Kansas
Gas Service™
A Division of ONE Gas

7421 W. 129th Street, Overland Park, KS 66213-2713
913-319-8620 • fax 913-319-8622 • cell 913-634-1017
walker.hendrix@onegas.com • onegas.com

WALKER HENDRIX
Managing Attorney

May 20, 2015

Ms. Neysa Thomas
Acting Executive Director
Kansas Corporation Commission
1500 Arrowhead Road
Topeka, Kansas 66604

Re: In the Matter of the Kansas Gas Service Compliance Docket as Established in Docket No. 06-GIMX-181-GIV. Docket No. 11-KGSG-820-CPL.

Dear Ms. Thomas:

In accordance with the Commission's order of December 3, 2010, in Docket No. 06-GIMX-181-GIV and the Report of the Commission Staff and the Active Participating Utilities dated October 27, 2010, Kansas Gas Service submits for filing certain documents and schedules in conformity with the agreed upon procedures set forth in the order.

The documents and information filed in this docket at this time are not classified as confidential, but as additional filings are made in this docket to address periodic filing requirements or informational requests, Kansas Gas Service reserves the right to classify information that is confidential in nature under the designation "CONFIDENTIAL."

In accordance with the Report of the Commission Staff and the Active Participating Utilities dated October 27, 2010 and the Commission's Order of December 3, 2010, in Docket No. 06-GIMX-181-GIV, Kansas Gas Service files the following documents:

A.1. Cost Allocation Manual (CAM).
A.2. Not applicable.
B.1. Corporate Organizational Chart.
B.2. Not applicable.
B.3. Not applicable.
B.4. Summaries of Debt Agreements.
B.5. Balance Sheet and Income Statement for Consolidated Utility Operations.
B.6. Financial Ratios for Consolidated Utility Operations.
C.1 Not applicable.
C.2 Not applicable.

C.3. List of Equity and Credit Analysts following ONE Gas, Inc., whose reports are proprietary and not subject to distribution.

Please accept the filing as being made subject to the procedures set forth in the Report of the Commission Staff and the Active Participating Utilities in Docket No. 06-GIMX-181-GIV. If you have any questions or comments please feel free to contact me.

Sincerely,

Walker Hendrix

BEFORE THE STATE CORPORATION COMMISSION

OF THE STATE OF KANSAS

In the Matter of the Kansas Gas Service Compliance	)	Docket No. 11-KGSG-820-CPL
Docket as Established in Docket No. 06-GIMX-181-GIV.	)	

<u>KCC Requirement:</u>

A. To ensure proper allocation or assignment of joint or common costs for non-power goods and services, so a regulated utility bears only its fair share of costs, the public utility shall submit the following information on an annual basis by May 31st:

1. A Cost Allocation Manual (CAM) on a calendar year basis that:
    a. Explains the methodology used for all costs allocated or assigned for non-power goods and services provided by: (i) the regulated utility, (ii) a holding company, or (iii) a centralized corporate services subsidiary to any associate company that is a jurisdictional public utility;
    b. Demonstrates that all costs are allocated or assigned justly and reasonably and that the allocation or assignment of costs is not unduly discriminatory or preferential; and,
    c. If a fully distributed cost methodology is not used, an explanation supporting use of the alternative method of allocation.

With respect to the CAM, it should be filed in the individual utility compliance docket, but if no changes are made to the CAM, a letter in place of the CAM indicating no changes have been made may be filed by the May 31st annual filing date. If the annual filing reflects changes made in the CAM, those changes should be noted and fully described.

2. Any centralized corporate services subsidiary, within a holding company that includes a jurisdictional public utility, required to file FERC Form No. 60, shall file a copy with the Commission by May 31st of the calendar year following the year subject of the report.

<u>KGS Response</u>

A.

1. See the attached Cost Allocation Manual that was revised March 31, 2015. Minimal revisions to the previously filed CAM were made in Finance and Accounting, Internal Audit and Governmental Affairs to update the allocation of costs. Additionally, two corporate assets that are no longer allocated were removed from the manual.
2. Not Applicable

<u>KCC Requirement</u>

B. Each jurisdictional public utility shall provide annually by May 31st the following information using diagrams, schedules or narrative discussion as may be appropriate:

1. A complete detailed organization chart identifying each regulated utility and each associate company;
2. A detailed description of the activities and business conducted at each non-utility associate company;
3. An organizational chart of personnel that includes a list of all directors, corporate officers, and other key personnel shared by any jurisdictional public utility and any non-utility associate company or holding company, if any, along with a description of each person's duties and responsibilities to each entity;
4. Summaries of each mortgage, loan document and debt agreement, including a discussion of the type of collateral or security pledged to support the debt. The utility will also describe any loan or debt agreement taken out to finance an unregulated affiliate that encumbers utility property or cash-flow for security;
5. To the extent financial separations are maintained for either legal or financial accounting purposes and at a level in which financial statements are reasonably capable of being produced by the utility's accounting system, each jurisdictional public utility shall file income statements, balance sheets and cash flow statements for (1) consolidated utility operations; (2) consolidated non-regulated operations; and (3) consolidated corporate financials; (this information is confidential) and
6. To the extent financial separations are maintained for either legal or financial accounting purposes and at a level in which financial statements are reasonably capable of being produced by the utility's accounting system, each jurisdictional public utility shall file a summary of financial ratios as of the end of the last completed fiscal year, as described by way of example in the attachment to these rules and consistent with the method used to report such information to the principal bond rating agency or Standard & Poors for (1) consolidated utility operations; (2) consolidated non-regulated operations; and (3) consolidated corporate financials (this information is confidential).

<u>KGS Response</u>

B.

1. Please see the attached organization chart, containing KGS affiliated entities within ONE Gas as of January 1, 2015.
2. ONE Gas does not own, either directly or indirectly, any non-utility associate companies.
3. ONE Gas does not share directors, officers, or other personnel between utility and non-utility operations.
4. Please see the attached summary of debt agreements. There is no utility debt that encumbers utility property used to finance unregulated affiliates.
5. Please see the attached income statements and balance sheet information for ONE Gas which was included in the Fiscal 2014 10-K filing.
6. Please see the attached financial ratios for the consolidated utility operation.

KCC Requirement

C. Each jurisdictional public utility shall provide to the Director of Utilities and the Chief of Accounting and Financial Analysis at the Commission concurrent with the filing of 8-K disclosures the following:
    1. Written or verbal notice of any affiliate of the jurisdictional public utility or holding company, if any, that has an affiliate that has defaulted on a material obligation or debt for the purpose of 8-K reporting.
    2. Written or verbal notice of any requests by any jurisdictional public utility or holding company, if any, for material waivers or amendments as provided for the purpose of 8-K reporting to debt agreements that secure, encumber, or finance any jurisdictional public utility's assets.
    3. Each jurisdictional public utility shall file reports published by credit rating agencies and equity analysts regarding the utility's regulated and unregulated business within 10 days after publication of the report and its receipt by the utility. A public utility shall not be required to file reports that the utility has not received, or reports that cannot be disseminated or reproduced because of copyright or contractual restrictions.
    4. A summary of any debt secured or encumbered, in any way, by the assets of any jurisdictional public utility on behalf of a non-utility affiliate or holding company, if any.

KGS Response

C.

1. KGS will provide written or verbal notice concurrently, in the event that any affiliate defaults on a material obligation or debt for the purpose of 8-K reporting. Neither ONE Gas, nor any of its affiliates, has defaulted on a material obligation or debt.
2. KGS will provide written or verbal notice of any requests by a jurisdictional public utility or holding company if it seeks a material waiver or amendments as provided for the purpose of 8-K reporting to debt agreements that secure, encumber, or finance any jurisdictional public utility's assets. No such requests have been made.
3. ONE Gas receives credit rating and equity analyst reports under an agreement with an outside vendor. According to the terms of the agreement, ONE Gas is prohibited from releasing these reports to third parties.

Equity analysts covering ONE Gas include:

Bank of America Merrill Lynch
Edward Jones
Gabelli & Co.
ISI Natural Gas & Midstream
Jefferies
Morgan Stanley
U. S. Capital Advisors

Credit analysts reporting on ONE Gas debt include:

Moody’s

S&P

4. ONE Gas does not have any debt issuances that are secured or encumbered with the assets of KGS.

ONE Gas
CORPORATE
ALLOCATION
MANUAL

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 Distrigas Allocation methodology (ONE Gas Distrigas).

ONE GAS Distrigas Methodology

The Distrigas Cost Allocation Methodology (Distrigas Method) was first approved by the Federal Energy Regulatory Commission (FERC) in a rate proceeding for a natural gas transmission company, Distrigas of Massachusetts, L.L.C. The Distrigas 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 Distrigas 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:

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, and Texas Gas Service.

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)
- 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.

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:

Types of Costs	Allocation Methodology
Administrative fees for all defined plans, health & welfare and retirement plans	1. These costs are allocated using the causal relationship of plan participant count for each respective business entity. 2. Cost allocated to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities through the OGS-Distrigas methodology.
Health and welfare benefits for active employees	1. These costs are allocated using the causal relationship of employee headcount or plan participant count for each respective business entity. 2. Cost allocated to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities through the OGS-Distrigas methodology.
Retirement benefits for active and retired employees	1. These costs are allocated using the causal relationship of plan participant count for each respective business entity where the plan

	participant works at each measurement date or where the plan participant worked immediately prior to retirement. 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.
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	1. These costs are allocated using the causal relationship of employee headcount for each respective business entity. 2. Cost allocated to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities through the OGS-Distrigas methodology.

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:

Types of Costs	Allocation Methodology
IT administrative functions such as administration, financial planning, accounting and reporting	Allocated through the OGS-Distrigas methodology
Disaster recovery, data backup and recovery, change management and	Allocated through the OGS-Distrigas methodology.

problem management	
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	1. Allocated through the OGS- Distrigas methodology. 2. Labor and benefits for employees supporting ONE Gas's business entities are allocated equally.
Cell phones, local and long distance telephone service, pagers and internet expenses	1. Charged directly to the business entity receiving benefit of the service. 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.
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	1. Labor and benefit costs are allocated based on an internally developed analysis. 2. Other costs are charged

	directly to the business entity receiving benefit of the service. 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.
Supporting systems related to field operations including construction and engineering	1. Charged directly to the business entity receiving benefit of the service. 2. Costs not attributable to a specific business entity are allocated to the business entities through the OGS-Distrigas methodology.
Support of the SCADA system and the pipeline control groups	1. Allocated using the causal relationship of the number of remote terminal units utilized by the business entity. 2. Costs not attributable to a specific business entity are allocated to the business entities through the OGS-Distrigas methodology.
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:

Types of Costs	Allocation Methodology
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	1. Allocated using a causal relationship derived from an internally developed analysis of invoice processing volume by business entity. 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.
Treasury Services	Allocated through the OGS-Distrigas methodology.
Federal and state income tax, ad valorem, sales & use tax and franchise tax filings	1. Taxes incurred are charged directly to the business entity incurring the tax obligation. 2. General administrative costs, including labor and benefits are charged directly to the business entity receiving benefit of the service. 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.
Maintaining long-term financing and short-term working capital	1. General administrative costs associated with our finance department are allocated through the OGS-Distrigas methodology.
Risk mitigation and insurance	1. Labor, benefits and administrative expenses associated with administration of our insurance programs are allocated to the business entities through the OGS-Distrigas methodology. 2. Costs associated with specific insurance programs are allocated as follows: a. Primary & Excess Workers' Compensation: Allocated using the causal relationship of employee headcount for each respective business entity. b. Vehicle: Allocated using the causal relationship of vehicle count for each respective business entity. c. Excess Liability: Allocated through the OGS-Distrigas methodology. d. Directors & Officers Liability: Allocated through the OGS-Distrigas. e. Property and Terrorism: Allocated using the causal relationship of property values for each respective business entity. f. Various others (e.g. Fiduciary Liability, Blanket Crime, Mail and Transit, etc.): Allocated through

	the OGS- Distrigas methodology
Internal audit services (which includes our costs related to compliance with the Sarbanes-Oxley Act of 2002)	1. Charged directly to the business entity being audited. 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.
Independent auditor fees	1. Charged directly to the business entity being audited. 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.
Property Accounting - centralized accounting for the property, plant & equipment	1. Labor and benefits are charged directly to each business entity for which the employee has accounting responsibility. 2. General and administrative supplies and expenses are allocated based on the causal relationship of gross property, plant, and equipment values.
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
Third-party damages and workers' compensation claims	1. Charged directly to the business entity incurring the damages or workers' compensation claim. 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.
Commercial contracts	1. Charged directly to the business entity named in the commercial contract. 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.
Regulatory affairs	1. Allocated directly based on the business entity receiving benefits of the services provided. 2. Cost charged directly to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities through the OGS-Distrigas methodology.
Human resources	1. Allocated using the causal relationship of employee headcount for each respective business entity.

	2. Cost charged directly to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities through the OGS-Distrigas methodology.
Litigation	1. Charged directly to the business entity receiving benefits of the services provided. 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	1. Charged directly to the business entity receiving benefit of the legal services. 2. Costs not attributable to a specific business entity are allocated through the OGS- Distrigas methodology.

<u>Corporate Communications</u>

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:

Types of Costs	Allocation Methodology
Investor relations	Allocated through the OGS-Distrigas methodology.
Governmental affairs	1. Costs are charged directly to the business entity receiving benefit of the services provided. 2. All other costs are allocated

	to the business entities through the OGS-Distrigas methodology.
Corporate communications (including advertising costs ,costs associated with electronic communications and costs associated with general employee communications)	1. Costs are charged directly to the business entity receiving benefit of the services provided. 2. All other costs are allocated to the business entities through the OGS-Distrigas methodology.
Corporate responsibility (includes civic donations)	Allocated through the OGS-Distrigas methodology.

<u>Corporate Services (includes Environmental Health & Safety)</u>

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:

Types of Costs	**Allocation Methodology**
Purchasing and materials management	1. Allocated using a causal relationship derived from an internally developed analysis of business entities usage of departments' services. 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.
Facilities and fleet management	1. Allocated using a causal relationship derived from an internally developed analysis of

	business entities usage of departments' services 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.
Right-of-way management	1. Allocated using a causal relationship derived from an internally developed analysis of business entities usage of departments' services. 2. Costs not attributable to a specific business entity are allocated to the business entities through the OGS-Distrigas methodology.
Business continuity planning	Allocated through the OGS-Distrigas methodology.
Environmental management	1. Charged directly to the business entity responsible for the environmental cost incurred. 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.
Safety programs	1. Charged directly to the business entity responsible for the cost incurred. 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.
Aviation services	Allocated through the OGS-Distrigas methodology.

<u>Other</u>

This section represents miscellaneous costs impacting multiple business entities

Types of Costs	Allocation Methodology
Incentives, short- and long-term (stock-based compensation)	1. These costs are allocated using the causal relationship of plan participant count for each respective business entity. 2. Cost charged directly to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities through the OGS-Distrigas methodology.
Employee stock purchase program and employee stock awards, excluding long-term incentives	1. These costs are allocated using the causal relationship of plan participant count for each respective business entity. 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.
ONE Gas rent and utilities	1. Charged directly to the business entities with operations in the

	corporate building based on square footage utilized. 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.
Payroll taxes	1. Charged directly to each employee's respective payroll organization. 2. Cost charged directly to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities through the OGS-Distrigas methodology.
Other taxes (ad valorem, franchise, etc.)	1. Charged directly to the business entity incurring the tax obligation. 2. Costs not identifiable to a specific business entity are allocated to the business entities through the OGS-Distrigas methodology.
Depreciation associated with general corporate assets	Allocated through the OGS-Distrigas methodology except as follows: a. Banner Customer Information System: Allocated using the causal relationship of customer

	count for each business entity. b. PowerPlant Fixed Asset Accounting System: Allocated using the causal relationship of Gross PP&E value attributable to each business entity. c. Dynamic Risk pipeline safety software: Allocated using the causal relationship of miles of pipe for the entities using the software. d. Maximo: Allocated using the casual relationship of user count for each business entity. e. Concur: Allocated using the casual relationship of employee count for each business entity. f. Journey: Allocated using the casual relationship of employee count for each business entity.

Attachment A-1

ODC DISTRIBUTION

Calculation of Allocation Ratios Using Distrigas Method

Based on 12 Months Ended Sep-14

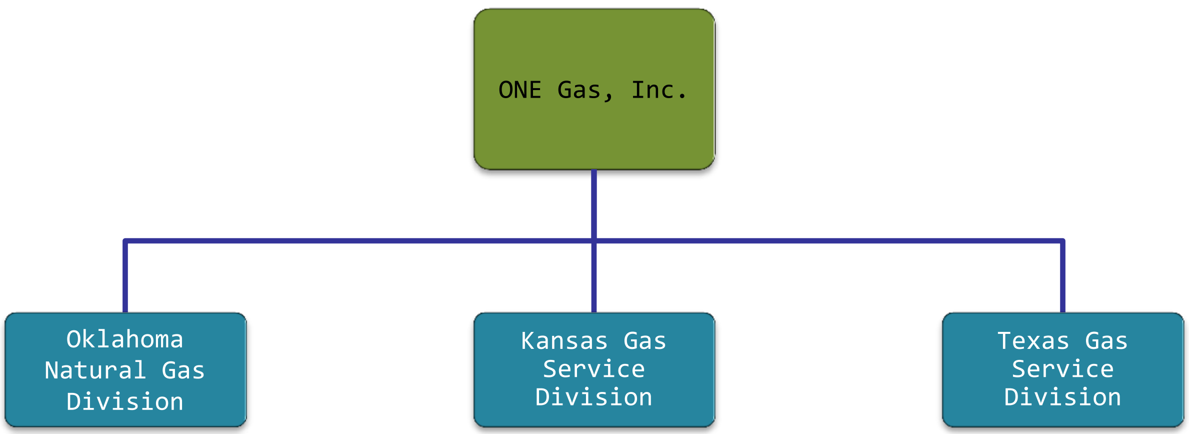
DISTRIGAS % FOR 4th QTR 2014

	Company	(1) * Gross Plant & Investment	(2) Ratio of all Companies	(3) ** Operating Income	(4) Ratio of all Companies	(5) Labor Expense	(6) Ratio of all Companies	2014 Q4 % Allocation Ratio	2014 Q3 % Allocation Ratio	Q4 Change
ONE GAS										
Distribution										
21	Oklahoma Natural Gas Company	1,985,470,728	42.07%	112,909,735	51.35%	48,013,836	37.20%	43.54%	43.23%	0.31%
51	Kansas Gas Service Company	1,676,703,362	35.53%	59,702,782	27.15%	48,370,469	37.47%	33.38%	33.72%	-0.34%
91	Texas Gas Service Company	1,057,194,543	22.40%	47,289,786	21.50%	32,691,280	25.33%	23.08%	23.05%	0.03%
Total OGS DISTRIBUTION		**4,719,368,634**	**100.00%**	**219,902,303**	**100.00%**	**129,075,585**	**100.00%**	**100.00%**	**100.00%**	**0.00%**
TOTAL		**4,719,368,634**	**100.00%**	**219,902,303**	**100.00%**	**129,075,585**	**100.00%**	**100.00%**	**100.00%**	**0.00%**

* Gross Plant & Investment includes plant and construction work in progress or nonutility property. It does not include gas plant acquisition adjustments.
The Banner Software has been allocated from Co. 101 to Co. 21 at 40.07% Co. 51 at 29.93% and Co. 91 at 30.00%

**Does not include negative totals for calculation of ratios. Operating Income = Earnings before interest and taxes

ONE Gas, Inc. Regulated Operating Divisions



Maturity	2019	2024	2044	5-Year Credit Agreement	Indenture - US Bank
Issue Date	1/27/14	1/27/14	1/27/14	1/31/14	1/27/14
Maturity Date	2/1/19	2/1/24	2/1/44	1/2019	-
Rate	2.07%	3.61%	4.66%	Eurodollar plus 1%, Prime, or Fed Funds plus 0.5%	-
Principal	$300,000,000	$300,000,000	$600,000,000	$700,000,000	-
Annual Interest	$6,210,000	$10,830,000	$27,948,000	$560,000 (Facility Fee)	-
Payments	2/1, 8/1	2/1, 8/1	2/1, 8/1	-	-
CUSIP	68235PAD0	68235PAE8	68235PAF5		-
Trustee	US Bank	US Bank	US Bank	BOA (Administrative Agent)	-
Lead Bank(s)	Morgan Stanley JPM / BOA / RBS	Morgan Stanley JPM / BOA / RBS	Morgan Stanley JPM / BOA / RBS	RBS JPMorgan	US Bank
Callable	anytime prior to 1/1/2019	anytime prior to 11/1/2023	anytime prior to 8/1/2043	-	-
Premium	None	None	None	-	-
Indenture	1/27/14	1/27/14	1/27/14	-	-
Filing	Same as Indenture (Annual compliance cert)	Same as Indenture (Annual compliance cert)	Same as Indenture (Annual compliance cert)	Compliance Certificates	Comp Certificates Certain SEC filings
Events of Def	Fail to pay Int/Princ/Prem Interest: 30 days Covenants: 90 days Def on Agmt>$100MM Bankruptcy, Reorganization	Fail to pay Int/Princ/Prem Interest: 30 days Covenants: 90 days Def on Agmt>$100MM Bankruptcy, Reorganization	Fail to pay Int/Princ/Prem 30 days notice: Int Covenants: 90 days Def on Agmt>$15MM Bankruptcy, Reorganization	CF Events of Default (Sec 8.01)	See Indenture Events of Default
Limitations on Liens	Liens Language 1	Liens Language 1	Liens Language 1	See CF Covenants (Sec 7.01)	See Indenture Limitation on Liens
Lim on S/L	S/L Language 1	S/L Language 1	S/L Language 1	None	See Indenture Limitation on SaleLeaseback
Amendments, Supplements and Waivers	ASW 1	ASW 1	ASW 1	None	See each note
Defeasance	Defeasance Language 1	Defeasance Language 1	Defeasance Language 1	None	See each note
Covenants	See Covenants 1	See Covenants 1	See Covenants 1	See CF Covenants (Sec 6.01 - 7.09)	See Indenture Covenants

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of ONE Gas, Inc.:

In our opinion, the accompanying balance sheets and the related statements of income, comprehensive income, equity and cash flows present fairly in all material respects, the financial position of ONE Gas, Inc. (the Company) at December 31, 2014 and 2013, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our audits (which were integrated audits in 2014 and 2013). We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Tulsa, Oklahoma
February 19, 2015

ONE Gas, Inc.

STATEMENTS OF INCOME

	Years Ended December 31,		
	2014	**2013**	**2012**
	(*Thousands of dollars, except per share amounts*)		
Revenues	**$ 1,818,906**	$ 1,689,952	$ 1,376,649
Cost of natural gas	**991,949**	876,944	620,260
Net margin	**826,957**	813,008	756,389
Operating expenses			
Operations and maintenance	**420,686**	393,072	363,120
Depreciation and amortization	**125,722**	144,758	130,150
General taxes	**55,255**	54,830	47,405
Total operating expenses	**601,663**	592,660	540,675
Operating income	**225,294**	220,348	215,714
Other income	**1,625**	6,165	3,664
Other expense	**(2,949)**	(3,680)	(2,225)
Interest expense	**(45,842)**	(61,366)	(60,793)
Income before income taxes	**178,128**	161,467	156,360
Income taxes	**(68,338)**	(62,272)	(59,851)
Net income	**$ 109,790**	$ 99,195	$ 96,509
Earnings per share (Note 7)			
Basic	**$ 2.10**	$ 1.90	$ 1.84
Diluted	**$ 2.07**	$ 1.90	$ 1.84
Average shares (*thousands*)			
Basic	**52,364**	52,319	52,319
Diluted	**52,946**	52,319	52,319
Dividends declared per share of stock	**$ 0.84**	$ —	$ —

See accompanying Notes to Financial Statements.

ONE Gas, Inc.

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31,		
	2014	**2013**	**2012**
		(Thousands of dollars)	
Net income	**$ 109,790**	$ 99,195	$ 96,509
Other comprehensive income (loss), net of tax			
Change in pension and other postretirement benefit plans liability, net of tax of $1,244, $0, and $0, respectively	**(1,781)**	—	—
Total other comprehensive income (loss), net of tax	**(1,781)**	—	—
Comprehensive income	**$ 108,009**	$ 99,195	$ 96,509

See accompanying Notes to Financial Statements.

ONE Gas, Inc.
BALANCE SHEETS

		December 31, 2014		December 31, 2013
Assets		*(Thousands of dollars)*		
Property, plant and equipment				
Property, plant and equipment	**$**	**4,850,201**	$	4,534,074
Accumulated depreciation and amortization		**1,556,481**		1,489,216
Net property, plant and equipment (Note 10)		**3,293,720**		3,044,858
Current assets				
Cash and cash equivalents		**11,943**		3,171
Accounts receivable, net		**326,749**		356,988
Income tax receivable		**43,800**		—
Natural gas in storage		**185,300**		166,128
Regulatory assets (Note 9)		**50,193**		21,657
Other current assets		**49,516**		54,240
Total current assets		**667,501**		602,184
Goodwill and other assets				
Regulatory assets (Note 9)		**478,723**		23,822
Goodwill		**157,953**		157,953
Other assets		**51,313**		17,658
Total goodwill and other assets		**687,989**		199,433
Total assets	**$**	**4,649,210**	$	3,846,475

See accompanying Notes to Financial Statements.

ONE Gas, Inc.
BALANCE SHEETS
(Continued)

	December 31, 2014	December 31, 2013
Equity and Liabilities	*(Thousands of dollars)*	
Equity and long-term debt		
Common stock, $0.01 par value: authorized 250,000,000 shares; issued and outstanding 52,083,859 shares at December 31, 2014; authorized 1,000 shares, issued and outstanding 100 shares at December 31, 2013	**$ 521**	$ —
Paid-in capital	**1,758,796**	—
Retained earnings	**39,894**	—
Accumulated other comprehensive income (loss)	**(5,174)**	—
Owner's net investment	**—**	1,239,023
Total equity	**1,794,037**	1,239,023
Long-term debt, excluding current maturities	**1,201,311**	1,318
Long-term line of credit with ONEOK	**—**	1,027,631
Total equity and long-term debt	**2,995,348**	2,267,972
Current liabilities		
Current maturities of long-term debt	**6**	6
Notes payable	**42,000**	—
Short-term note payable to ONEOK	**—**	444,960
Affiliate payable	**—**	22,403
Accounts payable	**159,064**	169,500
Accrued taxes other than income	**44,742**	32,426
Accrued liabilities	**26,019**	4,791
Customer deposits	**60,003**	57,360
Regulatory liabilities	**32,467**	17,796
Other current liabilities	**28,132**	19,835
Total current liabilities	**392,433**	769,077
Deferred credits and other liabilities		
Deferred income taxes	**894,585**	743,452
Employee benefit obligations	**287,779**	—
Other deferred credits	**79,065**	65,974
Total deferred credits and other liabilities	**1,261,429**	809,426
Commitments and contingencies (Note 14)		
Total liabilities and equity	**$ 4,649,210**	$ 3,846,475

See accompanying Notes to Financial Statements.

This page intentionally left blank.

ONE Gas, Inc.
STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2014	**2013**	**2012**
	(Thousands of dollars)		
Operating activities			
Net income	**$ 109,790**	$ 99,195	$ 96,509
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**125,722**	144,758	130,150
Deferred income taxes	**49,935**	62,205	59,491
Share-based compensation expense	**7,613**	—	—
Provision for doubtful accounts	**7,195**	5,460	2,528
Changes in assets and liabilities:			
Accounts receivable	**23,044**	(102,142)	10,016
Income tax receivable	**(43,800)**	—	—
Natural gas in storage	**(19,172)**	(63,139)	30,154
Asset removal costs	**(47,125)**	(46,567)	(47,658)
Affiliate payable	**—**	(8,140)	(7,229)
Accounts payable	**(6,881)**	37,241	(3,950)
Accrued taxes other than income	**12,316**	2,449	174
Accrued liabilities	**21,228**	(5,443)	(4,511)
Customer deposits	**2,643**	(727)	(1,254)
Regulatory assets and liabilities	**30,067**	29,436	(59,338)
Employee benefit obligation	**(10,102)**	—	—
Other assets and liabilities	**(15,810)**	(378)	(8,495)
Cash provided by operating activities	**246,663**	154,208	196,587
Investing activities			
Capital expenditures	**(297,103)**	(292,080)	(272,014)
Proceeds from sale of assets	**—**	1,327	1,462
Cash used in investing activities	**(297,103)**	(290,753)	(270,552)
Financing activities			
Settlement of short-term notes payable to ONEOK, net	**—**	150,851	58,692
Borrowings on notes payable, net	**42,000**	—	—
Issuance of debt, net of discounts	**1,199,994**	—	—
Long-term debt financing costs	**(11,087)**	—	—
Borrowings on long-term line of credit with ONEOK	**—**	—	115,235
Cash payment to ONEOK upon separation	**(1,130,000)**	—	—
Issuance of common stock	**2,001**	—	—
Dividends paid	**(43,696)**	—	—
Repayment of long-term debt	**—**	(206)	(330)
Distributions to ONEOK	**—**	(14,969)	(100,067)
Cash provided by financing activities	**59,212**	135,676	73,530
Change in cash and cash equivalents	**8,772**	(869)	(435)
Cash and cash equivalents at beginning of period	**3,171**	4,040	4,475
Cash and cash equivalents at end of period	**$ 11,943**	$ 3,171	$ 4,040
Supplemental cash flow information:			
Cash paid for interest, net of amounts capitalized	**$ 21,066**	$ —	$ —
Cash paid to ONEOK for interest, net of amounts capitalized	**$ —**	$ 61,366	$ 60,793
Cash paid for income taxes	**$ 44,603**	$ —	$ —
Cash paid to ONEOK for income taxes	**$ —**	$ 67	$ 360

See accompanying Notes to Financial Statements.

ONE Gas, Inc.

STATEMENTS OF EQUITY

	Common Stock Issued	Common Stock	Paid-in Capital	Retained Earnings
	(Shares)	*(Thousands of dollars)*		
January 1, 2012	—	$ —	$ —	$ —
Net Income	—	—	—	—
Distributions to ONEOK	—	—	—	—
December 31, 2012	—	—	—	—
Net Income	—	—	—	—
Distributions to ONEOK	—	—	—	—
Common stock issued	100	—	—	—
December 31, 2013	100	—	—	—
Net income	**—**	**—**	**—**	**84,214**
Other comprehensive loss	**—**	**—**	**—**	**—**
Net transfers from ONEOK (Note 2)	**—**	**—**	**—**	**—**
Reclassification of Owner’s net investment to paid-in capital	**—**	**—**	**1,749,078**	**—**
Issuance of common stock at the separation	**51,941,136**	**520**	**(520)**	**—**
Common stock issued	**142,623**	**1**	**9,614**	**—**
Common stock dividends - $0.84 per share	**—**	**—**	**624**	**(44,320)**
December 31, 2014	**52,083,859**	**$ 521**	**$ 1,758,796**	**$ 39,894**

See accompanying Notes to Financial Statements.

ONE Gas, Inc.

STATEMENTS OF EQUITY

(Continued)

	Owner's Net Investment	Accumulated Other Comprehensive Income (Loss)	Total Equity
	(*Thousands of dollars*)		
January 1, 2012	$ 1,158,355	$ —	$ 1,158,355
Net Income	96,509	—	96,509
Distributions to ONEOK	(100,067)	—	(100,067)
December 31, 2012	1,154,797	—	1,154,797
Net Income	99,195	—	99,195
Distributions to ONEOK	(14,969)	—	(14,969)
Common stock issued	—	—	—
December 31, 2013	1,239,023	—	1,239,023
Net income	**25,576**	**—**	**109,790**
Other comprehensive loss	**—**	**(1,781)**	**(1,781)**
Net transfers from ONEOK (Note 2)	**484,479**	**(3,393)**	**481,086**
Reclassification of Owner's net investment to paid-in capital	**(1,749,078)**	**—**	**—**
Issuance of common stock at the separation	**—**	**—**	**—**
Common stock issued	**—**	**—**	**9,615**
Common stock dividends - $0.84 per share	**—**	**—**	**(43,696)**
December 31, 2014	**$ —**	**$ (5,174)**	**$ 1,794,037**

See accompanying Notes to Financial Statements.

ONE Gas, Inc.
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations - ONE Gas, Inc. was a wholly owned subsidiary of ONEOK as of December 31, 2013. We are comprised of ONEOK's former natural gas distribution business. On January 8, 2014, ONEOK's board of directors approved the distribution of all the shares of our common stock to holders of ONEOK common stock. On January 31, 2014, we became an independent, publicly traded company as a result of a distribution by ONEOK of our common stock to ONEOK's shareholders. Our common stock began trading "regular-way" under the ticker symbol "OGS" on the NYSE on February 3, 2014.

We provide natural gas distribution services to more than 2 million customers through our divisions in Oklahoma, Kansas and Texas through Oklahoma Natural Gas, Kansas Gas Service and Texas Gas Service, respectively. We serve residential, commercial, industrial and transportation customers in all three states. In addition, we also provide natural gas distribution services to wholesale and public authority customers.

Basis of Presentation - Prior to our separation from ONEOK, our financial statements were derived from ONEOK's financial statements, which included its natural gas distribution business as if we, for accounting purposes, had been a separate company for all periods presented. The assets and liabilities in the financial statements have been reflected on a historical basis. The financial statements for periods prior to the separation also include expense allocations for certain corporate functions historically performed by ONEOK, including allocations of general corporate expenses related to executive oversight, accounting, treasury, tax, legal, information technology and other services. We believe our assumptions underlying the financial statements, including the assumptions regarding the allocation of general corporate expenses from ONEOK, are reasonable. However, the financial statements may not include all of the actual expenses that would have been incurred by us and may not reflect our results of operations, financial position and cash flows had we been a separate publicly traded company during the periods presented prior to the separation.

Because the operations of the natural gas distribution business within ONEOK were conducted through separate divisions, ONEOK's net investment in us, excluding the long-term line of credit with ONEOK, is shown as owner's net investment in lieu of equity in the financial statements prior to the separation. Transactions between ONEOK and us that were not part of the long-term line of credit with ONEOK or the short-term note payable to ONEOK have been identified in the Statements of Equity as a net transfer from ONEOK. Transactions with ONEOK's other operating businesses, which generally settled monthly, are shown as accounts receivable-affiliate or accounts payable-affiliate in periods prior to the separation.

All financial information presented after the separation represents the results of operations, financial position and cash flows of ONE Gas. Accordingly:

- Our Statements of Income and Comprehensive Income for the year ended December 31, 2014 , consist of the results of ONE Gas for the eleven months ended December 31, 2014 , and the results of ONE Gas Predecessor for the one month ended January 31, 2014. Our Statements of Income and Comprehensive Income for the year ended December 31, 2013 and 2012, consist entirely of the results of ONE Gas Predecessor. Our net income for the period prior to January 31, 2014, was recorded to owner's net investment.
- Our balance sheet at December 31, 2014 , consists of the balances of ONE Gas, while at December 31, 2013 , it consists of the balances of ONE Gas and ONE Gas Predecessor.
- Our Statement of Cash Flows for the year ended December 31, 2014 , consists of the results of ONE Gas for the eleven months ended December 31, 2014 , and the results of ONE Gas Predecessor for the one month ended January 31, 2014. Our Statements of Cash Flows for the year ended December 31, 2013 and 2012, consist entirely of the results of ONE Gas Predecessor.
- Our Statements of Equity for the year ended December 31, 2014 , consists of both the activity for ONE Gas Predecessor prior to January 31, 2014, and the activity for ONE Gas completed in connection with, and subsequent to, the separation on January 31, 2014. Our Statements of Equity for the years ended December 31, 2013 and 2012, consist entirely of the results of ONE Gas Predecessor.

The financial statements include the accounts of the natural gas distribution business as set forth in "Organization and Nature of Operations" above. All significant balances and transactions between our divisions have been eliminated.

Use of Estimates - The preparation of our financial statements and related disclosures in accordance with GAAP requires us to make estimates and assumptions with respect to values or conditions that cannot be known with certainty that affect the reported amount of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions also affect the reported amounts of revenue and expenses during the reporting period. Items that may be estimated include, but are not limited to, the economic useful life of assets, fair value of assets and liabilities, provisions for doubtful accounts receivable, unbilled revenues for natural gas delivered but for which meters have not been read, natural gas purchased but for which no invoice has been received, provision for income taxes, including any deferred tax valuation allowances, the results of litigation and various other recorded or disclosed amounts.

We evaluate these estimates on an ongoing basis using historical experience and other methods we consider reasonable based on the particular circumstances. Nevertheless, actual results may differ significantly from the estimates. Any effects on our financial position or results of operations from revisions to these estimates are recorded in the period when the facts that give rise to the revision become known.

Fair Value Measurements - We define fair value as the price that would be received from the sale of an asset or the transfer of a liability in an orderly transaction between market participants at the measurement date. We use the market and income approaches to determine the fair value of our assets and liabilities and consider the markets in which the transactions are executed. We measure the fair value of a group of financial assets and liabilities consistent with how a market participant would price the net risk exposure at the measurement date.

Fair Value Hierarchy - At each balance sheet date, we utilize a fair value hierarchy to classify fair value amounts recognized or disclosed in our financial statements based on the observability of inputs used to estimate such fair value. The levels of the hierarchy are described below:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - Significant observable pricing inputs other than quoted prices included within Level 1 that are, either directly or indirectly, observable as of the reporting date. Essentially, this represents inputs that are derived principally from or corroborated by observable market data; and
- Level 3 - May include one or more unobservable inputs that are significant in establishing a fair value estimate. These unobservable inputs are developed based on the best information available and may include our own internal data.

We recognize transfers into and out of the levels as of the end of each reporting period.

Determining the appropriate classification of our fair value measurements within the fair value hierarchy requires management’s judgment regarding the degree to which market data is observable or corroborated by observable market data. We categorize derivatives for which fair value is determined using multiple inputs within a single level, based on the lowest level input that is significant to the fair value measurement in its entirety. See Note 8 for additional disclosures of our fair value measurements.

Cash and Cash Equivalents - Cash equivalents consist of highly liquid investments, which are readily convertible into cash and have original maturities of three months or less. Prior to our separation, we participated in ONEOK’s cash management program rather than maintaining significant cash equivalent balances. Amounts due to ONEOK resulting from the cash management program were recorded as a short-term note payable to ONEOK. See Note 2 for additional information on the cash management program.

Revenue Recognition - For regulated deliveries of natural gas, we read meters and bill customers on a monthly cycle. We recognize revenues upon the delivery of the natural gas commodity or services rendered to customers. The billing cycles for customers do not necessarily coincide with the accounting periods used for financial reporting purposes. Revenues are accrued for natural gas delivered and services rendered to customers, but not yet billed. Accrued unbilled revenue is based on a percentage estimate of amounts unbilled each month, which is dependent upon a number of factors, some of which require management’s judgment. These factors include customer consumption patterns and the impact of weather on usage. The amounts of accrued unbilled natural gas sales revenues at December 31, 2014 and 2013 , were $141.7 million and $143.7 million , respectively.

Accounts Receivable - Accounts receivable represent valid claims against nonaffiliated customers for natural gas sold or services rendered, net of allowances for doubtful accounts. We assess the creditworthiness of our customers. Those customers who do not meet minimum standards are required to provide security, including deposits and other forms of collateral, when appropriate. With more than 2 million customers across three states, we are not exposed materially to a concentration of credit risk. We maintain an allowance for doubtful accounts based upon factors surrounding the credit risk of customers, historical trends, consideration of the current credit environment and other information. In Oklahoma, Kansas and most jurisdictions we serve in Texas, we are able to recover natural gas costs related to doubtful accounts through purchased-gas cost adjustment mechanisms. At December 31, 2014 and 2013 , our allowance for doubtful accounts was $4.0 million and $3.3 million , respectively.

Inventories - Natural gas in storage is maintained on the basis of weighted-average cost. Natural gas inventories that are injected into storage are recorded in inventory based on actual purchase costs, including storage and transportation costs. Natural gas inventories that are withdrawn from storage are accounted for in our purchased-gas cost adjustment mechanisms at the weighted-average inventory cost.

Materials and supplies inventories, which are included in other current assets on our balance sheets, are stated at the lower of weighted-average cost or net realizable value. Our materials and supplies inventories totaled $27.5 million and $16.6 million at December 31, 2014 and 2013 , respectively.

Derivatives and Risk Management Activities - We record all derivative instruments at fair value, with the exception of normal purchases and normal sales that are expected to result in physical delivery. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, if so, the reason for holding it, or if regulatory rulings require a different accounting treatment.

If certain conditions are met, we may elect to designate a derivative instrument as a hedge of exposure to changes in fair values or cash flows.

The table below summarizes the various ways in which we account for our derivative instruments and the impact on our financial statements:

	Recognition and Measurement	
Accounting Treatment	**Balance Sheet**	**Income Statement**
Normal purchases and normal sales	- Fair value not recorded	- Change in fair value not recognized in earnings
Mark-to-market	- Recorded at fair value	- Change in fair value recognized in, and recoverable through, the purchased-gas cost adjustment mechanisms

We have not elected to designate any of our derivative instruments as hedges. Gains or losses associated with the fair value of commodity derivative instruments entered into by us are included in, and recoverable through, the purchased-gas cost adjustment mechanisms.

See Note 8 for more discussion of our fair value measurements and hedging activities using derivatives.

Property, Plant and Equipment - Our properties are stated at cost, which includes direct construction costs such as direct labor, materials, burden and AFUDC. Generally, the cost of our property retired or sold, plus removal costs, less salvage, is charged to accumulated depreciation. Gains and losses from sales or retirement of an entire operating unit or system of our properties are recognized in income. Maintenance and repairs are charged directly to expense.

AFUDC represents the cost of borrowed funds used to finance construction activities. We capitalize interest costs during the construction or upgrade of qualifying assets. Capitalized interest is recorded as a reduction to interest expense.

Our properties are depreciated using the straight-line method over their estimated useful lives. Generally, we apply composite depreciation rates to functional groups of property having similar economic circumstances. We periodically conduct depreciation studies to assess the economic lives of our assets. These depreciation studies are completed as a part of our rate proceedings, and the changes in economic lives, if applicable, are implemented prospectively when the new rates are effective. Changes in the estimated economic lives of our property, plant and equipment could have a material effect on our financial position, results of operations or cash flows.

Property, plant and equipment on our balance sheets includes construction work in process for capital projects that have not yet been placed in service and therefore are not being depreciated. Assets are transferred out of construction work in process when they are substantially complete and ready for their intended use.

See Note 10 for disclosures of our property, plant and equipment.

Impairment of Goodwill and Long-Lived Assets - We assess our goodwill for impairment at least annually as of July 1. Total goodwill was $158.0 million at December 31, 2014 and 2013 , respectively. Our goodwill impairment analysis performed in 2014, 2013 and 2012 , utilized a qualitative assessment and did not result in any impairment indicators. Subsequent to July 1, 2014 , no event has occurred indicating that it is more likely that not that our fair value is less than our carrying value of our net assets.

As part of our goodwill impairment test, we first assess qualitative factors (including macroeconomic conditions, industry and market considerations, cost factors and overall financial performance) to determine whether it is more likely than not that our fair value is less than our carrying amount. If further testing is necessary, we perform a two-step impairment test for goodwill. In the first step, an initial assessment is made by comparing our fair value with our book value, including goodwill. If the fair value is less than the book value, an impairment is indicated, and we must perform a second test to measure the amount of the impairment. In the second test, we calculate the implied fair value of the goodwill by deducting the fair value of all tangible and intangible net assets from the fair value determined in step one of the assessment. If the carrying value of the goodwill exceeds the implied fair value of the goodwill, we will record an impairment charge.

To estimate our fair value, we use two generally accepted valuation approaches, an income approach and a market approach, using assumptions consistent with a market participant’s perspective. Under the income approach, we use anticipated cash flows over a period of years plus a terminal value and discount these amounts to their present value using appropriate discount rates. Under the market approach, we apply acquisition multiples to forecasted cash flows. The acquisition multiples used are consistent with historical asset transactions. The forecasted cash flows are based on average forecasted cash flows over a period of years.

We assess our long-lived assets for impairment whenever events or changes in circumstances indicate that an asset’s carrying amount may not be recoverable. An impairment is indicated if the carrying amount of a long-lived asset exceeds the sum of the undiscounted future cash flows expected to result from the use and eventual disposition of the asset. If an impairment is indicated, we record an impairment loss equal to the difference between the carrying value and the fair value of the long-lived asset. We determined that there were no asset impairments in 2014, 2013 or 2012 .

Regulation - We are subject to the rate regulation and accounting requirements of the OCC, KCC, RRC and various municipalities in Texas. We follow the accounting and reporting guidance for regulated operations. During the ratemaking process, regulatory authorities set the framework for what we can charge customers for our services and establish the manner that our costs are accounted for, including allowing us to defer recognition of certain costs and permitting recovery of the amounts through rates over time, as opposed to expensing such costs as incurred. Examples include weather normalization, unrecovered purchased-gas costs, pension and postemployment benefit costs and ad valorem taxes. This allows us to stabilize rates over time rather than passing such costs on to the customer for immediate recovery. Actions by regulatory authorities could have an effect on the amount recovered from rate payers. Any difference in the amount recoverable and the amount deferred is recorded as income or expense at the time of the regulatory action. A write-off of regulatory assets and costs not recovered may be required if all or a portion of the regulated operations have rates that are no longer:

- established by independent regulators;
- designed to recover the specific entity’s costs of providing regulated services; and
- set at levels that will recover our costs when considering the demand and competition for our services.

See Note 9 for our regulatory asset and liability disclosures.

Pension and Other Postretirement Employee Benefits - We have defined benefit retirement plans covering certain full-time employees. We also sponsor welfare plans that provide postretirement medical and life insurance benefits to certain employees who retire with at least five years of service. Our actuarial consultant calculates the expense and liability related to these plans and uses statistical and other factors that attempt to anticipate future events. These factors include assumptions about the discount rate, expected return on plan assets, rate of future compensation increases, age and employment periods. In determining the projected benefit obligations and costs, assumptions can change from period to period and may result in material changes in the cost and liabilities we recognize.

Prior to the separation, certain employees participated in the Plans sponsored by ONEOK. We accounted for these plans as multiemployer benefit plans. Accordingly, we did not record an asset or liability to recognize the funded status of the Plans. We recognized a liability only for any required contributions to the Plans that were accrued and unpaid at the balance sheet date. The related pension and other postretirement expenses were allocated to us based on plan participants who directly supported our operations. These pension and other postretirement benefit costs included amounts associated with vested participants who are no longer employees.

Prior to the separation, certain benefit costs associated with employees who directly supported our operations were determined based on a specific employee basis. We were also allocated benefit costs associated with employees of ONEOK that provided general corporate services. These amounts were charged to us by ONEOK as described in Note 2. Prior to the separation, we were not the plan sponsor for the Plans. Accordingly, our balance sheets prior to the separation do not reflect any assets or liabilities related to the Plans. See Note 12 for additional information regarding pension and other postretirement employee benefit plans.

Income Taxes - Deferred income taxes are recorded for the difference between the financial statement and income tax basis of assets and liabilities and carryforward items, based on income tax laws and rates existing at the time the temporary differences are expected to reverse. The effect on deferred taxes of a change in tax rates is deferred and amortized for operations regulated by the OCC, KCC, RRC and various municipalities in Texas, if, as a result of an action by a regulator, it is probable that the effect of the change in tax rates will be recovered from or returned to customers through future rates. We continue to amortize previously deferred investment tax credits for ratemaking purposes over the periods prescribed by our regulators.

A valuation allowance for deferred tax assets is recognized when it is more likely than not that some or all of the benefit from the deferred tax asset will not be realized. To assess that likelihood, we use estimates and judgment regarding our future taxable income, as well as the jurisdiction in which such taxable income is generated, to determine whether a valuation allowance is required. Such evidence can include our current financial position, our results of operations, both actual and forecasted, the reversal of deferred tax liabilities, as well as the current and forecasted business economics of our industry. We had no valuation allowance at December 31, 2014 and 2013 .

We utilize a more-likely-than-not recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position that is taken or expected to be taken in a tax return. We reflect penalties and interest as part of income tax expense as they become applicable for tax provisions that do not meet the more-likely-than-not recognition threshold and measurement attribute. There were no material uncertain tax positions at December 31, 2014 and 2013 .

See Note 13 for additional discussion of income taxes.

Asset Retirement Obligations - Asset retirement obligations represent legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or normal use of the asset. Certain long-lived assets that comprise our natural gas distribution systems, primarily our pipeline assets, are subject to agreements or regulations that give rise to an asset retirement obligation for removal or other disposition costs associated with retiring the assets in place upon the discontinued use of the natural gas distribution system. We recognize the fair value of a liability for an asset retirement obligation in the period when it is incurred if a reasonable estimate of the fair value can be made. We are not able to estimate reasonably the fair value of the asset retirement obligations for portions of our assets because the settlement dates are indeterminable given our expected continued use of the assets with proper maintenance. We expect our natural gas distribution systems will continue in operation as long as natural gas supply and demand for natural gas distribution service exists. Based on the widespread use of natural gas for heating and cooking activities by residential and commercial customers in our service areas, management expects supply and demand to exist for the foreseeable future.

In accordance with long-standing regulatory treatment, we collect through rates the estimated costs of removal on certain regulated properties through depreciation expense, with a corresponding credit to accumulated depreciation and amortization. These removal costs collected through our rates include costs attributable to legal and nonlegal removal obligations; however, the amounts collected that are in excess of these nonlegal asset-removal costs incurred are accounted for as a regulatory liability for financial reporting purposes. Historically, with the exception of the regulatory authority in Kansas, the regulatory authorities that have jurisdiction over our regulated operations have not required us to quantify or disclose this amount; rather, these costs are addressed prospectively in depreciation rates and are set in each general rate order. We have made an estimate of our regulatory liability using current rates since the last general rate order in each of our jurisdictions; however, for financial reporting purposes, significant uncertainty exists regarding the future disposition of this regulatory liability, pending, among other issues, clarification of regulatory intent. We continue to monitor the regulatory requirements, and the liability may be adjusted as more information is obtained. We record the estimated asset removal obligation in noncurrent liabilities in other deferred credits on our balance sheets. To the extent this estimated liability is adjusted, such amounts will be reclassified between accumulated depreciation and amortization and other deferred credits and therefore will not have an impact on earnings.

Contingencies - Our accounting for contingencies covers a variety of business activities, including contingencies for legal and environmental exposures. We accrue these contingencies when our assessments indicate that it is probable that a liability has been incurred or an asset will not be recovered and an amount can be estimated reasonably. We expense legal fees as incurred and base our legal liability estimates on currently available facts and our estimates of the ultimate outcome or resolution. Accruals for estimated losses from environmental remediation obligations generally are recognized no later than the completion of a remediation feasibility study. Recoveries of environmental remediation costs from other parties are recorded as assets when their receipt is deemed probable. Actual results may differ from our estimates resulting in an impact, positive or negative, on earnings. See Note 14 for additional discussion of contingencies.

Share-Based Payments - We expense the fair value of share-based payments net of estimated forfeitures. We estimate forfeiture rates based on historical forfeitures under our share-based payment plans.

Prior to the separation, ONEOK charged us for compensation expense related to stock-based compensation awards granted to our employees that directly supported our operations. Share-based compensation was also a component of allocated amounts charged to us by ONEOK for general and administrative personnel providing services on our behalf.

Earnings per share - Basic EPS is based on net income and is calculated based upon the daily weighted-average number of common shares outstanding during the periods presented. Also, this calculation includes fully vested stock awards that have not yet been issued as common stock. Diluted EPS includes the above, plus unvested stock awards granted under our compensation plans, but only to the extent these instruments dilute earnings per share.

Segments - We operate in one reportable business segment: regulated public utilities that deliver natural gas to residential, commercial, industrial and transportation customers. We define reportable business segments as components of an organization for which discrete financial information is available and operating results are evaluated on a regular basis by the chief operating decision maker (CODM) in order to assess performance and allocate resources. Our CODM is our Chief Executive Officer (CEO). Characteristics of our organization that were relied upon in making this determination include the similar nature of services we provide, the functional alignment of our organizational structure, and the reports that are regularly reviewed by the CODM for the purpose of assessing performance and allocating resources. Our management is functionally aligned and centralized, with performance evaluated based upon results of the entire distribution business. Capital allocation decisions are driven by asset integrity management and operating efficiency, not geographic location.

We evaluate performance based principally on operating income. Affiliate sales are recorded on the same basis as sales to unaffiliated customers and are discussed in further detail in Note 2. Net margin is comprised of total revenues less cost of natural gas. Cost of natural gas includes commodity purchases, fuel, storage and transportation costs and does not include an allocation of general operating costs or depreciation and amortization.

In 2014 , 2013 and 2012 , we had no single external customer from which we received 10 percent or more of our gross revenues.

Recently Issued Accounting Standards Update - In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers,” which clarifies and converges the revenue recognition principles under GAAP and International Financial Reporting Standards. We are evaluating the impact of this recently issued guidance, which is required to be adopted for our quarterly and annual reports beginning with the first quarter 2017.

2. SEPARATION & RELATED-PARTY TRANSACTIONS

Distribution - On January 8, 2014, ONEOK’s board of directors approved the distribution of our common stock to holders of ONEOK common stock.

In order for ONEOK to effect the separation, we requested, and the SEC declared effective, our registration statement on Form 10 on January 10, 2014. ONEOK transferred all of the assets and liabilities primarily related to its natural gas distribution business to us. Assets and liabilities included accounts receivable and payable, natural gas in storage, regulatory assets and liabilities, pipeline and other natural gas distribution facilities, customer deposits, employee-related assets and liabilities, including amounts attributable to pension and other postretirement benefits, tax-related assets and liabilities and other assets and liabilities primarily associated with providing natural gas distribution service in Oklahoma, Kansas and Texas. Cash and certain corporate assets, such as office space in the corporate headquarters and certain IT hardware and software, were not transferred to us; however, the Transition Services Agreement between ONEOK and us provides access to such corporate assets as necessary to operate our business for a period of time to enable us to obtain the applicable corporate assets.

Immediately prior to the contribution of the natural gas distribution business to us, ONEOK contributed to the capital of the natural gas distribution business all of the amounts outstanding on the natural gas distribution business’ short-term note payable to and long-term line of credit with ONEOK. We received approximately $1.19 billion of cash from a private placement of senior notes, which were later exchanged for registered notes, then used a portion of those proceeds to fund a cash payment of approximately $1.13 billion to ONEOK. Effective January 31, 2014, the number of our authorized shares increased to 250 million shares of common stock and 50 million of preferred stock. On January 31, 2014, ONEOK distributed one share of our common stock for every four shares of ONEOK common stock held by ONEOK shareholders of record as of the close of business on January 21, 2014, the record date of the distribution. At the close of business on January 31, 2014, ONE Gas, Inc. became an independent, publicly traded company as a result of the distribution. Our common stock began trading "regular-way" under the ticker symbol "OGS" on the NYSE on February 3, 2014.

Reorganization Adjustments - In accordance with the terms of the Separation and Distribution Agreement, ONEOK contributed the assets and liabilities of its natural gas distribution business to us. The noncash contributions below represent ONEOK assets and liabilities attributable to pension and other postretirement employee benefits, general corporate assets and liabilities and related deferred taxes not included previously in the ONE Gas Predecessor balance sheet, but the costs for which were included in ONE Gas Predecessor's results of operations. The table below also includes the contribution of the short-term note payable to and long-term line of credit with ONEOK previously included in ONE Gas Predecessor balance sheets. The assets and liabilities below were recorded at historical cost as the reorganization was among entities under common control. Net transfers from ONEOK included:

(Thousands of dollars)		
Property, plant and equipment, net	**$**	**21,459**
Regulatory assets, pension and other postretirement benefits		**331,148**
Other assets		**80,700**
Long-term line of credit with ONEOK		**1,027,631**
Short-term note payable to ONEOK		**397,857**
Pension and other postretirement benefits - liabilities		**(123,800)**
Other liabilities		**(34,404)**
Deferred taxes		**(86,112)**
Accumulated other comprehensive loss		**(3,393)**
Net contribution of assets (liabilities)	**$**	**1,611,086**
Less: Cash paid to ONEOK		**1,130,000**
Net transfers from ONEOK	**$**	**481,086**

Affiliate Transactions - Prior to our separation, we had certain transactions with ONEOK and its subsidiaries. We purchased a portion of our natural gas supply and natural gas transportation and storage services from ONEOK and its affiliates. These contracts were awarded through a competitive-bidding process, and the costs were recoverable through our purchased-gas cost adjustment mechanisms.

Prior to our separation, the Statements of Income included expense allocations for certain corporate functions historically performed by ONEOK and allocated to its natural gas distribution business, including allocations of general corporate expenses related to executive oversight, accounting, treasury, tax, legal, information technology and facilities maintenance. Where costs were incurred specifically on our behalf, the costs were billed directly to us by ONEOK. In other situations, the costs were allocated to us through a variety of methods, depending upon the nature of the expenses. For example, a service that applied equally to all employees of ONEOK was allocated based upon the number of employees in each ONEOK affiliate. An expense benefiting us but having no direct basis for allocation was allocated by the modified Distrigas method, a method using a combination of ratios that include gross plant and investment, operating income and payroll expense. It is not practicable to determine what these general overhead costs would be on a stand-alone basis. These allocations included the following costs:

Corporate Services - These represent costs for certain employees of ONEOK who provided general and administrative services on our behalf. These charges were either directly identifiable or allocated based upon usage factors for our operations. In addition, we received other allocated costs for our share of general corporate expenses of ONEOK, which were determined based on our relative use of the service or, if there was no direct basis for allocation, were allocated by the modified Distrigas method. All of these costs are reflected in operations and maintenance and depreciation expense in the Statements of Income.

Benefit Plans and Incentives - These represent benefit costs and other incentives, including group health and welfare benefits, pension plans, other postretirement benefit plans and employee stock-based compensation plans. Costs associated with incentive and stock-based compensation plans were determined on a specific identification basis for certain employees who directly supported our operations. All other employee benefit costs historically were allocated using a percentage factor derived from a ratio of benefit costs to salary costs for ONEOK's employees. These expenses are included in operations and maintenance expenses in the Statements of Income.

Total compensation cost, which included costs for both employees who directly supported our operations and allocations for corporate services, charged to us by ONEOK related to share-based payment plans was $15.5 million and $12.4 million during 2013 and 2012, respectively. Compensation costs charged to us by ONEOK in 2014 were not material. See Note 11 for additional information regarding share-based payments. Total cost charged to us by ONEOK related to pension and other postretirement health and welfare plans was $52.1 million and $43.4 million during 2013 and 2012, respectively, which is net of amounts deferred through regulatory mechanisms of $1.8 million and $4.1 million during 2013 and 2012, respectively. Cost related to pension and other postretirement health and welfare plans which was charged to us by ONEOK in 2014 was not material. See Note 12 for additional information regarding employee benefit plans.

Interest Expense - ONEOK utilized a centralized approach to cash management and the financing of its businesses. Cash receipts and cash expenditures for costs and expenses from our operations were transferred to or from ONEOK on a regular basis and recorded as increases or decreases in the balance due in short-term note payable to ONEOK under an unsecured promissory note we had in place with ONEOK. The amounts outstanding under the long-term line of credit with ONEOK and the short-term note payable to ONEOK accrued interest based on ONEOK's weighted-average cost of long-term and short-term debt, respectively.

The following table shows ONEOK's and its subsidiaries' transactions with us included in the statements of income for the periods indicated:

	Years Ended December 31,	
	2013	**2012**
	(Thousands of dollars)	
Cost of natural gas	**$ 226,582**	$ 135,650
Operations and maintenance		
Direct employee labor and benefit costs	**177,526**	165,798
Allocated employee labor and benefit costs	**29,955**	24,994
Charges for general and administrative services	**36,078**	24,059
Depreciation and amortization	**6,940**	6,033
Other (income)/expense, net	**(5,073)**	(2,668)
Interest expense	**60,930**	60,305
Total	**$ 532,938**	$ 414,171

Employee labor and benefit costs capitalized totaled $49.3 million and $46.1 million for 2013 and 2012, respectively. In addition, we recorded regulated utility revenue from ONEOK and its subsidiaries. These amounts were immaterial for the periods presented.

Following the separation, we and ONEOK are still providing services to each other under the Transition Services Agreement, but these services are now considered third-party transactions. The remaining related party transactions prior to the separation were not material in 2014.

Cash Management - Prior to the separation, we participated in ONEOK's centralized cash management program that concentrated the cash assets of its operating divisions and subsidiaries in joint accounts for the purpose of providing financial flexibility and lowering the cost of borrowing, transaction costs and bank fees. The centralized cash management program provided that funds in excess of the daily needs of the operating divisions and subsidiaries were concentrated, consolidated or otherwise made available for use by other wholly owned entities of ONEOK. Under this cash management program, depending on whether a participating division or subsidiary had short-term cash requirements or cash surpluses, ONEOK provided cash to its respective divisions or subsidiaries or the divisions or subsidiaries provided cash to ONEOK. The amounts receivable, or due, under this program were due on demand. Activities under this program were reflected in the balance sheets as short-term note payable to ONEOK.

Principal under this note payable bears interest based on ONEOK's weighted-average cost of short-term debt, plus a utilization fee of 50 basis points, calculated monthly. The weighted-average interest rates for this note payable were 0.92 percent and 0.96 percent for 2013 and 2012, respectively. Changes in this note payable represented any funding required from ONEOK for working capital or capital expenditures and after giving effect to the transfers to ONEOK from our cash flows from operations.

We had no affiliate receivables as of December 31, 2014 . Affiliate receivables were not material as of December 31, 2013 , and are included in accounts receivable on our balance sheets.

Long-Term Line of Credit with ONEOK - Prior to the separation, we had a $1.1 billion long-term line of credit with ONEOK. The weighted-average interest rate on the amounts outstanding for the year was 5.79 percent and 6.43 percent in 2013 and 2012, respectively. The interest rate on the revolver was reset each year based on ONEOK's outstanding debt plus an adjustment of 50 basis points for ONEOK's cost to administer the program. The amount utilized on the long-term line of credit was adjusted annually with an offset to owner's net investment to adjust our debt-to-capital ratio to a level consistent with ONEOK's debt-to-capital ratio.

Immediately prior to the contribution of the natural gas distribution business to us, ONEOK contributed to the capital of the natural gas distribution business all amounts outstanding under the note payable and long-term line of credit.

Agreements with ONEOK after the Separation - We entered into the Separation and Distribution Agreement and several other agreements with ONEOK to effect the separation and provide a framework for our relationships with ONEOK after the distribution. These agreements govern the relationship between ONEOK and us subsequent to the completion of the distribution, and provide for the allocation among ONEOK and us of the assets, liabilities and obligations (including employee benefits and tax-related assets and liabilities) relating to the natural gas distribution business attributable to periods prior to, at and after the distribution. In addition to the Separation and Distribution Agreement (which contains many of the key provisions related to our separation from ONEOK and the distribution of our shares of common stock to ONEOK shareholders), these agreements include:

- Transition Services Agreement;
- Tax Matters Agreement; and
- Employee Matters Agreement.

3. CREDIT FACILITY AND SHORT-TERM NOTES PAYABLE

<u>ONE Gas Credit Agreement</u> - In December 2013, we entered into the ONE Gas Credit Agreement, which became effective upon our separation from ONEOK on January 31, 2014, and is scheduled to expire on January 31, 2019 . The ONE Gas Credit Agreement contains certain financial, operational and legal covenants. Among other things, these covenants include maintaining ONE Gas' total debt-to-capital ratio of no more than 70 percent at the end of any calendar quarter. The ONE Gas Credit Agreement also contains customary affirmative and negative covenants, including covenants relating to liens, indebtedness of subsidiaries, investments, changes in the nature of business, fundamental changes, transactions with affiliates, burdensome agreements, and use of proceeds. In the event of a breach of certain covenants by ONE Gas, amounts outstanding under the ONE Gas Credit Agreement may become due and payable immediately. At December 31, 2014 , our total debt-to-capital ratio was 41 percent and we were in compliance with all covenants under the ONE Gas Credit Agreement.

The ONE Gas Credit Agreement includes a $50 million sublimit for the issuance of standby letters of credit and also features an option to request an increase in the size of the facility to an aggregate of $1.2 billion from $700 million by either commitments from new lenders or increased commitments from existing lenders. Borrowings made under the facility are available for general corporate purposes. The ONE Gas Credit Agreement contains provisions for an applicable margin rate and an annual facility fee, both of which adjust with changes in our credit rating. Based on our current credit ratings, borrowings, if any, will accrue interest at LIBOR plus 79.5 basis points, and the annual facility fee is 8 basis points.

We may reduce the unutilized portion of the ONE Gas Credit Agreement in whole or in part without premium or penalty. The ONE Gas Credit Agreement contains customary events of default. Upon the occurrence of certain events of default, the obligations under the ONE Gas Credit Agreement may be accelerated and the commitments may be terminated.

In July 2014, we entered into a commercial paper program under which we may issue unsecured commercial paper up to a maximum amount of $700 million to fund short-term borrowing needs. The maturities of the commercial paper notes may vary but may not exceed 270 days from the date of issue. The commercial paper notes are sold generally at par less a discount representing an interest factor.

The ONE Gas Credit Agreement is available to repay the commercial paper notes, if necessary. Amounts outstanding under the commercial paper program reduce the borrowing capacity under the ONE Gas Credit Agreement. At December 31, 2014, we had $42.0 million of commercial paper and $1.0 million in letters of credit issued under the ONE Gas Credit Agreement, with no borrowings and $657.0 million of remaining credit available under the ONE Gas Credit Agreement. The weighted-average interest rate on our commercial paper was 0.32 percent at December 31, 2014.

4. LONG-TERM DEBT

Senior notes issuance - In January 2014, we completed a private placement of senior notes, consisting of $300 million of 2.07 percent senior notes due 2019 , $300 million of 3.61 percent senior notes due 2024 and $600 million of 4.658 percent senior notes due 2044 (collectively, our "Senior Notes"). The net proceeds from the private placement were approximately $1.19 billion and were used to fund a one-time cash payment to ONEOK of approximately $1.13 billion as part of the separation. The remaining portion of the net proceeds was retained in order to provide sufficient financial flexibility and to support working capital requirements and capital expenditures.

In connection with the issuance of our Senior Notes, we entered into a registration rights agreement, pursuant to which we were obligated to use our commercially reasonable efforts to file with the SEC and cause to become effective a registration statement with respect to an offer to exchange each series of Senior Notes for new notes, with terms substantially identical in all material respects to such series of our Senior Notes. Our registration statement, as amended, was declared effective by the SEC on September 5, 2014. We completed the noncash exchange of our Senior Notes for our registered senior notes in October 2014.

The indenture governing our Senior Notes includes an event of default upon the acceleration of other indebtedness of $100 million or more. Such events of default would entitle the trustee or the holders of 25 percent in the aggregate principal amount of the outstanding Senior Notes to declare those senior notes immediately due and payable in full.

We may redeem our Senior Notes at par, plus accrued and unpaid interest to the redemption date, starting one month, three months, and six months, respectively, before their maturity dates. Prior to these dates, we may redeem these Senior Notes, in whole or in part, at a redemption price equal to the principal amount, plus accrued and unpaid interest and a make-whole premium. The redemption price will never be less than 100 percent of the principal amount of the respective note plus accrued and unpaid interest to the redemption date. Our Senior Notes are senior unsecured obligations, ranking equally in right of payment with all of our existing and future unsecured senior indebtedness.

5. EQUITY

Preferred Stock - At December 31, 2014, we have 50 million , $0.01 par value, authorized shares of preferred stock available. We have not issued or established any classes or series of shares of preferred stock.

Common Stock - At December 31, 2014 , we had approximately 197.9 million shares of authorized common stock available for issuance.

Treasury Shares - In February 2015, our Board of Directors authorized us to purchase treasury shares to be used to offset shares issued under our employee and non-employee director equity compensation, dividend reinvestment and employee stock purchase plans. The Board of Directors established an annual limit of $20 million of treasury stock purchases, exclusive of funds received through the dividend reinvestment and employee stock purchase plans. Stock purchases may be made in the open market or in private transactions at times, and in amounts that we deem appropriate. There is no guarantee as to the exact number of shares that we will purchase, and we can terminate or limit the program at any time. We may hold the purchased shares as treasury shares and will account for them using the cost method.

Dividends - Dividends paid totaled $43.7 million in 2014. The following table sets forth the dividends per share declared and paid on our common stock for the periods indicated:

		2014
First Quarter	$	—
Second Quarter	$	**0.28**
Third Quarter	$	**0.28**
Fourth Quarter	$	**0.28**
Total	$	**0.84**

Additionally, a dividend of $0.30 per share ($1.20 per share on an annualized basis) was declared in January 2015, payable in the first quarter 2015.

6. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table sets forth the balance in accumulated other comprehensive income (loss) for the period indicated:

		Accumulated Other Comprehensive Income (Loss)
January 1, 2014	$	—
Transfers in upon separation		**(3,393)**
Pension and other postretirement benefit plans obligations		
Other comprehensive income (loss) before reclassification, net of tax of $1,442		**(2,096)**
Amounts reclassified from accumulated other comprehensive income (loss), net of tax of $(198)		**315**
Other comprehensive income (loss)		**(1,781)**
December 31, 2014	**$**	**(5,174)**

The following table sets forth the effect of reclassifications from accumulated other comprehensive income (loss) on our Statements of Income for the period indicated:

Details about Accumulated Other Comprehensive Income (Loss) Components		Year Ended December 31, 2014	Affected Line Item in the Statements of Income
		(Thousands of dollars)	
Pension and other postretirement benefit plan obligations (a)			
Amortization of net loss	**$**	**34,169**	
Amortization of unrecognized prior service cost		**(1,211)**	
		32,958	
Regulatory adjustments (b)		**(32,445)**	
		513	Income before income taxes
		(198)	Income tax expense
Total reclassifications for the period	**$**	**315**	Net income

(a) These components of accumulated other comprehensive income (loss) are included in the computation of net periodic benefit cost. See Note 12 for additional detail of our net periodic benefit cost.
(b) Regulatory adjustments represent pension and other postretirement benefit costs expected to be recovered through rates and are deferred as part of our regulatory assets. See Note 9 for additional disclosures of regulatory assets and liabilities.

7. EARNINGS PER SHARE

The following tables set forth the computation of basic and diluted EPS from continuing operations for the periods indicated:

	Year Ended December 31, 2014				
		Income	Shares		Per Share Amount
	(Thousands, except per share amounts)				
Basic EPS Calculation					
Net income available for common stock	**$**	**109,790**	**52,364**	**$**	**2.10**
Diluted EPS Calculation					
Effect of dilutive securities		—	**582**		
Net income available for common stock and common stock equivalents	**$**	**109,790**	**52,946**	**$**	**2.07**

	Year Ended December 31, 2013		
	Income	Shares	Per Share Amount
	(Thousands, except per share amounts)		
Basic EPS Calculation			
Net income available for common stock	$ 99,195	52,319	$ 1.90
Diluted EPS Calculation			
Effect of dilutive securities	—	—	
Net income available for common stock and common stock equivalents	$ 99,195	52,319	$ 1.90

	Year Ended December 31, 2012		
	Income	Shares	Per Share Amount
	(Thousands, except per share amounts)		
Basic EPS Calculation			
Net income available for common stock	$ 96,509	52,319	$ 1.84
Diluted EPS Calculation			
Effect of dilutive securities	—	—	
Net income available for common stock and common stock equivalents	$ 96,509	52,319	$ 1.84

On January 31, 2014, 51,941,236 shares of our common stock were distributed to ONEOK shareholders in conjunction with the separation. For comparative purposes, and to provide a more meaningful calculation of weighted-average shares outstanding, we have assumed this amount and any shares associated with fully vested stock awards that have not been issued to be outstanding as of the beginning of each period prior to the separation presented in the calculation of weighted-average shares.

8. DERIVATIVE FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

Derivative Instruments - At December 31, 2014 , we held purchased natural gas call options for the heating season ending March 2015, with total notional amounts of 16.0 Bcf, for which we paid premiums of $6.4 million , and had a fair value of $0.1 million . At December 31, 2013 , we held purchased natural gas call options for the heating season ended March 2014, with total notional amounts of 26.6 Bcf, for which we paid premiums of $8.6 million , and had a fair value of $8.7 million . The premiums paid and any cash settlements received are recorded as part of our unrecovered purchased-gas costs in current regulatory assets as these contracts are included in, and recoverable through, the purchased-gas cost adjustment mechanisms. Additionally, changes in fair value associated with these contracts are deferred as part of our unrecovered purchase gas costs in our balance sheets. Our natural gas call options are classified as Level 1 as fair value amounts are based on unadjusted quoted prices in active markets including NYMEX-settled prices. There were no transfers between levels for the periods presented.

Other Financial Instruments - The approximate fair value of cash and cash equivalents, accounts receivable and accounts payable is equal to book value, due to the short-term nature of these items. Our cash and cash equivalents are comprised of bank and money market accounts and are classified as Level 1.

The short-term notes payable were due upon demand and, therefore, the carrying amounts approximate fair value and are classified as Level 1. The estimated fair value and book value of our long-term debt, including current maturities, was $1.3 billion and $1.2 billion , respectively, at December 31, 2014 . The estimated fair value of our Senior Notes was determined using quoted market prices, and are considered Level 2.

The estimated fair value and book value of our long-term line of credit with ONEOK at December 31, 2013 , was $1.2 billion and $1.0 billion , respectively. The estimated fair value of our long-term line of credit with ONEOK was valued using the income approach by discounting the future payments and are considered Level 3. Significant unobservable inputs include the discount rate, which we estimated using a rate at which we could have borrowed at each measurement date.

9. REGULATORY ASSETS AND LIABILITIES

The table below presents a summary of regulatory assets, net of amortization, and liabilities for the periods indicated:

		December 31, 2014		
	Remaining Recovery Period	Current	Noncurrent	Total
		(*Thousands of dollars*)		
Under-recovered purchased-gas costs	1 year	**$ 28,712**	**$ —**	**$ 28,712**
Pension and other postretirement benefit costs	See Note 12	**18,108**	**466,684**	**484,792**
Reacquired debt costs	13 years	**812**	**9,730**	**10,542**
Other	1 to 24 years	**2,561**	**2,309**	**4,870**
Total regulatory assets, net of amortization		**50,193**	**478,723**	**528,916**
Accumulated removal costs (a)	up to 50 years	**—**	**(15,451)**	**(15,451)**
Weather normalization	1 year	**(16,516)**	**—**	**(16,516)**
Over-recovered purchased-gas costs	1 year	**(13,055)**	**—**	**(13,055)**
Ad valorem tax	1 year	**(2,896)**	**—**	**(2,896)**
Total regulatory liabilities		**(32,467)**	**(15,451)**	**(47,918)**
Net regulatory assets and liabilities		**$ 17,726**	**$ 463,272**	**$ 480,998**

(a) Included in other deferred credits in our balance sheets.

		December 31, 2013		
	Remaining Recovery Period	Current	Noncurrent	Total
		(*Thousands of dollars*)		
Under-recovered purchased-gas costs	1 year	$ 12,393	$ —	$ 12,393
Pension and other postretirement benefit costs	See Note 12	298	9,556	9,854
Reacquired debt costs	14 years	812	10,541	11,353
Other	1 to 25 years	8,154	3,725	11,879
Total regulatory assets, net of amortization		21,657	23,822	45,479
Accumulated removal costs (a)	up to 50 years	—	(21,375)	(21,375)
Over-recovered purchased-gas costs	1 year	(17,796)	—	(17,796)
Total regulatory liabilities		(17,796)	(21,375)	(39,171)
Net regulatory assets and liabilities		$ 3,861	$ 2,447	$ 6,308

(a) Included in other deferred credits in our balance sheets.

Regulatory assets on our balance sheets, as authorized by the various regulatory commissions, are probable of recovery. Base rates are designed to provide a recovery of cost during the period rates are in effect but do not generally provide for a return on investment for amounts we have deferred as regulatory assets. All of our regulatory assets recoverable through base rates are subject to review by the respective regulatory commissions during future rate proceedings. We are not aware of any evidence that these costs will not be recoverable through either rate riders or base rates, and we believe that we will be able to recover such costs, consistent with our historical recoveries.

Unrecovered purchased-gas costs represents the costs that have been over- or under-recovered from customers through the purchased-gas cost adjustment mechanisms and includes natural gas utilized in our operations, premiums paid and any cash settlements received from our purchased natural gas call options.

We amortize reacquired debt costs in accordance with the accounting guidelines prescribed by the OCC and KCC.

In December 2013, the KCC approved a settlement agreement between ONEOK, the staff of the KCC, and the Citizens' Utility Ratepayer Board that authorized the transfer of ONEOK's Kansas Gas Service natural gas distribution assets to us. As a result, Kansas Gas Service expensed certain transition costs associated with ONEOK's acquisition of Kansas Gas Service in 1997 that previously had been recorded as a regulatory asset and amortized and recovered in rates over a 40-year period. As such, we recorded a noncash charge to income of approximately $10.2 million before taxes during 2013 in depreciation and amortization.

Weather normalization represents revenue over- or under-recovered through the weather normalization adjustment rider in Kansas. This amount is deferred as a regulatory asset or liability for a 12-month period. Kansas Gas Service then applies an adjustment to the customers' bills for 12 months to refund the over-collected revenue or bill the under-collected revenue.

Ad valorem tax represents an increase or decrease in Kansas Gas Service's taxes above or below the amount approved in a rate case. This amount is deferred as a regulatory asset or liability for a 12-month period. Kansas Gas Service then applies an adjustment to the customers' bills for 12 months to refund the over-collected revenue or bill the under-collected revenue.

Recovery through rates resulted in amortization of regulatory assets of approximately $6.4 million for the year ended December 31, 2014 . Amortization of regulatory assets of approximately $32.0 million for the year ended December 31, 2013 , included amounts recovered through rates totaling $21.8 million and $10.2 million related to certain transition costs as described above. Recovery through rates resulted in amortization of regulatory assets of approximately $18.3 million for the year ended December 31, 2012 .

We collect, through our rates, the estimated costs of removal on certain regulated properties through depreciation expense, with a corresponding credit to accumulated depreciation and amortization. These removal costs are nonlegal obligations; however, the amounts collected that are in excess of these nonlegal asset-removal costs incurred are accounted for as a regulatory liability. We have made an estimate of our regulatory liability using current rates since the last general rate order in each of our jurisdictions. We record the estimated nonlegal asset removal obligation in noncurrent liabilities in other deferred credits on our balance sheets.

10. PROPERTY, PLANT AND EQUIPMENT

The following table sets forth our property, plant and equipment by property type, for the periods indicated:

	December 31, 2014	December 31, 2013
	(*Thousands of dollars*)	
Natural gas distribution pipelines and related equipment	**$ 3,909,881**	$ 3,703,593
Natural gas transmission pipelines and related equipment	**450,810**	430,042
General plant and other	**418,157**	326,004
Construction work in process	**71,353**	74,435
Property, plant and equipment	**4,850,201**	4,534,074
Accumulated depreciation and amortization	**(1,556,481)**	(1,489,216)
Net property, plant and equipment	**$ 3,293,720**	$ 3,044,858

We compute depreciation expense for distribution operations by applying composite, straight-line rates approved by various regulatory agencies. The average depreciation rates for our property are set forth in the following table for the periods indicated:

Years Ended December 31,		
2014	**2013**	**2012**
2.0% - 3.0%	2.0% - 3.0%	2.0% - 3.0%

We recorded capitalized interest of $2.5 million , $1.3 million and $1.3 million for the years ended December 31, 2014, 2013 and 2012 , respectively. We incurred liabilities for construction work in process that had not been paid at December 31, 2014, 2013 and 2012 of $7.0 million , $10.5 million and $12.0 million , respectively. Such amounts are not included in capital expenditures on the Statements of Cash Flows.

Amounts recorded for regulatory accounting purposes that were not reflected in our financial statements were not material for the year ending December 31, 2014.

11. SHARE-BASED PAYMENTS

The ONE Gas Equity Compensation Plan (ECP or ONE Gas Plan) provides for the granting of stock-based compensation, including incentive stock options, nonstatutory stock options, stock bonus awards, restricted stock awards, restricted stock unit awards, performance stock awards and performance unit awards to eligible employees and the granting of stock awards to nonemployee directors. We have reserved 2.8 million shares of common stock for issuance under the ECP. At December 31, 2014 , we had approximately 1.3 million shares available for issuance under the ECP, which reflect shares issued and estimated shares expected to be issued upon vesting of outstanding awards granted under the plan, less forfeitures. The plan allows for the deferral of awards granted in stock or cash, in accordance with Internal Revenue Code section 409A requirements.

Prior to our separation, certain employees assigned to us in the separation participated in ONEOK's share-based awards plans (ONEOK Plans). The ONEOK Plans provided for ONEOK common stock based awards to both employees and ONEOK's nonmanagement directors. The plans permitted the granting of various types of awards including, but not limited to, performance stock units and restricted stock units. Awards could be granted for no consideration other than prior and future services or based on certain financial performance targets. In connection with the separation, awards granted by ONEOK in 2012 and 2013 were cancelled and replaced with awards of ONE Gas shares. The number of restricted stock units held by a ONE Gas participant was multiplied by a ratio of 2.04 which was determined by the ONEOK volume-weighted average share price of $68.22 on January 31, 2014, and the ONE Gas volume-weighted average share price of $33.50 on February 3, 2014, rounded to the nearest whole share.

The same ratio of 2.04 was used to convert the outstanding performance stock units awarded by ONEOK prior to the separation into awards for ONE Gas shares. A pre-distribution payout factor was applied to each grant based on ONEOK's total shareholder return performance compared with its peer group for the number of days lapsed from the date of the grant to January 31, 2014, and these awards were frozen or "banked" and are not subject to an additional payout factor. The remaining units from each grant will continue to be at-risk based on our performance and the relative total shareholder return of our peer group.

No incremental cost was recorded in our financial statements upon cancellation and replacement of the 2012 and 2013 restricted stock units and performance stock units because the previous awards were cancelled and replaced pursuant to anti-dilution provisions of the ONEOK Plans and the fair value of the awards immediately following the cancellation and replacement was not higher than the fair value of the awards immediately before the cancellation and replacement.

We were charged by ONEOK for share-based compensation expense related to employees that directly supported our operations. ONEOK also charged us for the allocated costs of certain employees of ONEOK (including stock-based compensation) who provided general and administrative services on our behalf. Information included in this note is limited to share-based compensation associated with employees in 2014, and employees that directly supported our operations as part of ONEOK prior to our separation. See Note 2 for total costs charged to us by ONEOK.

Compensation cost expensed for our share-based payment plans was $7.0 million , net of tax benefits of $4.4 million , for 2014. Compensation cost charged to us for employees directly supporting our operations by ONEOK for 2013 and 2012 totaled $9.7 million and $4.8 million , respectively, which is net of $6.1 million and $3.0 million of tax benefits, respectively. Compensation costs capitalized for employees were not material for 2014, 2013 and 2012 .

Restricted Stock Unit Awards - We have granted restricted stock unit awards to key employees that vest over a service period of generally three years and entitle the grantee to receive shares of our common stock. The awards granted that replaced awards granted by ONEOK in 2012 vested, and 2013 will vest, consistent with their original vesting dates in 2015 and 2016, respectively. No dividends accrue prior to vesting on the restricted stock units granted that replaced the awards granted by ONEOK in 2012. Restricted stock unit awards granted in 2014 and that replaced awards granted by ONEOK in 2013 accrue dividend equivalents in the form of additional restricted stock units prior to vesting. Restricted stock unit awards are measured at fair value as if they were vested and issued on the grant date, reduced by expected dividend payments for awards that do not accrue dividends and adjusted for estimated forfeitures. Compensation expense is recognized on a straight-line basis over the vesting period of the award. A forfeiture rate of 3 percent per year based on historical forfeitures under our share-based payment plans is used.

Performance Stock Unit Awards - We have granted performance stock unit awards to key employees. The shares of common stock underlying the performance stock units vest at the expiration of a service period of generally three years if certain performance criteria are met by us as determined by the Executive Compensation Committee of the Board of Directors. The awards granted that replaced awards granted by ONEOK in 2012 vested, and 2013 will vest, consistent with their original vesting dates in 2015 and 2016, respectively, if certain performance criteria are met by us for the at-risk portion of the awards as described above. Upon vesting, a holder of performance stock units is entitled to receive a number of shares of common stock equal to a percentage (0 percent to 200 percent) of the performance stock units granted, based on our total shareholder return over the vesting period, compared with the total shareholder return of a peer group of other utilities over the same period.

If paid, the outstanding performance stock unit awards entitle the grantee to receive shares of our common stock. The outstanding performance stock unit awards are equity awards with a market-based condition, which results in the compensation cost for these awards being recognized over the requisite service period, provided that the requisite service period is fulfilled, regardless of when, if ever, the market condition is satisfied. No dividends accrue prior to vesting on performance stock units granted to replace awards granted by ONEOK in 2012. The new performance stock unit awards granted in 2014 and the grants that replaced awards granted by ONEOK in 2013 accrue dividend equivalents in the form of additional performance stock units prior to vesting. The fair value of these performance stock units was estimated on the grant date based on a Monte Carlo model. A forfeiture rate of 3 percent per year based on historical forfeitures under our and, prior to the separation, ONEOK's share-based payment plans was used. Compensation expense is recognized on a straight-line basis over the period of the award. The compensation expense on these awards will only be adjusted for changes in forfeitures.

Restricted Stock Unit Award Activity

As of December 31, 2014 , there was $2.8 million of total unrecognized compensation costs related to the nonvested restricted stock unit awards, which is expected to be recognized over a weighted-average period of 1.8 years. The following tables set forth activity and various statistics for restricted stock unit awards outstanding under the respective plans for the period indicated:

	ONE Gas Plan		ONEOK Plans	
	Number of Shares	**Weighted-Average Price**	**Number of Shares**	**Weighted-Average Price**
Nonvested December 31, 2013	—	$ —	**137,670**	**$ 34.57**
Released to participants prior to separation	—	$ —	**(66,960)**	**$ 28.50**
Cancelled and replaced upon separation	**246,683**	**$ 19.71**	**(70,710)**	**$ 40.31**
Granted	**94,865**	**$ 33.19**	—	**$** —
Released to participants	**(7,217)**	**$ 19.85**	—	**$** —
Forfeited	**(8,601)**	**$ 25.76**	—	**$** —
Nonvested December 31, 2014	**325,730**	**$ 23.47**	—	**$** —

	2014	2013	2012
Weighted-average grant date fair value (per share)	**$ 33.19**	$ 47.36	$ 36.60
Fair value of shares granted (thousands of dollars)	**$ 3,149**	$ 1,323	$ 2,046

Performance Stock Unit Award Activity

As of December 31, 2014 , there was $4.9 million of total unrecognized compensation cost related to the nonvested performance stock unit awards, which is expected to be recognized over a weighted-average period of 1.7 years. The following tables set forth activity and various statistics related to our performance stock unit awards and the assumptions used by us, and ONEOK prior to 2014, in the valuations of the 2014, 2013 and 2012 grants at the grant date:

	ONE Gas Plan		ONEOK Plans	
	Number of Units	**Weighted-Average Price**	**Number of Units**	**Weighted-Average Price**
Nonvested December 31, 2013	—	$ —	**264,537**	**$ 40.45**
Released to participants prior to separation	—	$ —	**(128,458)**	**$ 34.68**
Cancelled and replaced upon separation	**739,521**	**$ 14.57**	**(136,079)**	**$ 45.90**
Granted	**124,015**	**$ 35.98**	—	**$** —
Forfeited	**(15,585)**	**$ 19.15**	—	**$** —
Nonvested December 31, 2014	**847,951**	**$ 17.62**	—	**$** —

	2014		2013		2012	
Volatility	**18.40%**	(a)	22.27%	(b)	27.00%	(b)
Dividend yield	**3.37%**		3.04%		2.86%	
Risk-free interest rate	**0.67%**		0.42%		0.38%	

(a) - Volatility based on historical volatility over three years using daily stock price observations of our peer utilities.

(b) - Volatility based on historical volatility over three years using daily ONEOK stock price observations.

		2014		2013		2012
Weighted-average grant date fair value (per share)	**$**	**35.98**	$	52.30	$	42.39
Fair value of shares granted (thousands of dollars)	**$**	**4,462**	$	2,926	$	4,286

Employee Stock Purchase Plan

We have reserved a total of 0.7 million shares of common stock for issuance under our Employee Stock Purchase Plan (the ESPP). Subject to certain exclusions, all employees who work at least 20 hours per week are eligible to participate in the ESPP. Employees can choose to have up to 10 percent of their annual base pay withheld to purchase our common stock, subject to terms and limitations of the plan. The purchase price of the stock is 85 percent of the lower of the average market price of our common stock on the grant date or exercise date. Approximately 36 percent of employees participated in the plan in 2014 and purchased 51,418 shares at $32.29 . Compensation expense, before taxes, was $0.4 million in 2014. All eligible employees of ONEOK were eligible to participate in a similar ESPP plan, but enrollment of our employees in that plan was terminated upon the separation. Compensation expense, before tax, charged to us by ONEOK for employees who directly supported our operations was $2.7 million and $0.8 million for 2013 and 2012, respectively.

Employee Stock Award Program

Under the program, each time the per-share closing price of our common stock on the NYSE closed for the first time at or above each $1.00 increment above its previous historical high closing price, we issued, for no monetary consideration, one share of our common stock to all eligible employees. Shares issued to employees under this program during 2014 totaled 35,324 , and compensation expense, before taxes, related to the Employee Stock Award Program was $2.5 million . Compensation expense, before taxes, charged to us by ONEOK related to a similar program to ours that was administered by ONEOK for employees who directly supported our operations was $4.2 million and $1.2 million for 2013 and 2012, respectively.

12. EMPLOYEE BENEFIT PLANS

Retirement and Other Postretirement Benefit Plans

Prior to separation, certain employees participated in the Plans sponsored by ONEOK. We accounted for the Plans as multiemployer benefit plans. Accordingly, we did not record an asset or liability to recognize the funded status of the Plans. We recognized a liability only for any required contributions to the Plans that were accrued and unpaid at the balance sheet date. These defined benefit pension and other postretirement benefit costs included amounts associated with vested participants who are no longer employees. As described in Note 2, prior to 2014, ONEOK also charged us for the allocated cost of certain employees of ONEOK who provided general and administrative services on our behalf. ONEOK included an allocation of the benefit costs associated with these ONEOK employees based upon its allocation methodology, not necessarily specific to the employees providing general and administrative services on our behalf.

Retirement Plans - We have a defined benefit pension plan covering nonbargaining-unit employees hired before January 1, 2005, and certain bargaining-unit employees hired before December 15, 2011. Nonbargaining unit employees hired after December 31, 2004; employees represented by Local No. 304 of the International Brotherhood of Electrical Workers (IBEW) hired on or after July 1, 2010; employees represented by the United Steelworkers hired on or after December 15, 2011; and employees who accepted a one-time opportunity to opt out of the defined benefit pension plan are covered by a profit-sharing plan. Certain employees of the Texas Gas Services division were entitled to benefits under a frozen cash-balance pension plan. In addition, we have a supplemental executive retirement plan for the benefit of certain officers. No new participants in the supplemental executive retirement plan have been approved since 2005, and it was formally closed to new participants as of January 1, 2014. We fund our defined benefit pension costs at a level needed to maintain or exceed the minimum funding levels required by the Employee Retirement Income Security Act of 1974, as amended, and the Pension Protection Act of 2006. Pension expense in 2014 was $27.1 million . Pension expense charged to us by ONEOK for employees directly supporting our operations totaled $35.0 million and $22.8 million for 2013 and 2012, respectively.

Other Postretirement Benefit Plans - We sponsor health and welfare plans that provide postretirement medical and life insurance benefits to certain employees who retire with at least five years of service. The postretirement medical plan is contributory based on hire date, age and years of service, with retiree contributions adjusted periodically, and contains other cost-sharing features such as deductibles and coinsurance. Other postretirement benefit expense in 2014 was $5.9 million . Other postretirement benefit expense charged to us by ONEOK for employees directly supporting our operations totaled $12.3 million and $16.6 million for 2013 and 2012, respectively.

Actuarial Assumptions - The following table sets forth the weighted-average assumptions used by us, and ONEOK prior to 2014, to determine the periodic benefit costs for the periods indicated:

	Years Ended December 31,		
	2014	**2013**	**2012**
Discount rate - pension plans	**5.25%**	4.25%	5.00%
Discount rate - other postretirement plans	**5.00%**	4.00%	5.00%
Expected long-term return on plan assets	**7.75%**	8.25%	8.25%
Compensation increase rate	**3.35% - 3.50%**	3.45% - 3.50%	3.20% - 3.80%

We determine our overall expected long-term rate of return on plan assets, based on our review of historical returns and economic growth models. As of December 31, 2014, we updated our assumed mortality rates to incorporate the new set of mortality tables issued by the Society of Actuaries in October 2014.

We determine our discount rates annually. We estimate our discount rate based upon a comparison of the expected cash flows associated with our future payments under our defined benefit pension and other postretirement obligations to a hypothetical bond portfolio created using high-quality bonds that closely match expected cash flows. Bond portfolios are developed by selecting a bond for each of the next 60 years based on the maturity dates of the bonds. Bonds selected to be included in the portfolios are only those rated by Moody's as AA- or better and exclude callable bonds, bonds with less than a minimum issue size, yield outliers and other filtering criteria to remove unsuitable bonds.

Regulatory Treatment - The OCC, KCC and regulatory authorities in Texas have approved the recovery of pension costs and other postretirement benefits costs through rates for Oklahoma Natural Gas, Kansas Gas Service and Texas Gas Service, respectively. The costs recovered through rates are based on current funding requirements and the net periodic benefit cost for defined benefit pension and other postretirement costs. Differences, if any, between the expense and the amount recovered through rates would be reflected in earnings, net of authorized deferrals. The KCC has authorized Kansas Gas Service's recovery of defined benefit pension and other postretirement benefit costs in excess of the amounts included in rates over a period of 5 years.

We historically have recovered defined benefit pension and other postretirement benefit costs through rates. We believe it is probable that regulators will continue to include the net periodic pension and other postretirement benefit costs in our cost of service.

Obligations and Funded Status - In connection with the separation from ONEOK, we entered into an Employee Matters Agreement with ONEOK, which provides that our employees no longer participate in benefit plans sponsored or maintained by ONEOK as of the separation date. Effective January 1, 2014, the ONEOK defined benefit pension plans and other postretirement benefit plans transferred assets and obligations related to those employees transferring to ONE Gas and vested participants who are no longer employees to the new ONE Gas plans. As a result, we recorded sponsored pension and other postretirement plan obligations of approximately $1.1 billion , and sponsored defined benefit pension and other postretirement plan assets of approximately $1.0 billion , which are reflected below as our balances at the beginning of the period. Additionally, as a result of the transfer of unrecognized losses from ONEOK, our regulatory assets and deferred income taxes increased $331 million and $86 million , respectively.

The following table sets forth our defined benefit pension and other postretirement benefit plans, benefit obligations and fair value of plan assets for the periods indicated:

		Pension Benefits		Other Postretirement Benefits
		Year Ended December 31, 2014		
Changes in Benefit Obligation		*(Thousands of dollars)*		
Benefit obligation, beginning of period	$	863,620	$	239,171
Service cost		11,620		3,468
Interest cost		43,791		11,605
Plan participants' contributions		—		2,642
Actuarial loss		159,275		14,998
Benefits paid		(50,135)		(14,196)
Benefit obligation, end of period		1,028,171		257,688
Change in Plan Assets				
Fair value of plan assets, beginning of period		840,699		147,237
Actual return on plan assets		53,907		6,912
Employer contributions		925		9,182
Plan participants' contributions		—		2,642
Benefits paid		(50,135)		(14,196)
Fair value of assets, end of period		845,396		151,777
Balance at December 31	$	(182,775)	$	(105,911)
Current liabilities	$	(907)	$	—
Noncurrent liabilities		(181,868)		(105,911)
Balance at December 31	$	(182,775)	$	(105,911)

The accumulated benefit obligation for our defined benefit pension plans was $970.7 million at December 31, 2014.

There are no plan assets expected to be withdrawn and returned to us in 2015.

Components of Net Periodic Benefit Cost - The following table sets forth the components of net periodic benefit cost for our defined benefit pension and other postretirement benefit plans for the period indicated:

		Pension Benefits		Other Postretirement Benefits
		Year Ended December 31, 2014		
		(Thousands of dollars)		
Components of net periodic benefit cost				
Service cost	$	11,620	$	3,468
Interest cost		43,791		11,605
Expected return on assets		(59,862)		(11,393)
Amortization of unrecognized prior service cost		549		(1,760)
Amortization of net loss		30,200		3,969
Settlements		773		—
Net periodic benefit cost	$	27,071	$	5,889

Other Comprehensive Income (Loss) - The following table sets forth the amounts recognized in other comprehensive income (loss) related to our defined benefit pension benefits and other postretirement benefits for the period indicated:

	Pension Benefits	Other Postretirement Benefits
	Year Ended December 31, 2014	
	(Thousands of dollars)	
Net loss arising during the period	$ **(3,543)**	$ **—**
Amortization of loss	**518**	**—**
Deferred income taxes	**1,244**	**—**
Total recognized in other comprehensive income (loss)	$ **(1,781)**	$ **—**

The table below sets forth the amounts in accumulated other comprehensive income (loss) that had not yet been recognized as components of net periodic benefit expense for the period indicated:

	Pension Benefits	Other Postretirement Benefits
	December 31, 2014	
	(Thousands of dollars)	
Prior service credit (cost)	$ **(266)**	$ **4,337**
Accumulated loss	**(426,862)**	**(64,861)**
Accumulated other comprehensive loss before regulatory assets	**(427,128)**	**(60,524)**
Regulatory asset for regulated entities	**418,699**	**60,524**
Accumulated other comprehensive loss after regulatory assets	**(8,429)**	**—**
Deferred income taxes	**3,255**	**—**
Accumulated other comprehensive loss, net of tax	$ **(5,174)**	$ **—**

The following tables set forth the amounts recognized in either accumulated comprehensive income (loss) or regulatory assets expected to be recognized as components of net periodic benefit expense in the next fiscal year:

	Pension Benefits	Other Postretirement Benefits
Amounts to be recognized in 2015	*(Thousands of dollars)*	
Prior service credit (cost)	$ 266	$ (1,760)
Actuarial net loss	$ 44,219	$ 6,040

Health Care Cost Trend Rates - The following table sets forth the assumed health care cost-trend rates for the periods indicated:

	2014
Health care cost-trend rate assumed for next year	**4.00% - 7.75%**
Rate to which the cost-trend rate is assumed to decline (the ultimate trend rate)	**4.00% - 5.00%**
Year that the rate reaches the ultimate trend rate	**2022**

Assumed health care cost-trend rates have a significant effect on the amounts reported for our health care plans. A one percentage point change in assumed health care cost-trend rates would have the following effects:

	One Percentage Point Increase	One Percentage Point Decrease
	(Thousands of dollars)	
Effect on total of service and interest cost	**$ 484**	**$ (463)**
Effect on other postretirement benefit obligation	**$ 6,903**	**$ (6,675)**

Plan Assets - Our investment strategy is to invest plan assets in accordance with sound investment practices that emphasize long-term fundamentals. The goal of this strategy is to maximize investment returns while managing risk in order to meet the plan's current and projected financial obligations. To achieve this strategy, we have established a liability-driven investment strategy to change the allocations as the plan reaches certain funded status. The plan's investments include a diverse blend of various domestic and international equities, investment-grade debt securities which mirror the cash flows of our liability, insurance contracts and alternative investments. The current target allocation for the assets of our defined benefit pension plan is as follows:

U.S. large-cap equities	37.4%
Investment-grade bonds	30.0%
Developed foreign large-cap equities	10.6%
Alternative investments	7.7%
Mid-cap equities	5.6%
Emerging markets equities	5.0%
Small-cap equities	3.7%
Total	100%

As part of our risk management for the plans, minimums and maximums have been set for each of the asset classes listed above. All investment managers for the plan are subject to certain restrictions on the securities they purchase and, with the exception of indexing purposes, are prohibited from owning our stock.

The following tables set forth our pension benefits and other postretirement benefits plan assets by fair value category as of the measurement date:

	Pension Benefits December 31, 2014			
Asset Category	**Level 1**	**Level 2**	**Level 3**	**Total**
	(Thousands of dollars)			
Investments:				
Equity Securities (a)	$ 439,165	$ 66,766	$ —	$ 505,931
Government obligations	—	47,769	—	47,769
Corporate obligations (b)	—	153,412	—	153,412
Cash and money market funds (c)	4,152	16,341	—	20,493
Insurance contracts and group annuity contracts	—	—	59,877	59,877
Other investments (d)	—	—	57,914	57,914
Total assets	$ 443,317	$ 284,288	$ 117,791	$ 845,396

(a) - This category represents securities of the respective market sector from diverse industries.
(b) - This category represents bonds from diverse industries.
(c) - This category is primarily money market funds.
(d) - This category represents alternative investments such as hedge funds.

	Other Postretirement Benefits December 31, 2014			
Asset Category	**Level 1**	**Level 2**	**Level 3**	**Total**
	(Thousands of dollars)			
Investments:				
Equity Securities (a)	$ 49,553	$ 12,589	$ —	$ 62,142
Government obligations	—	78	—	78
Corporate obligations (b)	—	251	—	251
Cash and money market funds (c)	964	5,894	—	6,858
Insurance contracts and group annuity contracts	—	82,353	—	82,353
Other investments (d)	—	—	95	95
Total assets	$ 50,517	$ 101,165	$ 95	$ 151,777

(a) - This category represents securities of the respective market sector from diverse industries.
(b) - This category represents bonds from diverse industries.
(c) - This category is primarily money market funds.
(d) - This category represents alternative investments such as hedge funds.

The following table sets forth the reconciliation of Level 3 fair value measurements of our pension plans:

	Pension Benefits December 31, 2014		
	Insurance Contracts	**Other Investments**	**Total**
	(Thousands of dollars)		
January 1, 2014	$ 63,454	$ 73,590	$ 137,044
Net realized and unrealized gains (losses)	3,446	(15,676)	(12,230)
Settlements	(7,023)	—	(7,023)
December 31, 2014	$ 59,877	$ 57,914	$ 117,791

Contributions - During 2014, we contributed $0.9 million to our defined benefit pension plans and we contributed $9.2 million to our other postretirement benefit plans. In 2015, we expect to contribute $0.9 million to our defined benefit pension plans and expect to contribute $3.9 million to our other postretirement benefit plans.

Pension and Other Postretirement Benefit Payments - Benefit payments for our defined benefit pension and other postretirement benefit plans for the period ended December 31, 2014 were $50.1 million and $14.2 million , respectively. The following table sets forth the pension benefits and other postretirement benefits payments expected to be paid in 2015-2024:

	Pension Benefits	Other Postretirement Benefits
Benefits to be paid in:	*(Thousands of dollars)*	
2015	$ 51,253	$ 13,611
2016	$ 52,366	$ 14,283
2017	$ 53,622	$ 15,084
2018	$ 55,068	$ 15,776
2019	$ 56,236	$ 16,398
2020 through 2024	$ 301,502	$ 88,596

The expected benefits to be paid are based on the same assumptions used to measure our benefit obligation at December 31, 2014, and include estimated future employee service.

Other Employee Benefit Plans

401(k) Plan - We have a 401(k) Plan which covers all full-time employees, and employee contributions are discretionary. We match 100 percent of each participant’s eligible contribution up to 6 percent of each participant’s eligible compensation, subject to certain limits. Our contributions made to the plan were $9.7 million in 2014. Prior to our separation, ONEOK maintained a similar 401(k) Plan and compensation expense charged to us for employees who directly supported our operations by ONEOK totaled $8.3 million and $8.4 million in 2013 and 2012, respectively for ONEOK’s matching contributions to this plan.

Profit-Sharing Plan - We have a profit-sharing plan for all nonbargaining unit employees hired after December 31, 2004, and employees covered by the IBEW collective bargaining agreement hired after June 30, 2010, and employees covered by USW collective bargaining agreement hired after December 15, 2011. Nonbargaining unit employees who were employed prior to January 1, 2005, employees covered by the IBEW collective bargaining agreement employed prior to July 1, 2010, and employees covered by the United Steelworker collective bargaining agreement employed prior to December 16, 2011, were given a one-time opportunity to make an irrevocable election to participate in the profit-sharing plan and not accrue any additional benefits under ONEOK’s defined benefit pension plan after December 31, 2004, and June 30, 2010, respectively. We plan to make a contribution to the profit-sharing plan each quarter equal to 1 percent of each participant’s eligible compensation during the quarter. Additional discretionary employer contributions may be made at the end of each year. Employee contributions are not allowed under the plan. Our contributions made to the plan were $4.0 million in 2014. ONEOK maintained a similar Profit-Sharing Plan and compensation expense associated with ONEOK’s contributions made to the plan for employees who directly supported our operations prior to the separation were $1.6 million and $2.1 million in 2013 and 2012, respectively.

Employee Deferred Compensation Plan - Our Nonqualified Deferred Compensation Plan provides select employees, as approved by our Board of Directors, with the option to defer portions of their compensation and provides nonqualified deferred compensation benefits that are not available due to limitations on employer and employee contributions to qualified defined contribution plans under the federal tax laws. Contributions made to the plan were not material in 2014. ONEOK maintained a similar plan and contributions made to the plan for employees who directly supported our operations prior to the separation were not material in 2013 and 2012.

13. INCOME TAXES

The following table sets forth our provision for income taxes for the periods indicated:

	Years Ended December 31,		
	2014	2013	2012
	(*Thousands of dollars*)		
Current income tax provision			
Federal	**$ 17,006**	$ —	$ —
State	**1,397**	67	360
Total current income tax provision	**18,403**	67	360
Deferred income tax provision			
Federal	**42,024**	53,562	51,481
State	**7,911**	8,643	8,010
Total deferred income tax provision	**49,935**	62,205	59,491
Total provision for income taxes	**$ 68,338**	$ 62,272	$ 59,851

The following table is a reconciliation of our income tax provision for the periods indicated:

	Years Ended December 31,		
	2014	2013	2012
	(*Thousands of dollars*)		
Income before income taxes	**$ 178,128**	$ 161,467	$ 156,360
Federal statutory income tax rate	**35%**	35%	35%
Provision for federal income taxes	**62,345**	56,513	54,726
State income taxes, net of federal tax benefit	**6,051**	5,661	5,423
Other, net	**(58)**	98	(298)
Total provision for income taxes	**$ 68,338**	$ 62,272	$ 59,851

Prior to separation, our operations were included in the consolidated federal and state income tax returns of ONEOK. Our income tax provision was calculated on a separate return basis. Accordingly, we recognized deferred tax assets and liabilities for the difference between the financial statement and income tax basis of assets and liabilities and carry-forward items, based on income tax laws and rates existing at the time the temporary differences are expected to reverse as if we had been a corporation for federal and state income tax purposes. In addition, ONEOK managed its tax position based upon the tax attributes of the consolidated group. Certain attributes may not be available to use if we had been operating as an independent company.

The following table sets forth the tax effects of temporary differences that gave rise to significant portions of the deferred tax assets and liabilities for the periods indicated:

	December 31,	
	2014	2013
	(*Thousands of dollars*)	
Deferred tax assets		
Employee benefits and other accrued liabilities	**$ 128,715**	$ —
Net operating loss	**8,144**	40,125
Other	**5,655**	8,249
Total deferred tax assets	**142,514**	48,374
Deferred tax liabilities		
Excess of tax over book depreciation	**820,853**	750,305
Purchased-gas cost adjustment	**16,177**	4,695
Other regulatory assets and liabilities, net	**193,159**	2,563
Total deferred tax liabilities	**1,030,189**	757,563
Net deferred tax liabilities	**$ 887,675**	$ 709,189

At December 31, 2014, we had income taxes receivable of $43.8 million . We had no income taxes payable or receivable at December 31, 2013.

In accordance with the Tax Matters Agreement, a cash settlement of $3.8 million is expected from ONEOK related to both the filing of ONEOK's income tax return for the calendar year ended December 31, 2013 and for the January 1, 2014, through January 31, 2014 period. Our net deferred tax liabilities were adjusted to reflect this settlement.

The net operating loss of $8.1 million expires in 2035. We expect to utilize all of the net operating loss prior to its expiration date.

14. COMMITMENTS AND CONTINGENCIES

Commitments - Operating leases represent future minimum lease payments under noncancelable leases covering office space, facilities and information technology hardware and software. Rental expense was $5.0 million in 2014 and $4.8 million in each of 2013 and 2012. The following table sets forth our operating lease payments for the periods indicated:

	Operating Leases	
	(*Millions of dollars*)	
2015	$	4.7
2016		4.5
2017		4.3
2018		4.0
2019		3.4
Thereafter		10.4
Total	$	31.3

Environmental Matters - We are subject to multiple historical, wildlife preservation and environmental laws and/or regulations, which affect many aspects of our present and future operations. Regulated activities include, but are not limited to, those involving air emissions, storm water and wastewater discharges, handling and disposal of solid and hazardous wastes, wetland preservation, hazardous materials transportation, and pipeline and facility construction. These laws and regulations require us to obtain and/or comply with a wide variety of environmental clearances, registrations, licenses, permits and other approvals. Failure to comply with these laws, regulations, licenses and permits may expose us to fines, penalties and/or interruptions in our operations that could be material to our results of operations. In addition, emission controls and/or other regulatory or permitting mandates under the Clean Air Act and other similar federal and state laws could require unexpected capital expenditures. We cannot assure that existing environmental statutes and regulations will not be revised or that new regulations will not be adopted or become applicable to us. Revised or additional statutes or regulations that result in increased compliance costs or additional operating restrictions could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We own or retain legal responsibility for the environmental conditions at 12 former manufactured natural gas sites in Kansas. These sites contain potentially harmful materials that are subject to control or remediation under various environmental laws and regulations. A consent agreement with the KDHE governs all work at these sites. The terms of the consent agreement allow us to investigate these sites and set remediation activities based upon the results of the investigations and risk analysis. Remediation involves typically the management of contaminated soils and may involve removal of structures and monitoring and/or remediation of groundwater.

We have completed or addressed removal of the source of soil contamination at 11 of the 12 sites according to plans approved by KDHE. Regulatory closure has been achieved at three of the sites. We have begun site assessment at the remaining site where no active remediation has occurred.

Our expenditures for environmental evaluation, mitigation, remediation and compliance to date have not been significant in relation to our financial position, results of operations or cash flows, and our expenditures related to environmental matters had no material effects on earnings or cash flows during 2014, 2013 and 2012 . We do not expect to incur material expenditures for these matters in the future.

Pipeline Safety - We are subject to PHMSA regulations, including integrity-management regulations. The Pipeline Safety Improvement Act requires pipeline companies operating high-pressure pipelines to perform integrity assessments on pipeline segments that pass through densely populated areas or near specifically designated high-consequence areas. In January 2012, the Pipeline Safety, Regulatory Certainty and Job Creation Act was signed into law. The law increased maximum penalties for violating federal pipeline safety regulations and directs the DOT and Secretary of Transportation to conduct further review or studies on issues that may or may not be material to us. These issues include but are not limited to the following:

- an evaluation of whether natural gas pipeline integrity-management requirements should be expanded beyond current high-consequence areas;
- a verification of records for pipelines in class 3 and 4 locations and high-consequence areas to confirm maximum allowable operating pressures; and
- a requirement to test previously untested pipelines operating above 30 percent yield strength in high-consequence areas.

The potential capital and operating expenditures related to this legislation, the associated regulations or other new pipeline safety regulations are unknown.

Legal Proceedings - We are a party to various litigation matters and claims that have arisen in the normal course of our operations. While the results of litigation and claims cannot be predicted with certainty, we believe the reasonably possible losses from such matters, individually and in the aggregate, are not material. Additionally, we believe the probable final outcome of such matters will not have a material adverse effect on our results of operations, financial position or cash flows.

15. QUARTERLY FINANCIAL DATA (UNAUDITED)

Year Ended December 31, 2014	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
		(Thousands of dollars)		
Revenues	**$ 766,178**	**$ 296,838**	**$ 241,522**	**$ 514,368**
Net margin	**$ 259,836**	**$ 176,493**	**$ 166,452**	**$ 224,176**
Operating income	**$ 109,353**	**$ 26,812**	**$ 19,119**	**$ 70,010**
Net income	**$ 59,076**	**$ 9,454**	**$ 4,653**	**$ 36,607**
Earnings per share				
Basic	**$ 1.13**	**$ 0.18**	**$ 0.09**	**$ 0.70**
Diluted	**$ 1.13**	**$ 0.18**	**$ 0.09**	**$ 0.69**

Year Ended December 31, 2013	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
		(Thousands of dollars)		
Revenues	$ 635,933	$ 311,608	$ 219,725	$ 522,686
Net margin	$ 251,674	$ 178,447	$ 159,233	$ 223,654
Operating income	$ 101,838	$ 39,307	$ 14,189	$ 65,014
Net income	$ 53,492	$ 14,951	$ 434	$ 30,318
Earnings per share				
Basic and diluted	$ 1.02	$ 0.29	$ 0.01	$ 0.58

ONE Gas, Inc. **Attachment B-6**
Financial Ratios
For the Year Ended December 31, 2014

	Utility Operations
Total debt to total capitalization	
Notes payable (includes commercial paper)	42,000
Current maturities of long-term debt	6
Current portion of capitalized lease obligations	-
Long-term debt	1,201,311
Capitalized lease obligation	-
Total off balance sheet debt	1,243,317
Notes payable (includes commercial paper)	42,000
Current maturities of long-term debt	6
Current portion of capitalized lease obligations	-
Long-term debt	1,201,311
Capitalized lease obligation	-
Total equity	1,794,037
Total capitalization	3,037,354
Total debt to total capitalization	**41%**
Funds from operations interest coverage	
Net income from continuing operations	109,790
Depreciation & amortization	125,722
Deferred income taxes (excluding investment tax credit)	49,935
Investment tax credit	-
Allowance for debt funds used during construction	(2,538)
Allowance for equity funds used during construction	-
Equity earnings from investments	-
Distributions received	-
Gain (loss) on sale of assets	-
Deferred income tax adjustment	-
	282,909
Cash paid for interest, net of amounts capitalized	21,066
Allowance for debt funds used during construction	2,538
Interest expense adjustment	-
Interest on off balance sheet debt	-
	23,604
	306,513
Interest expense, net	45,842
Interest expense adjustment	-
Allowance for debt funds used during construction	2,538
Interest on off balance sheet debt	-
	48,380
Funds from operations interest coverage	**6.34**
Funds from operations as a percentage of total debt	
Net income from continuing operations	109,790
Depreciation & amortization	125,722
Deferred income taxes (excluding investment tax credit)	49,935
Investment tax credit	-
Allowance for equity funds used during construction	-
Allowance for debt funds used during construction	(2,538)
Equity earnings from investments	-
Distributions received	-
Gain (loss) on sale of assets	-
Deferred income tax adjustment	-
	282,909
Notes payable (includes commercial paper)	42,000
Current maturities of long-term debt	6
Current portion of capitalized lease obligations	-
Long-term debt	1,201,311
Capitalized lease obligations	-
Total off balance sheet debt	-
	1,243,317
Funds from operations as a percentage of total debt	**23%**