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 30, 2014

Ms. Kim Christiansen
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. Christiansen:

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.	)	

KCC Requirement:

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.

KGS Response

A.

   1. See the attached Cost Allocation Manual that was in effect beginning February 1, 2014. Revisions to the previously filed CAM were made in order to describe the new allocations resulting from the formation of ONE Gas.
   2. Not Applicable

KCC Requirement

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).

KGS Response

B.

1. Please see the attached organization chart, containing KGS affiliated entities within ONE Gas as of February 1, 2014.
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 2013 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:

Edward Jones
Gabelli & Co.
ISI Natural Gas & Midstream
Jefferies
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 risk and credit 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.
Credit and risk control	Allocated using a causal relationship derived from an internally developed analysis of the business entities receiving services from these departments.
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 and business process improvement (which includes our costs related to compliance with the Sarbanes-Oxley Act of 2002)	1. Allocated to the business entities using the causal relationship of the number of audits performed at each 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.
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.

Corporate Communications

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

Types of Costs	Allocation Methodology
Investor relations	Allocated through the OGS-Distrigas methodology.
Governmental affairs	1. Allocated using a causal relationship derived from an internally developed analysis of employees' time spent related to each

	business entity. 2. General costs not attributable to a specific business entity are allocated 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.

Other

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. Risk Management Software: Allocated using the causal relationship derived from an internally developed analysis of the business entities receiving services from the Finance & Accounting Group's Risk Control Department. d. Dynamic Risk pipeline safety software: Allocated using the causal relationship of miles of pipe for the entities using the software. e. Ariba accounts payable software: Allocated using the casual relationship derived from an internally developed analysis of invoice processing volume by business entity. f. Maximo: Allocated using the casual relationship of user count for each business entity. g. Concur: Allocated using the casual relationship of employee count for each

	business entity. h. Journey: Allocated using the casual relationship of employee count for each business entity.

ONE Gas, Inc.
Appendix A
Calculation of Allocation Ratios Using Distrigas Method

Attachment A-1

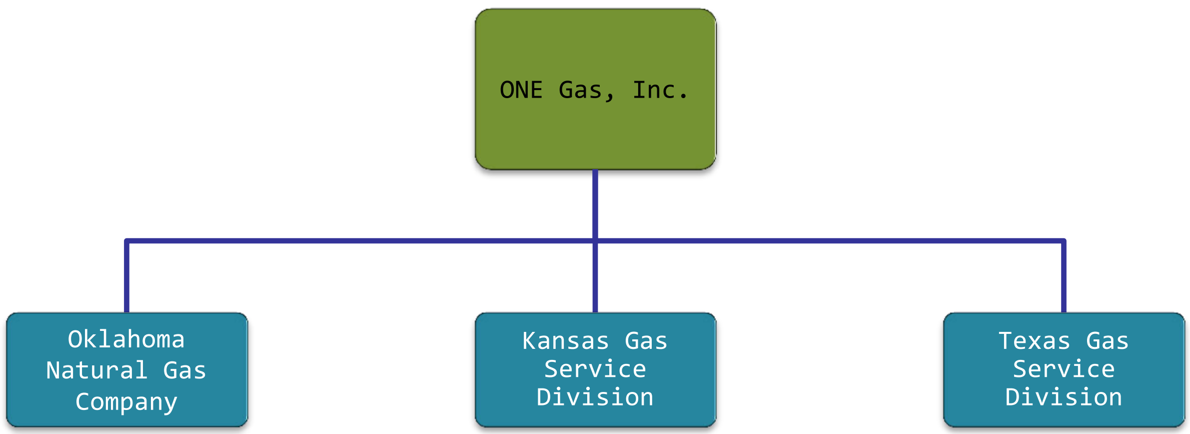
Based on 12 Months Ended Mar-14
DISTRIGAS % FOR 2nd QTR 2014

	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 Q2 % Allocation Ratio	2014 Q1 % Allocation Ratio	Q2 Change
ONEOK - OKE										
Distribution										
21	Oklahoma Natural Gas Company	1,895,197,469	42.08%	112,118,954	48.31%	49,183,193	38.34%	42.91%	43.22%	-0.31%
51	Kansas Gas Service Company	1,611,538,788	35.79%	71,235,937	30.69%	48,151,382	37.53%	34.67%	34.58%	0.09%
91	Texas Gas Service Company	996,598,788	22.13%	48,747,749	20.99%	30,951,634	24.13%	22.42%	22.20%	0.22%
Total OKE DISTRIBUTION		**4,503,335,045**	**100.00%**	**232,102,640**	**99.99%**	**128,286,209**	**100.00%**	**100.00%**	**100.00%**	**0.00%**
TOTAL		**4,503,335,045**	**100.00%**	**232,102,640**	**99.99%**	**128,286,209**	**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. 010 to Co. 21 at 40.01% Co. 51 at 30.11% and Co. 91 at 29.88%

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

ONE Gas, Inc. Regulated Operating Divisions



ONE Gas, Inc.
Attachment B-4

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					-
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 sheet presents fairly in all material respects, the financial position of ONE Gas, Inc. at December 31, 2013, 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, 2013, based on criteria established in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for this financial statement, 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 this financial statement and on the Company's internal control over financial reporting based on our integrated audit. We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audit of the financial statement included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement, 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 audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides 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 25, 2014

ONE Gas, Inc.
BALANCE SHEET

		December 31, 2013
Assets		
Cash	**$**	**1**
Total assets	**$**	**1**
Equity		
Common stock, $0.01 par value: authorized 1,000 shares; 100 shares issued and outstanding	**$**	**1**
Total equity	**$**	**1**

See accompanying ONE Gas, Inc. Notes to Balance Sheet.

ONE Gas, Inc.
NOTES TO BALANCE SHEET

1. DESCRIPTION OF BUSINESS

We were formed on August 30, 2013, as a wholly owned subsidiary of ONEOK, to hold ONEOK's natural gas distribution business and to have our shares distributed to ONEOK's shareholders. We have not incurred any income, expenses or cash flows from our date of formation through December 31, 2013. After the Separation, ONEOK did not retain any ownership interest in our company. We are the largest natural gas distributor in Oklahoma and Kansas and the third largest natural gas distributor in Texas, providing service as a regulated public utility to wholesale and retail customers. Our largest distribution markets are Oklahoma City and Tulsa, Oklahoma; Kansas City, Wichita and Topeka, Kansas; and Austin and El Paso, Texas.

2. SUBSEQUENT EVENTS

Distribution - 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.

In order to allow 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, 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 shares 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. No preferred shares have been issued. 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.

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 notes due 2044. 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.

The indenture governing our senior notes due 2019, 2024 and 2044 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 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 due 2019, 2024, and 2044 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 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.

In connection with the issuance of our senior notes due 2019, 2024 and 2044, we entered into a registration rights agreement, pursuant to which we are 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 our senior notes due 2019, 2024 and 2044 for new notes, with terms substantially identical in all material respects to such series of our senior notes. Alternatively, if the exchange offers are not available, cannot be completed or some holders are not able to participate in the exchange offers for one or more series of notes, we will be required to use our commercially reasonable efforts to file a shelf registration statement to cover resales of our senior notes under the Securities Act. If we do not comply with these obligations, we will be required to pay additional interest on our senior notes due 2019, 2024 and 2044 under specified circumstances.

ONE Gas Credit Agreement - 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 our 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 us, amounts outstanding under the ONE Gas Credit Agreement may become due and payable immediately.

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, upon satisfaction of customary conditions, including receipt of 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. Borrowings, if any, will accrue interest at LIBOR plus 79.5 basis points, and the annual facility fee is 8 basis points based on our current credit rating.

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.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of ONEOK, Inc.:

In our opinion, the accompanying balance sheets and the related statements of income, changes in owner's net investment and cash flows present fairly in all material respects, the financial position of ONE Gas Predecessor at December 31, 2013 and 2012, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2013 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, 2013, based on criteria established in *Internal Control - Integrated Framework (1992)* 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 was an integrated audit in 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 25, 2014

ONE Gas Predecessor
STATEMENTS OF INCOME

	Years Ended December 31,		
	2013	2012	2011
	(*Thousands of dollars*)		
Revenues	**$ 1,689,952**	$ 1,376,649	$ 1,621,334
Cost of natural gas, including affiliate	**876,944**	620,260	869,499
Net margin	**813,008**	756,389	751,835
Operating expenses			
Operations and maintenance, including affiliate	**393,072**	363,120	373,511
Depreciation and amortization, including affiliate	**144,758**	130,150	132,212
General taxes	**54,830**	47,405	46,452
Total operating expenses	**592,660**	540,675	552,175
Operating income	**220,348**	215,714	199,660
Other income, including affiliate	**6,165**	3,664	140
Other expense, including affiliate	**(3,680)**	(2,225)	(2,919)
Interest expense, including affiliate	**(61,366)**	(60,793)	(54,119)
Income before income taxes	**161,467**	156,360	142,762
Income taxes	**(62,272)**	(59,851)	(56,004)
Net income	**$ 99,195**	$ 96,509	$ 86,758

See accompanying ONE Gas Predecessor Notes to Financial Statements.

ONE Gas Predecessor
BALANCE SHEETS

	December 31, 2013	December 31, 2012
Assets	*(Thousands of dollars)*	
Property, plant and equipment		
Property, plant and equipment	**$ 4,534,074**	$ 4,269,377
Accumulated depreciation and amortization	**1,489,216**	1,442,423
Net property, plant and equipment (Note 6)	**3,044,858**	2,826,954
Current assets		
Cash	**3,171**	4,040
Accounts receivable, net	**356,988**	260,306
Natural gas in storage	**166,128**	102,989
Regulatory assets (Note 5)	**21,657**	68,719
Other current assets	**54,240**	21,040
Total current assets	**602,184**	457,094
Goodwill and other assets		
Regulatory assets (Note 5)	**23,822**	38,178
Goodwill	**157,953**	157,953
Other assets	**17,658**	11,153
Total goodwill and other assets	**199,433**	207,284
Total assets	**$ 3,846,475**	$ 3,491,332

See accompanying ONE Gas Predecessor Notes to Financial Statements.

ONE Gas Predecessor
BALANCE SHEETS
(Continued)

	December 31, 2013	December 31, 2012
Equity and Liabilities	(*Thousands of dollars*)	
Equity and long-term debt		
Owner’s net investment	**$ 1,239,023**	$ 1,154,797
Long-term debt, excluding current maturities	**1,318**	1,323
Long-term line of credit with ONEOK	**1,027,631**	1,027,631
Total equity and long-term debt	**2,267,972**	2,183,751
Current liabilities		
Current maturities of long-term debt	**6**	206
Short-term note payable to ONEOK	**444,960**	294,109
Affiliate payable	**22,403**	21,087
Accounts payable	**169,500**	137,276
Accrued taxes other than income	**32,426**	29,977
Customer deposits	**57,360**	58,087
Other current liabilities	**42,422**	37,960
Total current liabilities	**769,077**	578,702
Deferred credits and other liabilities		
Deferred income taxes	**743,452**	649,303
Other deferred credits	**65,974**	79,576
Total deferred credits and other liabilities	**809,426**	728,879
Commitments and contingencies (Note 10)		
Total liabilities and equity	**$ 3,846,475**	$ 3,491,332

See accompanying ONE Gas Predecessor Notes to Financial Statements.

ONE Gas Predecessor
STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2013	2012	2011
	(Thousands of dollars)		
Operating activities			
Net income	**$ 99,195**	$ 96,509	$ 86,758
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**144,758**	130,150	132,212
Deferred income taxes	**62,205**	59,491	87,184
Provision for doubtful accounts	**5,460**	2,528	2,741
Changes in assets and liabilities:			
Accounts receivable	**(102,142)**	10,016	(18,216)
Natural gas in storage	**(63,139)**	30,154	2,025
Asset removal costs	**(46,567)**	(47,658)	(35,438)
Affiliate payable	**(8,140)**	(7,229)	(683)
Accounts payable	**37,241**	(3,950)	(11,300)
Accrued taxes other than income	**2,449**	174	1,399
Customer deposits	**(727)**	(1,254)	(826)
Regulatory assets and liabilities	**29,436**	(59,338)	(33,804)
Other assets and liabilities	**(5,821)**	(13,006)	(19,262)
Cash provided by operating activities	**154,208**	196,587	192,790
Investing activities			
Capital expenditures	**(292,080)**	(272,014)	(240,996)
Proceeds from sale of assets	**1,327**	1,462	195
Cash used in investing activities	**(290,753)**	(270,552)	(240,801)
Financing activities			
Increase in short-term notes payable to ONEOK, net	**150,851**	58,692	74,975
Borrowings on long-term line of credit with ONEOK	**—**	115,235	155,974
Repayment of long-term debt	**(206)**	(330)	(305)
Distributions to ONEOK	**(14,969)**	(100,067)	(180,158)
Cash provided by financing activities	**135,676**	73,530	50,486
Change in cash and cash equivalents	**(869)**	(435)	2,475
Cash and cash equivalents at beginning of period	**4,040**	4,475	2,000
Cash and cash equivalents at end of period	**$ 3,171**	$ 4,040	$ 4,475
Supplemental cash flow information:			
Cash paid for interest, net of amounts capitalized	**$ 61,366**	$ 60,793	$ 54,119
Cash paid to (received from) ONEOK for income taxes	**$ 67**	$ 360	$ (31,180)

See accompanying ONE Gas Predecessor Notes to Financial Statements.

ONE Gas Predecessor
STATEMENTS OF CHANGES IN OWNER'S NET INVESTMENT

		Owner's Net Investment
		(*Thousands of dollars*)
January 1, 2011	$	1,251,755
Net income		86,758
Distributions to ONEOK		(180,158)
December 31, 2011		1,158,355
Net income		96,509
Distributions to ONEOK		(100,067)
December 31, 2012		1,154,797
Net income		**99,195**
Distributions to ONEOK		**(14,969)**
December 31, 2013	**$**	**1,239,023**

See accompanying ONE Gas Predecessor Notes to Financial Statements.

ONE Gas Predecessor
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. Operations of our company are located in the United States and 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, these natural gas distribution companies serve wholesale and public authority customers.

Basis of Presentation - These financial statements have been derived from ONEOK's financial statements, which include its natural gas distribution business as if ONE Gas Predecessor, 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 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 and information technology. 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.

Because the operations of the 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 stockholder's equity in the financial statements. Transactions between ONEOK and us which were not part of the long-term line of credit or the short-term notes payable with ONEOK have been identified in the Statements of Changes in Owner's Net Investment as distributions to ONEOK. Transactions with ONEOK's other operating businesses, which generally settle monthly, are shown as accounts receivable-affiliate or accounts payable-affiliate. See Note 3 for additional information on our transactions with ONEOK and its affiliates.

The financial statements include the accounts of the natural gas distribution business as set forth in "Organization and Nature of Operations" and "Basis of Presentation" 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 4 for additional disclosures of our fair value measurements.

Cash and Cash Equivalents - We participated in the ONEOK cash management program rather than maintaining significant cash equivalent balances. Amounts due to ONEOK resulting from the cash management program are recorded as a short-term note payable to ONEOK. See Note 3 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. Revenues are accrued for natural gas delivered and services rendered to customers, but not yet billed, based on estimates from the last meter reading date to month end (accrued unbilled revenue). The billing cycles for customers do not necessarily coincide with the accounting periods used for financial reporting purposes.

Accounts Receivable - Accounts receivable represent valid claims against nonaffiliated customers for natural gas sold or services rendered, net of allowances for doubtful accounts. We accrue unbilled revenues for natural gas that has been delivered but not yet billed at the end of an accounting period. 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, 2013 and 2012, were $143.7 million and $127.1 million, respectively.

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 most jurisdictions, we are able to recover natural gas costs related to doubtful accounts through purchased-gas cost adjustment mechanisms. At December 31, 2013 and 2012, our allowance for doubtful accounts was $3.3 million and $2.7 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 $16.6 million and $18.3 million at December 31, 2013 and 2012, 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 4 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 or results of operations.

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 6 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, 2013 and 2012, respectively. Our goodwill impairment analysis performed in 2013 and 2012, utilized a qualitative assessment and did not result in any impairment indicators. Subsequent to July 1, 2013, no event has occurred indicating that the implied fair value is less than the carrying value of our net assets. There also was no impairment charge resulting from our 2011 annual impairment test. A decline of 10 percent in our estimated fair value utilized in our 2011 test would not have resulted in an impairment indicator.

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 2013, 2012 or 2011.

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 rate-making 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 interim capital investment mechanisms such as GSRS and GRIP; interim rate adjustment mechanisms such as PBRC and cost of service adjustments, 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, third-party 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 5 for our regulatory asset and liability disclosures.

Pension and Postretirement Employee Benefits - 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 provide general corporate services. These amounts were charged to us by ONEOK as described in Note 3. See Note 8 for additional information regarding pension and postretirement employee benefit plans.

For the periods presented, we were not the plan sponsor for these benefit plans. Accordingly, our Balance Sheets do not reflect any assets or liabilities related to these benefit plans.

Income Taxes - Our operations were included in the consolidated federal and state income tax returns of ONEOK. Our income tax provision has been calculated on a separate return basis. Accordingly, we have 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 were a corporation for federal and state income tax purposes. In addition, ONEOK manages its tax position based upon the tax attributes of the consolidated group. Certain attributes may not be available to us if we were operating as an independent company.

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 the OCC, KCC, RRC and various municipalities in Texas.

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, 2013 and 2012.

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, 2013 and 2012.

See Note 9 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 10 for additional discussion of contingencies.

Share-Based Payments - Certain employees providing direct service to us participated in ONEOK's share-based awards plans. The plans provide for ONEOK common stock based awards to both employees and ONEOK's nonmanagement directors. The plans permit the granting of various types of awards including, but not limited to, performance units and restricted stock units. Awards may be granted for no consideration other than prior and future services or based on certain financial performance targets.

ONEOK charges us for compensation expense related to stock-based compensation awards granted to our employees that directly support our operations. Share-based compensation is also a component of allocated amounts charged to us by ONEOK for general and administrative personnel providing services on our behalf.

Earnings per Common Share - Historical earnings per share are not presented because we did not have common stock that was part of our capital structure for the periods presented.

Segments - We operate in one business segment: regulated public utilities that deliver natural gas to residential, commercial, industrial and transportation customers. We define 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 which 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 3. 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 2013, 2012 and 2011, we had no single external customer from which we received 10 percent or more of our gross revenues.

2. SUBSEQUENT EVENTS

Distribution - 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.

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, then used a portion of those proceeds to fund a cash payment of approximately $1.13 billion to ONEOK. 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.

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 notes due 2044. 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.

The indenture governing our senior notes due 2019, 2024 and 2044 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 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 due 2019, 2024, and 2044 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 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.

In connection with the issuance of our senior notes due 2019, 2024 and 2044, we entered into a registration rights agreement, pursuant to which we are 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 our senior notes due 2019, 2024 and 2044 for new notes, with terms substantially identical in all material respects to such series of our senior note. Alternatively, if the exchange offers are not available or cannot be completed or some holders are not able to participate in the exchange offers for one or more series of notes, we will be required to use our commercially reasonable efforts to file a shelf registration statement to cover resales of our senior notes under the Securities Act. If we do not comply with these obligations, we will be required to pay additional interest on our senior notes due 2019, 2024 and 2044 under specified circumstances.

ONE Gas Credit Agreement - 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' 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.

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.

3. RELATED-PARTY TRANSACTIONS

Affiliate Transactions - We have certain transactions with ONEOK and its subsidiaries. We purchase a portion of our natural gas supply and natural gas transportation and storage services from ONEOK and its affiliates. These contracts are awarded through a competitive-bidding process, and the costs are recoverable through our purchased-gas cost mechanisms.

The Statements of Income include 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 are incurred specifically on our behalf, the costs are billed directly to us by ONEOK. In other situations, the costs may be allocated to us through a variety of methods, depending upon the nature of the expenses. For example, a service that applies equally to all employees of ONEOK is allocated based upon the number of employees in each ONEOK affiliate. An expense benefiting the company but having no direct basis for allocation is 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 include the following costs:

Corporate Services - Represents costs for certain employees of ONEOK who provide general and administrative services on our behalf. These charges are either directly identifiable or allocated based upon usage factors for our operations. In addition, we receive other allocated costs for our share of general corporate expenses of ONEOK, which are determined based on our relative use of the service or, if there is no direct basis for allocation, are 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 - Represents benefit costs and other incentives, including group health and welfare benefits, pension plans, postretirement benefit plans and employee stock-based compensation plans. Costs associated with incentive and stock-based compensation plans are determined on a specific identification basis for certain employees who directly support our operations. All other employee benefit costs historically have been 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 includes 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, $12.4 million and $22.6 million during 2013, 2012 and 2011, respectively. See Note 7 for additional information regarding share-based payments. Total cost charged to us by ONEOK related to pension and postretirement health and welfare plans was $52.1 million, $43.4

million and $40.3 million during 2013, 2012 and 2011, respectively, which is net of amounts deferred through regulatory mechanisms of $1.8 million, $4.1 million and $3.7 million during 2013, 2012 and 2011, respectively. See Note 8 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 unsecured promissory notes 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 short-term debt and such interest was added monthly to the note principal.

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	2011
	(*Thousands of dollars*)		
Cost of natural gas	**$ 226,582**	$ 135,650	$ 203,585
Operations and maintenance			
Direct employee labor and benefit costs	**177,526**	165,798	178,151
Allocated employee labor and benefit costs	**29,955**	24,994	25,452
Charges for general and administrative services	**36,078**	24,059	28,266
Depreciation and amortization	**6,940**	6,033	6,444
Other (income)/expense, net	**(5,073)**	(2,668)	1,419
Interest expense	**60,930**	60,305	53,357
Total	**$ 532,938**	$ 414,171	$ 496,674

Employee labor and benefit costs capitalized totaled $49.3 million, $46.1 million and $43.0 million for 2013, 2012 and 2011, respectively. In addition, we recorded regulated utility revenue from ONEOK and its subsidiaries. These amounts were immaterial for all periods presented.

Cash Management - ONEOK uses a centralized cash management program that concentrates 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 provides that funds in excess of the daily needs of the operating divisions and subsidiaries are 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 has short-term cash requirements or cash surpluses, ONEOK provides cash to its respective divisions or subsidiaries or the divisions or subsidiaries provide cash to ONEOK. The amounts receivable, or due, under this program are due on demand. Activities under this program are 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, 0.96 percent and 0.82 percent for 2013, 2012 and 2011, 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.

Affiliate receivables were not material as of December 31, 2013 and 2012, 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, 6.43 percent and 6.87 percent in 2013, 2012 and 2011, respectively. The interest rate on the revolver is 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.

4. DERIVATIVE FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

Derivative Instruments - We held purchased natural gas call options with fair values of $8.7 million and $1.8 million at December 31, 2013 and 2012, respectively. The premiums paid are recorded in current regulatory assets as these contracts are included in, and recoverable through, the purchased-gas cost adjustment mechanisms. We recorded losses of $4.5 million, $5.9 million and $14.5 million for the years ended December 31, 2013, 2012 and 2011, respectively, which are deferred as part of our unrecovered purchased-gas costs in current regulatory assets or other current liabilities 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 years ended December 31, 2013, 2012 and 2011.

All of our natural gas derivative financial contracts are with our affiliate ONEOK Energy Services Company, a subsidiary of ONEOK. ONEOK Energy Services Company entered into similar natural gas derivative financial contracts with third parties at our direction and on our behalf. ONEOK announced an accelerated wind down of ONEOK Energy Services Company operations that is expected to be substantially completed by April 2014. We expect to enter into natural gas derivative financial contracts with third parties in the future.

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.

Debt payable to ONEOK includes short-term notes payable and a long-term line of credit as discussed in Note 3. The short-term notes payable to ONEOK are due upon demand and, therefore, the carrying amounts approximate fair value and are classified as Level 1. The estimated fair value of our long-term line of credit with ONEOK was $1.2 billion and $1.3 billion at December 31, 2013 and 2012, respectively. The book value of our long-term line of credit with ONEOK was $1.0 billion at December 31, 2013 and 2012, respectively. The long-term line of credit was valued using the income approach by discounting the future payments. Significant inputs include the discount rate which we estimated using a rate at which we could have borrowed at each measurement date. All inputs to this calculation are Level 3.

5. REGULATORY ASSETS AND LIABILITIES

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

		December 31, 2013		
	Remaining Recovery Period	Current	Noncurrent	Total
		(*Thousands of dollars*)		
Under-recovered purchased-gas costs	1 year	**$ 12,393**	**$ —**	**$ 12,393**
Reacquired debt costs	14 years	**812**	**10,541**	**11,353**
Pension and postretirement benefit costs	5 to 20 years	**298**	**9,556**	**9,854**
Weather normalization	1 year	**3,730**	**—**	**3,730**
Recoupable take-or-pay	1 year	**586**	**—**	**586**
Transition costs	23 years	**19**	**433**	**452**
Other	1 to 25 years	**3,819**	**3,292**	**7,111**
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 (b)	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.
(b) Included in other current liabilities in our Balance Sheets.

		December 31, 2012		
	Remaining Recovery Period	Current	Noncurrent	Total
		(*Thousands of dollars*)		
Under-recovered purchased-gas costs	1 year	$ 29,170	$ —	$ 29,170
Reacquired debt costs	15 years	811	11,353	12,164
Pension and postretirement benefit costs	5 to 20 years	992	11,354	12,346
Weather normalization	1 year	18,978	—	18,978
Recoupable take-or-pay	2 years	6,911	622	7,533
Transition costs	25 years	442	10,610	11,052
Ad valorem tax	1 year	7,038	—	7,038
Other	1 to 26 years	4,377	4,239	8,616
Total regulatory assets, net of amortization		68,719	38,178	106,897
Accumulated removal costs (a)	up to 50 years	—	(29,526)	(29,526)
Over-recovered purchased-gas costs (b)	1 year	(9,584)	—	(9,584)
Total regulatory liabilities		(9,584)	(29,526)	(39,110)
Net regulatory assets and liabilities		$ 59,135	$ 8,652	$ 67,787

(a) Included in other deferred credits in our Balance Sheets.
(b) Included in other current liabilities 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.

The OCC has authorized Oklahoma Natural Gas' recovery of the recoupable take-or-pay settlement, and pension and postretirement benefit costs over a 10 to 20 year period. The KCC has authorized Kansas Gas Service's recovery of pension and postretirement benefit costs over a period of 5 years.

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.

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 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 in Kansas Gas Service's taxes above the amount approved in a rate case. Kansas law permits a utility to file a tariff to recover additional ad valorem tax expense incurred above the amount currently recovered in the cost of service rate. This excess amount is recoverable through a surcharge and can be recovered, provided the utility reports the change in rates to the KCC, on an annual basis.

Recovery through rates resulted in amortization of regulatory assets of approximately $32.0 million, including $10.2 million related to certain transition costs as described above, for the year ended December 31, 2013. Recovery through rates resulted in amortization of regulatory assets of approximately $18.3 million and $26.0 million for the years ended December 31, 2012 and 2011, respectively.

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.

6. PROPERTY, PLANT AND EQUIPMENT

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

	December 31, 2013	December 31, 2012
	(Thousands of dollars)	
Natural gas distribution pipelines and related equipment	**$ 3,703,593**	$ 3,512,660
Natural gas transmission pipelines and related equipment	**430,042**	402,030
General plant and other	**326,004**	304,346
Construction work in process	**74,435**	50,341
Property, plant and equipment	**4,534,074**	4,269,377
Accumulated depreciation and amortization	**(1,489,216)**	(1,442,423)
Net property, plant and equipment	**$ 3,044,858**	$ 2,826,954

The average depreciation rates for our property are set forth in the following table for the periods indicated:

Years Ended December 31, 2013	2012	2011
2.0% - 3.0%	2.0% - 3.0%	2.0% - 2.9%

We recorded capitalized interest of $1.3 million, $1.3 million and $1.7 million for the years ended December 31, 2013, 2012 and 2011, respectively. We incurred liabilities for construction work in process that had not been paid at December 31, 2013, 2012 and 2011 of $10.5 million, $12.0 million and $3.7 million, respectively. Such amounts are not included in capital expenditures on the Statements of Cash Flows.

7. SHARE-BASED PAYMENTS

Prior to the separation, certain employees who directly supported our operations participated in the ECP and the LTI Plan, which provide for the granting of stock-based compensation. 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 that directly supported our operations in 2013, 2012 and 2011. See Note 3 for total costs charged to us by ONEOK.

Compensation cost charged to us for employees who directly supported our operations for ONEOK's share-based payment plans was $9.7 million, $4.8 million and $10.9 million for 2013, 2012 and 2011, respectively, which is net of $6.1 million, $3.0 million and $7.1 million of tax benefits, respectively. Compensation costs capitalized for employees who directly supported our operations associated with ONEOK's share-based payment plans were not material for 2013 and 2012 and totaled $2.2 million in 2011.

Restricted Stock Units - ONEOK has granted restricted stock units to key employees that vest over a three-year period and entitle the grantee to receive shares of its common stock. 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 and adjusted for estimated forfeitures. No dividends were paid prior to vesting on the restricted stock units granted prior to 2013. Beginning in 2013, restricted stock unit awards granted accrue dividend equivalents in the form of additional restricted stock units prior to vesting. Compensation expense is recognized on a straight-line basis over the vesting period of the award. For all awards outstanding, a forfeiture rate of 3 percent based on historical forfeitures under ONEOK's share-based payment plans is used.

Performance Unit Awards - ONEOK grants performance unit awards to key employees. The shares of its common stock underlying the performance units vest at the expiration of a three-year period if certain performance criteria are met by ONEOK as determined by the Executive Compensation Committee of the ONEOK Board of Directors. Upon vesting, a holder of performance units is entitled to receive a number of shares of common stock equal to a percentage (0 percent to 200 percent) of the performance units granted, based on ONEOK's total shareholder return over the vesting period, compared with the total shareholder return of a peer group of other energy companies over the same period. Compensation expense is recognized on a straight-line basis over the period of the award.

If paid, the outstanding performance unit awards entitle the grantee to receive the grant in shares of ONEOK common stock. The outstanding performance 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. The fair value of these performance units was estimated on the grant date based on a Monte Carlo model. For all awards outstanding, a forfeiture rate of 3 percent based on historical forfeitures under ONEOK's share-based payment plans was used. No dividends were paid prior to vesting on performance stock units granted prior to 2013. Beginning in 2013, performance stock unit awards granted will accrue dividend equivalents in the form of additional performance units prior to vesting. The compensation expense on these awards will only be adjusted for changes in forfeitures.

We established the ONE Gas, Inc. Equity Compensation Plan, effective upon the separation. All 2011 awards were vested and paid out prior to the separation.

Restricted Stock Unit Activity

As of December 31, 2013, there was $1.6 million of total unrecognized compensation cost related to the nonvested restricted stock unit awards of employees who directly supported our operations, which is expected to be recognized over a weighted-average period of 1.6 years. The following tables set forth activity and various statistics for the ONEOK restricted stock unit awards:

	Number of Shares		Weighted-Average Price
Nonvested December 31, 2012	205,300	$	26.89
Granted	27,930	$	47.36
Released to participants	(84,114)	$	19.69
Forfeited	(11,446)	$	37.42
Nonvested December 31, 2013	137,670	$	34.57

	2013	2012	2011
Weighted-average grant date fair value (per share)	**$ 47.36**	$ 36.60	$ 28.50
Fair value of shares granted (thousands of dollars)	**$ 1,323**	$ 2,046	$ 2,310

Performance Unit Activity

As of December 31, 2013, there was $3.4 million of total unrecognized compensation cost related to the nonvested performance unit awards of employees who directly supported our operations, which is expected to be recognized over a weighted-average period of 1.6 years. The following tables set forth activity and various statistics related to the ONEOK performance unit awards and the assumptions used in the valuations of the 2013, 2012 and 2011 grants at the grant date:

	Number of Units	Weighted-Average Price
Nonvested December 31, 2012	**363,874**	**$ 32.90**
Granted	**58,355**	**$ 51.89**
Released to participants	**(130,975)**	**$ 24.05**
Forfeited	**(26,717)**	**$ 43.07**
Nonvested December 31, 2013	**264,537**	**$ 40.45**

	2013	2012	2011
Volatility (a)	**22.27%**	27.00%	39.91%
Dividend yield	**3.04%**	2.86%	3.30%
Risk-free interest rate	**0.42%**	0.38%	1.33%

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

	2013	2012	2011
Weighted-average grant date fair value (per share)	**$ 52.30**	$ 42.39	$ 34.68
Fair value of shares granted (thousands of dollars)	**$ 2,926**	$ 4,286	$ 5,026

Employee Stock Purchase Plan

Prior to the separation, certain employees who directly supported our operations participated in the ONEOK, Inc. Employee Stock Purchase Plan (the ESPP). Subject to certain exclusions, all full-time ONEOK employees are eligible to participate in the ESPP. Employees can choose to have up to 10 percent of their annual base pay withheld to purchase ONEOK's 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 ONEOK's common stock on the grant date or exercise date. Compensation cost, before taxes, charged to us for employees who directly supported our operations reflects $2.7 million, $0.8 million and $3.2 million for 2013, 2012 and 2011, respectively, for the ESPP.

Employee Stock Award Program

Prior to the separation, certain employees who directly supported our operations participated in ONEOK's Employee Stock Award Program. Under the program, each time the per-share closing price of ONEOK common stock on the NYSE closed for the first time at or above each $1.00 increment above its previous historical high closing price, ONEOK issued, for no monetary consideration, one share of its common stock to all eligible employees. Compensation cost, before taxes, charged to us for employees who directly supported our operations reflects $4.2 million, $1.2 million and $9.8 million for 2013, 2012 and 2011, respectively, related to the Employee Stock Award Plan.

Impact of Separation on Stock Compensation Plans

In connection with the separation from ONEOK on January 31, 2014, we entered into an Employee Matters Agreement with ONEOK which provides that our employees may no longer participate in stock compensation plans sponsored or maintained by ONEOK. Pursuant to the Employee Matters Agreement, we made certain adjustments to the number of the share-based compensation awards recorded, with the intention of preserving the intrinsic value of the awards immediately prior to the separation.

Restricted Stock Units - ONEOK restricted stock units were converted to those of the entity where the employee holding them is working immediately post-separation. Therefore, ONEOK restricted stock units held by our employees were surrendered as a result of the separation, and new restricted-unit awards were granted concurrently by us with an equivalent intrinsic value as compared with the intrinsic value of the ONEOK awards immediately prior to the separation.

Performance Unit Awards - ONEOK performance unit awards held by our employees were surrendered as a result of the separation, and new performance unit awards were granted concurrently by us with an equivalent intrinsic value as compared with the intrinsic value of the ONEOK awards immediately prior to the separation.

Employee Stock Purchase Plan - For our employees, enrollment in the plan was terminated upon the separation. Our employees will receive shares of ONEOK at the end of the offering period based upon the contributions made while employed at ONEOK.

Deferred Awards - Deferred shares associated with vested restricted stock units or performance awards held by current or former employees were adjusted to provide holders one deferred share of our stock for every four deferred shares of ONEOK stock.

8. EMPLOYEE BENEFIT PLANS

Certain ONEOK employees participate in defined benefit pension plans and postretirement health and welfare plans (Shared Plans) sponsored by ONEOK, including employees who directly support our operations. We historically have accounted for such Shared Plans as multiemployer benefit plans. Accordingly, we did not record an asset or liability to recognize the funded status of the Shared Plans. We recognized a liability only for any required contributions to the Shared Plans that were accrued and unpaid at the balance sheet date. The related pension and postretirement expenses were allocated to us based on plan participants who directly supported our operations. These pension and postretirement benefit costs included amounts associated with vested participants who are no longer employees. As described in Note 3, 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. As a result, the information described below is limited to amounts associated with the employees who directly supported our operations.

Shared Retirement and Postretirement Benefit Plans

Shared Retirement Plans - ONEOK historically has maintained 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 ONEOK's pension plan were covered by a profit-sharing plan. Certain employees of the Texas Gas Services division of ONEOK were entitled to benefits under a frozen cash-balance pension plan. In addition, ONEOK has 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. ONEOK funds its 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 charged to us for employees directly supporting our operations by ONEOK for 2013, 2012 and 2011 totaled $35.0 million, $22.8 million and $18.9 million, respectively.

Shared Postretirement Benefit Plans - ONEOK sponsors 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 charged to us for employees directly supporting our operations by ONEOK for 2013, 2012 and 2011 totaled $12.3 million, $16.6 million and $17.2 million, respectively.

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

	Years Ended December 31,		
	2013	**2012**	**2011**
Discount rate - pension plans	**4.25%**	5.00%	5.50%
Discount rate - postretirement plans	**4.00%**	5.00%	5.50%
Expected long-term return on plan assets	**8.25%**	8.25%	8.25%
Compensation increase rate	**3.45% - 3.50%**	3.20% - 3.80%	3.30% - 3.90%

Regulatory Treatment - The OCC, KCC and regulatory authorities in Texas have approved the recovery of pension costs and 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 pension and postretirement costs. Differences, if any, between the expense and the amount recovered through rates would be reflected in earnings, net of authorized deferrals.

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

Other Employee Benefit Plans

401(k) Plan - ONEOK has a 401(k) Plan covering all full-time employees, and employee contributions are discretionary. ONEOK matches 100 percent of each participant's eligible contribution up to 6 percent of each participant's eligible compensation, subject to certain limits. Compensation expense charged to us for employees who directly supported our operations by ONEOK totaled $8.3 million, $8.4 million and $8.5 million in 2013, 2012 and 2011, respectively for ONEOK's matching contributions to this plan.

Profit-Sharing Plan - ONEOK historically has maintained 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. Nonbargaining unit employees who were employed prior to January 1, 2005, and employees covered by the IBEW collective bargaining agreement employed prior to July 1, 2010, 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. 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. ONEOK historically has made 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. Compensation expense associated with ONEOK's contributions made to the plan for employees who directly supported our operations were $1.6 million, $2.1 million and $2.1 million in 2013, 2012 and 2011, respectively.

Employee Deferred Compensation Plan - The ONEOK, Inc. 2005 Nonqualified Deferred Compensation Plan provides select employees, as approved by ONEOK's 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 for employees who directly supported our operations were not material in 2013, 2012 and 2011.

ONE Gas Employee Benefit Plans - 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 postretirement benefit plans transferred assets and obligations related to those employees transferring to ONE Gas to the new ONE Gas plans. As a result, we recorded sponsored pension and postretirement plan obligations of approximately $1.1 billion, and sponsored pension and postretirement plan assets of approximately $1.0 billion. Additionally, as a result of the transfer of unrecognized losses from ONEOK, our regulatory assets and deferred income taxes increased $86 million and $331 million, respectively.

9. INCOME TAXES

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

	Years Ended December 31, 2013	2012	2011
	(Thousands of dollars)		
Current income tax provision (benefit)			
Federal	**$ —**	$ —	$ (27,093)
State	**67**	360	(4,087)
Total current income tax provision (benefit)	**67**	360	(31,180)
Deferred income tax provision			
Federal	**53,562**	51,481	75,304
State	**8,643**	8,010	11,880
Total deferred income tax provision	**62,205**	59,491	87,184
Total provision for income taxes	**$ 62,272**	$ 59,851	$ 56,004

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

	Years Ended December 31, 2013	2012	2011
	(Thousands of dollars)		
Income before income taxes	**$ 161,467**	$ 156,360	$ 142,762
Federal statutory income tax rate	**35%**	35%	35%
Provision for federal income taxes	**56,513**	54,726	49,967
State income taxes, net of federal tax benefit	**5,661**	5,423	4,278
Other, net	**98**	(298)	1,759
Income tax provision	**$ 62,272**	$ 59,851	$ 56,004

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, 2013	December 31, 2012
	(Thousands of dollars)	
Deferred tax assets		
Net operating loss	**$ 40,125**	$ 51,623
Other	**8,249**	1,521
Total deferred tax assets	**48,374**	53,144
Deferred tax liabilities		
Excess of tax over book depreciation	**750,305**	690,776
Purchased-gas cost adjustment	**4,695**	6,513
Other regulatory assets and liabilities, net	**2,563**	8,684
Total deferred tax liabilities	**757,563**	705,973
Net deferred tax liabilities	**$ 709,189**	$ 652,829

We had no income taxes payable or receivable at December 31, 2013 and 2012. We do not make cash payments directly to taxing jurisdictions; rather, our share of ONEOK's tax payments or refunds received are reflected as changes in short-term notes payable to ONEOK.

The net operating losses begin expiring in 2031. The company, or its affiliates, expects to utilize all of the net operating losses prior to their expiration dates.

10. COMMITMENTS AND CONTINGENCIES

Commitments - Operating leases represent future minimum lease payments under noncancelable leases covering office space, equipment and vehicles. Rental expense was $4.8 million in both 2013 and 2012, and $4.6 million in 2011. The following table sets forth our operating lease payments for the periods indicated:

Operating Leases		
(*Millions of dollars*)		
2014	$	2.7
2015		2.4
2016		2.2
2017		2.0
2018		1.9
Thereafter		3.3
Total	$	14.5

Environmental Matters - We are subject to multiple historical, wildlife preservation and environmental laws and/or regulations, that 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.

Of the 12 sites, we have begun soil remediation on 11 sites. Regulatory closure has been achieved at three locations, and we have completed or are near completion of soil remediation at eight 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 2013, 2012 and 2011. We do not expect to incur material expenditures for these matters in the future.

The EPA's rule on air-quality standards, RICE NESHAP, initially included a compliance date in 2013. Subsequent industry appeals and settlements with the EPA have extended timelines for compliance associated with the final RICE NESHAP rule. While the rule could require capital expenditures for the purchase and installation of new emissions-control equipment, we do not expect these expenditures will have a material impact on our results of operations, financial position or cash flows.

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 on 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.

11. QUARTERLY FINANCIAL DATA (UNAUDITED)

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**

Year Ended December 31, 2012		First Quarter		Second Quarter		Third Quarter		Fourth Quarter
				(Thousands of dollars)				
Revenues	$	517,765	$	221,182	$	204,932	$	432,770
Net margin	$	237,348	$	157,488	$	150,987	$	210,566
Operating income	$	98,338	$	22,063	$	17,107	$	78,206
Net income	$	52,047	$	3,497	$	2,323	$	38,642

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer) have concluded that our disclosure controls and procedures for ONE Gas, Inc. and ONE Gas Predecessor were effective as of December 31, 2013, the end of the period covered by this report, based on the evaluation of the controls and procedures for ONE Gas, Inc. and ONE Gas Predecessor required by Rule 13a-15(b) of the Exchange Act.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting for ONE Gas, Inc. and ONE Gas Predecessor, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our Principal Executive Officer and Principal Financial Officer, we evaluated the effectiveness of our internal control over financial reporting for ONE Gas, Inc. and ONE Gas Predecessor based on the framework in *Internal Control-Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Because of 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. Based on our evaluation under that framework and applicable SEC rules, our management concluded that ONE Gas, Inc. and ONE Gas Predecessor's internal control over financial reporting was effective as of December 31, 2013.

ONE Gas, Inc. **Attachment B-6**
Financial Ratios
For the Year Ended December 31, 2013

	Utility Operations
Total debt to total capitalization	
Notes payable (includes commercial paper)	444,960
Current maturities of long-term debt	6
Current portion of capitalized lease obligations	-
Long-term debt	1,028,949
Capitalized lease obligation	-
Total off balance sheet debt	1,473,915
Notes payable (includes commercial paper)	444,960
Current maturities of long-term debt	6
Current portion of capitalized lease obligations	-
Long-term debt	1,028,949
Capitalized lease obligation	-
Total equity	1,239,023
Total capitalization	2,712,938
Total debt to total capitalization	**54%**
Funds from operations interest coverage	
Net income from continuing operations	99,195
Depreciation & amortization	144,758
Deferred income taxes (excluding investment tax credit)	62,205
Investment tax credit	-
Allowance for debt funds used during construction	(1,269)
Allowance for equity funds used during construction	-
Equity earnings from investments	-
Distributions received	-
Gain (loss) on sale of assets	-
Deferred income tax adjustment	-
	304,889
Cash paid for interest, net of amounts capitalized	61,366
Allowance for debt funds used during construction	1,269
Interest expense adjustment	-
Interest on off balance sheet debt	-
	62,635
	367,524
Interest expense, net	61,366
Interest expense adjustment	-
Allowance for debt funds used during construction	1,269
Interest on off balance sheet debt	-
	62,635
Funds from operations interest coverage	**5.87**
Funds from operations as a percentage of total debt	
Net income from continuing operations	99,195
Depreciation & amortization	144,758
Deferred income taxes (excluding investment tax credit)	62,205
Investment tax credit	-
Allowance for equity funds used during construction	-
Allowance for debt funds used during construction	(1,269)
Equity earnings from investments	-
Distributions received	-
Gain (loss) on sale of assets	-
Deferred income tax adjustment	-
	304,889
Notes payable (includes commercial paper)	444,960
Current maturities of long-term debt	6
Current portion of capitalized lease obligations	-
Long-term debt	1,028,949
Capitalized lease obligations	-
Total off balance sheet debt	-
	1,473,915
Funds from operations as a percentage of total debt	**21%**