respective business entity.</li> <li>2. Cost charged directly to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities through the OGS-Distrigas methodology.</li> </ol>
Litigation	<ol style="list-style-type: none"> <li>1. Charged directly to the business entity receiving benefits of the services provided.</li> </ol>



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	2. Cost charged directly to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities through the OGS-Distrigas methodology.
Corporate secretary and board of directors	Allocated through the OGS- Distrigas methodology.
General legal matters	<ol style="list-style-type: none"> <li>1. Charged directly to the business entity receiving benefit of the legal services.</li> <li>2. Costs not attributable to a specific business entity are allocated through the OGS- Distrigas methodology.</li> </ol>

### Corporate Communications

The corporate communications organization supports our various business entities by administering processes related our corporate communications efforts with employees and external stakeholders. Typical examples of costs incurred in this area are related payroll and business expenses associated with departments responsible for:

<b>Types of Costs</b>	<b>Allocation Methodology</b>
Governmental affairs	<ol style="list-style-type: none"> <li>1. Costs are charged directly to the business entity receiving benefit of the services provided.</li> <li>2. All other costs are allocated to the business entities through the OGS-Distrigas methodology.</li> </ol>
Corporate communications (including advertising costs ,costs associated with electronic communications and costs associated with general employee communications)	<ol style="list-style-type: none"> <li>1. Costs are charged directly to the business entity receiving benefit of the services provided.</li> <li>2. All other costs are allocated to the business entities through</li> </ol>

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	the OGS-Distrigas methodology.
Corporate responsibility (includes civic donations)	Allocated through the OGS-Distrigas methodology.

Corporate Services (includes Environmental Health & Safety)

The corporate services organization supports our various business entities by developing and administering programs and processes that facilitate general day-to-day business activities and environmental safety and health initiatives. Typical examples of costs incurred in this area are related to payroll and business expenses associated with departments responsible for:

<b>Types of Costs</b>	<b>Allocation Methodology</b>
Purchasing and materials management	<ol style="list-style-type: none"> <li>1. Allocated using a causal relationship derived from an internally developed analysis of business entities usage of departments' services.</li> <li>2. Costs not attributable to a specific business entity or costs charged directly to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities through the OGS-Distrigas methodology.</li> </ol>
Facilities and fleet management	<ol style="list-style-type: none"> <li>1. Allocated using a causal relationship derived from an internally developed analysis of business entities usage of departments' services</li> <li>2. Costs not attributable to a specific business entity or costs charged directly to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business</li> </ol>

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	entities through the OGS-Distrigas methodology.
Right-of-way management	<ol style="list-style-type: none"> <li>1. Allocated using a causal relationship derived from miles of pipe in the ground for each respective business entity.</li> <li>2. Costs not attributable to a specific business entity are allocated to the business entities through the OGS-Distrigas methodology.</li> </ol>
Business continuity planning	These costs are allocated using the causal relationship of employee headcount for each respective business entity.
Environmental management	<ol style="list-style-type: none"> <li>1. Charged directly to the business entity responsible for the environmental cost incurred.</li> <li>2. Costs not attributable to a specific business entity or costs charged directly to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated through the OGS-Distrigas methodology.</li> </ol>
Safety programs	<ol style="list-style-type: none"> <li>1. Charged directly to the business entity responsible for the cost incurred.</li> <li>2. Costs not attributable to a specific business entity or costs charged directly to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities through the OGS-Distrigas methodology.</li> </ol>
Aviation services	Allocated through the OGS-Distrigas methodology.
Engineering	<ol style="list-style-type: none"> <li>1. Allocated using a causal relationship derived from miles of</li> </ol>

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	<p>pipe in the ground for each respective business entity.</p> <p>2. Costs not attributable to a specific business entity are allocated to the business entities through the OGS-Distrigas methodology</p>
Resource Management (includes costs for workforce strategy and planning, contractor)	<p>1. Allocated using a causal relationship derived from miles of pipe in the ground, employee headcount, or customer count for each respective business.</p> <p>2. Costs not attributable to a specific business entity are allocated to the business entities through the OGS-Distrigas methodology.</p>

Customer Service

The customer service organization supports our various business entities by providing responsive, flexible, efficient service to our customers. Typical examples of costs incurred in this area are related to payroll and business expenses associated with departments responsible for:

<b>Types of Costs</b>	<b>Allocation Methodology</b>
Customer Service Support	<p>1. Allocated to the business entity based on the causal relationship of customer count.</p>

Other

This section represents miscellaneous costs impacting multiple business entities

<b>Types of Costs</b>	<b>Allocation Methodology</b>
Incentives, short- and long-term (stock-based compensation)	<p>1. These costs are allocated using the causal relationship of plan</p>

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	<p>participant count for each respective business entity.</p> <p>2. Cost charged directly to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities through the OGS-Distrigas methodology.</p>
Employee stock purchase program and employee stock awards, excluding long-term incentives	<p>1. These costs are allocated using the causal relationship of plan participant count for each respective business entity.</p> <p>2. Costs charged directly to corporate departments (Executive, HR, Accounting, IT, etc.) or to ONE Gas Partners are allocated to the business entities through the OGS-Distrigas methodology.</p>
ONE Gas rent and utilities	<p>1. Charged directly to the business entities with operations in the corporate building based on square footage utilized.</p> <p>2. Costs charged directly to corporate departments (Executive, HR, Accounting, IT, etc.) or to ONE Gas are allocated to the business entities through the OGS-Distrigas methodology.</p>
Payroll taxes	<p>1. Charged directly to each employee's respective payroll organization.</p>

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	<p>2. Cost charged directly to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities through the OGS-Distrigas methodology.</p>
Other taxes (ad valorem, franchise, etc.)	<p>1. Charged directly to the business entity incurring the tax obligation.</p> <p>2. Costs not identifiable to a specific business entity are allocated to the business entities through the OGS-Distrigas methodology.</p>
Depreciation associated with general corporate assets	<p>Allocated through the OGS-Distrigas methodology except as follows:</p> <ul style="list-style-type: none"> <li>a. Banner Customer Information System: Allocated using the causal relationship of customer count for each business entity.</li> <li>b. PowerPlant Fixed Asset Accounting System: Allocated using the causal relationship of Gross PP&amp;E value attributable to each business entity.</li> <li>c. Maximo: Allocated using the causal relationship of user count for each business entity.</li> <li>d. Concur: Allocated using the causal relationship of employee count for each business entity.</li> <li>e. Journey: Allocated using the causal relationship of employee count for each business entity.</li> </ul>