

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

☒ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2017 .

OR

☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____.

Commission file number 001-36108

ONE Gas, Inc.

(Exact name of registrant as specified in its charter)

Oklahoma

(State or other jurisdiction of
incorporation or organization)

46-3561936

(I.R.S. Employer Identification No.)

15 East Fifth Street, Tulsa, OK

(Address of principal executive offices)

74103

(Zip Code)

Registrant's telephone number, including area code **(918) 947-7000**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

(Do not check if a smaller reporting company)

Smaller reporting company ☐

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

On April 25, 2017 , the Company had 52,435,350 shares of common stock outstanding.

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ONE Gas, Inc.
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As used in this Quarterly Report, references to “we,” “our,” “us” or the “company” refer to ONE Gas, Inc., an Oklahoma corporation, and its predecessors and subsidiary, unless the context indicates otherwise.

The statements in this Quarterly Report that are not historical information, including statements concerning plans and objectives of management for future operations, economic performance or related assumptions, are forward-looking statements. Forward-looking statements may include words such as “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “believe,” “should,” “goal,” “forecast,” “guidance,” “could,” “may,” “continue,” “might,” “potential,” “scheduled” and other words and terms of similar meaning. Although we believe that our expectations regarding future events are based on reasonable assumptions, we can give no assurance that such expectations or assumptions will be achieved. Important factors that could cause actual results to differ materially from those in the forward-looking statements are described under Part I, Item 2, Management’s Discussion and Analysis of Financial Condition and Results of Operations, “Forward-Looking Statements,” in this Quarterly Report and under Part I, Item 1A, “Risk Factors,” in our Annual Report.

INFORMATION AVAILABLE ON OUR WEBSITE

We make available, free of charge, on our website (www.onegas.com) copies of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, amendments to those reports filed or furnished to the SEC pursuant to Section 13(a) or 15(d) of the Exchange Act and reports of holdings of our securities filed by our officers and directors under Section 16 of the Exchange Act as soon as reasonably practicable after filing such material electronically or otherwise furnishing it to the SEC. Copies of our Code of Business Conduct and Ethics, Corporate Governance Guidelines and Director Independence Guidelines are also available on our website, and we will provide copies of these documents upon request. Our website and any contents thereof are not incorporated by reference into this report.

We also make available on our website the Interactive Data Files required to be submitted and posted pursuant to Rule 405 of Regulation S-T.

GLOSSARY

The abbreviations, acronyms and industry terminology used in this Quarterly Report are defined as follows:

Annual Report	Annual Report on Form 10-K for the year ended December 31, 2016
ASU	Accounting Standards Update
Bcf	Billion cubic feet
CERCLA	Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended
Clean Air Act	Federal Clean Air Act, as amended
Clean Water Act	Federal Water Pollution Control Amendments of 1972, as amended
COSA	Cost-of-Service Adjustment
DOT	United States Department of Transportation
EPA	United States Environmental Protection Agency
EPS	Earnings per share
Exchange Act	Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
GAAP	Accounting principles generally accepted in the United States of America
GRIP	Texas Gas Reliability Infrastructure Program
GSRS	Kansas Gas System Reliability Surcharge
Heating Degree Day or HDD	A measure designed to reflect the demand for energy needed for heating based on the extent to which the daily average temperature falls below a reference temperature for which no heating is required, usually 65 degrees Fahrenheit
IRS	Internal Revenue Service
KCC	Kansas Corporation Commission
KDHE	Kansas Department of Health and Environment
LDCs	Local distribution companies
MMcf	Million cubic feet
Moody's	Moody's Investors Service, Inc.
NPRM	Notice of Proposed Rulemaking
NYMEX	New York Mercantile Exchange
OCC	Oklahoma Corporation Commission
ONE Gas	ONE Gas, Inc.
ONE Gas Credit Agreement	ONE Gas' \$700 million revolving credit agreement, which expires January, 2019
ONEOK	ONEOK, Inc. and its subsidiaries
PBRC	Performance-Based Rate Change
PHMSA	United States Department of Transportation Pipeline and Hazardous Materials Safety Administration
Pipeline Safety, Regulatory Certainty and Job Creation Act	Pipeline Safety, Regulatory Certainty and Job Creation Act of 2011, as amended
Quarterly Report(s)	Quarterly Report(s) on Form 10-Q
RRC	Railroad Commission of Texas
S&P	Standard & Poor's Ratings Services
SEC	Securities and Exchange Commission
Securities Act	Securities Act of 1933, as amended
Senior Notes	ONE Gas' registered 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.
Separation and Distribution Agreement	Separation and Distribution Agreement dated January 14, 2014, between ONEOK and ONE Gas
WNA	Weather-normalization adjustments
XBRL	eXtensible Business Reporting Language

PART I - FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

ONE Gas, Inc.

STATEMENTS OF INCOME

	Three Months Ended	
	March 31,	
<i>(Unaudited)</i>	2017	2016
	<i>(Thousands of dollars, except per share amounts)</i>	
Revenues	\$ 550,408	\$ 508,364
Cost of natural gas	263,154	235,729
Net margin	287,254	272,635
Operating expenses		
Operations and maintenance	109,357	106,131
Depreciation and amortization	37,019	34,684
General taxes	15,746	15,747
Total operating expenses	162,122	156,562
Operating income	125,132	116,073
Other income	1,246	18
Other expense	(340)	(455)
Interest expense, net	(11,481)	(10,847)
Income before income taxes	114,557	104,789
Income taxes	(38,101)	(40,046)
Net income	\$ 76,456	\$ 64,743
Earnings per share		
Basic	\$ 1.45	\$ 1.23
Diluted	\$ 1.44	1.22
Average shares (thousands)		
Basic	52,576	52,519
Diluted	53,056	53,107
Dividends declared per share of stock	\$ 0.42	\$ 0.35

See accompanying Notes to the Financial Statements.

ONE Gas, Inc.

STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended	
	March 31,	
<i>(Unaudited)</i>	2017	2016
	<i>(Thousands of dollars)</i>	
Net income	\$ 76,456	\$ 64,743
Other comprehensive income (loss), net of tax		
Change in pension and other postemployment benefit plan liability, net of tax of \$(80) and \$(72), respectively	129	116
Total other comprehensive income (loss), net of tax	129	116
Comprehensive income	\$ 76,585	\$ 64,859

See accompanying Notes to the Financial Statements.

ONE Gas, Inc.
BALANCE SHEETS

	March 31, 2017	December 31, 2016
(Unaudited)		
Assets	(Thousands of dollars)	
Property, plant and equipment		
Property, plant and equipment	\$ 5,468,277	\$ 5,404,168
Accumulated depreciation and amortization	1,694,389	1,672,548
Net property, plant and equipment	3,773,888	3,731,620
Current assets		
Cash and cash equivalents	13,206	14,663
Accounts receivable, net	249,155	290,944
Materials and supplies	34,288	34,084
Natural gas in storage	91,231	125,432
Regulatory assets	74,636	83,146
Other current assets	18,616	20,654
Total current assets	481,132	568,923
Goodwill and other assets		
Regulatory assets	430,338	440,522
Goodwill	157,953	157,953
Other assets	46,563	43,773
Total goodwill and other assets	634,854	642,248
Total assets	\$ 4,889,874	\$ 4,942,791

See accompanying Notes to the Financial Statements.

ONE Gas, Inc.
BALANCE SHEETS
(Continued)

	March 31, 2017	December 31, 2016
(Unaudited)		
Equity and Liabilities	(Thousands of dollars)	
Equity and long-term debt		
Common stock, \$0.01 par value: authorized 250,000,000 shares; issued 52,598,005 shares and outstanding 52,431,914 shares at March 31, 2017; issued 52,598,005 and outstanding 52,283,260 shares at December 31, 2016	\$ 526	\$ 526
Paid-in capital	1,732,335	1,749,574
Retained earnings	226,195	161,021
Accumulated other comprehensive income (loss)	(4,586)	(4,715)
Treasury stock, at cost: 166,091 shares at March 31, 2017 and 314,745 shares at December 31, 2016	(9,892)	(18,126)
Total equity	1,944,578	1,888,280
Long-term debt, excluding current maturities, and net of issuance costs of \$8,648 and \$8,851, respectively	1,192,647	1,192,446
Total equity and long-term debt	3,137,225	3,080,726
Current liabilities		
Notes payable	85,400	145,000
Accounts payable	76,142	131,988
Accrued interest	7,667	18,854
Accrued taxes other than income	37,431	42,571
Accrued liabilities	12,474	22,931
Customer deposits	61,945	61,209
Other current liabilities	26,884	21,380
Total current liabilities	307,943	443,933
Deferred credits and other liabilities		
Deferred income taxes	1,065,096	1,038,568
Employee benefit obligations	300,535	303,507
Other deferred credits	79,075	76,057
Total deferred credits and other liabilities	1,444,706	1,418,132
Commitments and contingencies		
Total liabilities and equity	\$ 4,889,874	\$ 4,942,791

See accompanying Notes to the Financial Statements.

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ONE Gas, Inc.

STATEMENTS OF CASH FLOWS

(Unaudited)	Three Months Ended March 31,	
	2017	2016
	(Thousands of dollars)	
Operating activities		
Net income	\$ 76,456	\$ 64,743
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	37,019	34,684
Deferred income taxes	37,461	16,113
Share-based compensation expense	2,421	4,101
Provision for doubtful accounts	2,281	1,384
Changes in assets and liabilities:		
Accounts receivable	39,508	19,801
Materials and supplies	(204)	3,617
Income tax receivable	1,397	38,877
Natural gas in storage	34,201	61,600
Asset removal costs	(10,387)	(14,171)
Accounts payable	(53,957)	(40,060)
Accrued interest	(11,187)	(11,219)
Accrued taxes other than income	(5,140)	535
Accrued liabilities	(10,457)	(16,470)
Customer deposits	736	2,098
Regulatory assets and liabilities	18,641	(593)
Other assets and liabilities	3,447	23,848
Cash provided by operating activities	162,236	188,888
Investing activities		
Capital expenditures	(70,471)	(75,261)
Other	61	392
Cash used in investing activities	(70,410)	(74,869)
Financing activities		
Repayments of notes payable, net	(59,600)	(12,500)
Repurchase of common stock	(2,469)	(24,066)
Dividends paid	(22,034)	(18,380)
Tax withholdings related to net share settlements of stock compensation	(9,180)	(8,849)
Cash used in financing activities	(93,283)	(63,795)
Change in cash and cash equivalents	(1,457)	50,224
Cash and cash equivalents at beginning of period	14,663	2,433
Cash and cash equivalents at end of period	\$ 13,206	\$ 52,657

See accompanying Notes to the Financial Statements.

ONE Gas, Inc.
STATEMENT OF EQUITY

<i>(Unaudited)</i>	Common Stock Issued <i>(Shares)</i>	Common Stock <i>(Thousands of dollars)</i>	Paid-in Capital
January 1, 2017	52,598,005	\$ 526	\$ 1,749,574
Cumulative effect of accounting change	—	—	—
Net income	—	—	—
Other comprehensive income	—	—	—
Repurchase of common stock	—	—	—
Common stock issued and other	—	—	(17,469)
Common stock dividends - \$0.42 per share	—	—	230
March 31, 2017	52,598,005	\$ 526	\$ 1,732,335

See accompanying Notes to the Financial Statements.

ONE Gas, Inc.
STATEMENT OF EQUITY
(Continued)

<i>(Unaudited)</i>	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Equity
<i>(Thousands of dollars)</i>				
January 1, 2017	\$ 161,021	\$ (18,126)	\$ (4,715)	\$ 1,888,280
Cumulative effect of accounting change	10,982	—	—	10,982
Net income	76,456	—	—	76,456
Other comprehensive income	—	—	129	129
Repurchase of common stock	—	(2,469)	—	(2,469)
Common stock issued and other	—	10,703	—	(6,766)
Common stock dividends - \$0.42 per share	(22,264)	—	—	(22,034)
March 31, 2017	\$ 226,195	\$ (9,892)	\$ (4,586)	\$ 1,944,578

See accompanying Notes to the Financial Statements.

ONE Gas, Inc.
NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Our accompanying unaudited financial statements have been prepared pursuant to the rules and regulations of the SEC. These statements also have been prepared in accordance with GAAP and reflect all adjustments that, in our opinion, are necessary for a fair statement of the results for the interim periods presented. All such adjustments are of a normal recurring nature. The 2016 year-end balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. These unaudited financial statements should be read in conjunction with the audited financial statements and footnotes in our Annual Report. Due to the seasonal nature of our business, the results of operations for the three months ended March 31, 2017, are not necessarily indicative of the results that may be expected for a 12-month period.

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

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, provision for doubtful accounts, 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.

Segments - We operate in one reportable and operating business segment: regulated public utilities that deliver natural gas to residential, commercial, industrial, wholesale, public authority and transportation customers. The accounting policies for our segment are the same as described in Note 1 of our Notes to the Financial Statements in our Annual Report. We evaluate our financial performance principally on operating income. For the three months ended March 31, 2017, and 2016, we had no single external customer from which we received 10 percent or more of our gross revenues.

Recently Issued Accounting Standards Update - In March 2017, the FASB issued ASU 2017-07, "Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost," which requires (1) separation of net periodic service costs for pension and other postemployment benefits into service cost and other components, (2) presentation of the service cost component in the same line as other compensation costs rendered by pertinent employees during the period, which will be the only portion of benefit cost eligible for capitalization and (3) reporting the other components of net periodic benefit costs separately from the service cost component and outside a subtotal of income from operations. We are evaluating the impact of this guidance, which is required to be adopted for our interim and annual reports for periods beginning after December 15, 2017, and early adoption is permitted.

In January 2017, the FASB issued ASU 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment," which simplifies how an entity is required to test goodwill for impairment by eliminating Step 2 of the goodwill test, where the measurement of a goodwill impairment loss was determined by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. Upon adoption, a goodwill impairment will be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. This new guidance is required for our interim and annual reports for periods beginning after December 15, 2019, and early adoption is permitted. We do not expect this guidance to have a material impact on our financial statements and will adjust our goodwill testing procedures accordingly upon adoption.

In March 2016, the FASB issued ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting," which includes various new aspects to simplify how share-based payments are accounted for and presented in the financial statements. The new standard modifies several aspects of the accounting and reporting for employee share-based payments and related tax accounting.

impacts, including the presentation in the statements of operations and cash flows. We adopted this new guidance in the current quarter, and in accordance with the transition requirements, we recorded \$5.2 million of excess tax benefits in income tax expense and will transition all provisions of this new guidance prospectively, other than our presentation of our withholding shares for tax-withholding purposes, which will be accounted for retrospectively in the financing activities section of the statement of cash flows. We recorded a noncash cumulative-effect increase of \$11.0 million to retained earnings, with an offset to a deferred tax asset, as of the beginning of the reporting period in 2017, for excess tax benefits earned prior to January 1, 2017, that had not been recognized. We continue our use of the estimation method to account for share unit awards forfeitures rather than actual forfeitures. The retrospective impact of our withholding shares for tax-withholding purposes to our Statement of Cash Flows for the three months ended March 31, 2016, was a \$8.8 million increase to net cash provided by operating activities and a \$8.8 million decrease to net cash used in financing activities.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)," which prescribes recognizing lease assets and liabilities on the balance sheet and includes disclosure of key information about leasing arrangements. A modified retrospective transition approach is required for leases existing at the time of adoption. We are evaluating our population of leases, analyzing lease agreements, and holding meetings with cross-functional teams to determine the potential impact of this accounting standard on our financial position and results of operations and the transition approach we will utilize. This new guidance is required for our interim and annual reports for periods beginning after December 15, 2018, and early adoption is permitted.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers," which clarifies and converges the revenue recognition principles under GAAP and International Financial Reporting Standards. In July 2015, FASB delayed the effective date for one year. We have substantially completed evaluating all of our sources of revenue to determine the potential effect on our financial position, results of operations, cash flows and the related accounting policies and business processes. We continue to monitor accounting task forces and the FASB for additional implementation guidance related to: (1) the accounting for funds received from third parties to partially or fully reimburse the cost of construction of an asset; (2) the evaluation of collectability from customers if a utility has regulatory mechanisms to help assure recovery of uncollected accounts from ratepayers; and (3) the accounting for alternative revenue programs, such as performance-based ratemaking and weather normalization, that may impact the final conclusions of our evaluation. Until these items are resolved, we cannot complete our evaluation of the potential effect the new guidance will have on our financial position, results of operations, cash flows, business processes or the transition method we will utilize to adopt the new guidance. We will adopt this new guidance for our interim and annual reports beginning with the first quarter 2018.

2. REGULATORY ASSETS AND LIABILITIES

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

	March 31, 2017		
	Current	Noncurrent	Total
<i>(Thousands of dollars)</i>			
Under-recovered purchased-gas costs	\$ 17,914	\$ —	\$ 17,914
Pension and postemployment benefit costs	32,110	417,402	449,512
Weather normalization	19,781	—	19,781
Reacquired debt costs	812	7,906	8,718
Other	4,019	5,030	9,049
Total regulatory assets, net of amortization	74,636	430,338	504,974
Over-recovered purchased-gas costs (a)	(12,838)	—	(12,838)
Ad valorem tax (a)	(1,142)	—	(1,142)
Total regulatory liabilities	(13,980)	—	(13,980)
Net regulatory assets (liabilities)	\$ 60,656	\$ 430,338	\$ 490,994

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

	December 31, 2016		
	Current	Noncurrent	Total
(Thousands of dollars)			
Under-recovered purchased-gas costs	\$ 29,901	\$ —	\$ 29,901
Pension and postemployment benefit costs	31,498	427,448	458,946
Weather normalization	17,661	—	17,661
Reacquired debt costs	812	8,108	8,920
Other	3,274	4,966	8,240
Total regulatory assets, net of amortization	83,146	440,522	523,668
Over-recovered purchased-gas costs (a)	(10,154)	—	(10,154)
Ad valorem tax (a)	(1,768)	—	(1,768)
Total regulatory liabilities	(11,922)	—	(11,922)
Net regulatory assets (liabilities)	\$ 71,224	\$ 440,522	\$ 511,746

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

Regulatory assets on our Balance Sheets, as authorized by various regulatory authorities, are probable of recovery. Base rates are designed to provide a recovery of costs 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 are subject to review by the respective regulatory authorities during future regulatory proceedings. We are not aware of any evidence that these costs will not be recoverable through either riders or base rates, and we believe that we will be able to recover such costs, consistent with our historical recoveries.

3. CREDIT FACILITY AND SHORT-TERM NOTES PAYABLE

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. At March 31, 2017, our debt-to-capital ratio was 40 percent and we were in compliance with all covenants under the ONE Gas Credit Agreement.

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

The ONE Gas Credit Agreement is available to repay the commercial paper notes, if necessary. Amounts outstanding under the commercial paper program reduce the borrowing capacity under the ONE Gas Credit Agreement. At March 31, 2017, we had \$85.4 million in short-term borrowings, \$1.8 million in letters of credit issued under the ONE Gas Credit Agreement and \$612.8 million of remaining credit available under the ONE Gas Credit Agreement.

4. LONG-TERM DEBT

We have senior notes consisting of \$300 million of 2.07 percent senior notes due in 2019, \$300 million of 3.61 percent senior notes due in 2024 and \$600 million of 4.658 percent senior notes due in 2044. The indenture governing our Senior Notes includes an event of default upon the acceleration of other indebtedness of \$100 million or more. Such events of default would entitle the trustee or the holders of 25 percent in aggregate principal amount of the outstanding Senior Notes to declare those Senior Notes immediately due and payable in full.

5. EQUITY

Treasury Shares - In the first quarter of 2017, we repurchased approximately 37 thousand shares of our common stock for approximately \$2.5 million.

Dividends Declared - In May 2017, we declared a dividend of \$0.42 per share (\$1.68 per share on an annualized basis) for shareholders of record as of May 15, 2017, payable June 1, 2017.

6. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

Details about Accumulated Other Comprehensive Income (Loss) Components	Three Months Ended		Affected Line Item in the Statements of Income
	2017	2016	
(Thousands of dollars)			
Pension and other postemployment benefit plan obligations (a)			
Amortization of net loss	\$ 10,648	\$ 10,037	
Amortization of unrecognized prior service cost	(1,149)	(908)	
	9,499	9,129	
Regulatory adjustments (b)	(9,290)	(8,941)	
	209	188	Income before income taxes
	(80)	(72)	Income tax expense
Total reclassifications for the period	\$ 129	\$ 116	Net income

(a) These components of accumulated other comprehensive income (loss) are included in the computation of net periodic benefit cost. See Note 8 for additional detail of our net periodic benefit cost .

(b) Regulatory adjustments represent pension and other postemployment benefit costs expected to be recovered through rates and are deferred as part of our regulatory assets. See Note 2 for additional disclosures of regulatory assets and liabilities.

7. EARNINGS PER SHARE

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

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

Three Months Ended March 31, 2017			
	Income	Shares	Per Share Amount
(Thousands, except per share amounts)			
Basic EPS Calculation			
Net income available for common stock	\$ 76,456	52,576	\$ 1.45
Diluted EPS Calculation			
Effect of dilutive securities	—	480	
Net income available for common stock and common stock equivalents	\$ 76,456	53,056	\$ 1.44

Three Months Ended March 31, 2016			
	Income	Shares	Per Share Amount
(Thousands, except per share amounts)			
Basic EPS Calculation			
Net income available for common stock	\$ 64,743	52,519	\$ 1.23
Diluted EPS Calculation			
Effect of dilutive securities	—	588	
Net income available for common stock and common stock equivalents	\$ 64,743	53,107	\$ 1.22

8. EMPLOYEE BENEFIT PLANS

The following tables set forth the components of net periodic benefit cost for our pension and other postemployment benefit plans for the periods indicated:

	Pension Benefits	
	Three Months Ended	
	March 31,	
	2017	2016
<i>(Thousands of dollars)</i>		
Components of net periodic benefit cost		
Service cost	\$ 3,044	\$ 3,014
Interest cost	10,113	11,387
Expected return on assets	(14,624)	(15,296)
Amortization of net loss	9,027	8,886
Net periodic benefit cost	\$ 7,560	\$ 7,991

	Other Postemployment Benefits	
	Three Months Ended	
	March 31,	
	2017	2016
<i>(Thousands of dollars)</i>		
Components of net periodic benefit cost		
Service cost	\$ 627	\$ 638
Interest cost	2,472	2,627
Expected return on assets	(3,147)	(3,071)
Amortization of unrecognized prior service cost	(1,149)	(908)
Amortization of net loss	1,621	1,151
Net periodic benefit cost	\$ 424	\$ 437

We recover qualified pension benefit plan and other postemployment benefit plan costs through rates charged to our customers. Certain utility commissions require that the recovery of these costs be based on specific guidelines. The difference between these regulatory-based amounts and the periodic benefit cost calculated pursuant to GAAP is deferred as a regulatory asset or liability and amortized to expense over periods in which this difference will be recovered in rates, as authorized by the applicable utility commission. Regulatory deferrals related to net periodic benefit cost were not material for the three months ended March 31, 2017.

9. COMMITMENTS AND CONTINGENCIES

Environmental Matters - We are subject to multiple historical, wildlife preservation and environmental laws and/or regulations, which affect many aspects of our present and future operations. Regulated activities include, but are not limited to, those involving air emissions, storm water and wastewater discharges, handling and disposal of solid and hazardous wastes, wetland preservation, hazardous materials transportation, and pipeline and facility construction. These laws and regulations require us to obtain and/or comply with a wide variety of environmental clearances, registrations, licenses, permits and other approvals. Failure to comply with these laws, regulations, licenses and permits may expose us to fines, penalties and/or interruptions in our operations that could be material to our results of operations. In addition, emission controls and/or other regulatory or permitting mandates under the Clean Air Act and other similar federal and state laws could require unexpected capital expenditures. We cannot assure that existing environmental statutes and regulations will not be revised or that new regulations will not be adopted or become applicable to us. Revised or additional statutes or regulations that result in increased compliance costs or additional operating restrictions could have a material adverse effect on our business, financial condition and results of operations. Our expenditures for environmental investigation, and remediation 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 the three months ended March 31, 2017 and 2016 .

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 require us to investigate these sites and set remediation activities based upon the results of the investigations and risk analysis. Remediation typically involves the management of contaminated soils and may involve removal of structures and monitoring and/or remediation of groundwater.

We have completed or addressed removal of the source of soil contamination at 11 of the 12 sites, and continue to monitor groundwater at eight of the 12 sites according to plans approved by the KDHE. Regulatory closure has been achieved at three of the sites, subject to any future regulatory remediation requirements that may require additional costs. During 2016, we completed a site assessment at the twelfth site where no active soil remediation has occurred. We have submitted a work plan to the KDHE for approval to remove contaminated soil at this site. Costs associated with the remediation at this site are not expected to be material to our results of operations or financial position.

With regard to one of our former manufactured natural gas sites, periodic monitoring and a 2016 interim site investigation indicated elevated levels of potentially harmful materials. Additional testing and work plan development is underway in 2017 to determine a remediation work plan to present to the KDHE for approval, which could impact our estimates of the cost of remediation at this site. In the fourth quarter of 2016, we estimated the potential costs associated with additional investigation and remediation to be in the range of \$4.0 million to \$7.0 million. A single reliable estimate of the remediation costs is not feasible due to the amount of uncertainty in the ultimate remediation approach that will be utilized. Accordingly, we recorded a reserve of \$4.0 million for this site in the fourth quarter of 2016.

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 the three months ended March 31, 2017 and 2016. A number of environmental issues may exist with respect to manufactured gas plants that are unknown to us. Accordingly, future costs are dependent on the final determination and regulatory approval of any remedial actions, the complexity of the site, level of remediation required, changing technology and governmental regulations, and to the extent not recovered by insurance or recoverable in rates from our customers, could be material to our financial condition, results of operations or cash flows.

With the trend toward stricter standards, greater regulation and more extensive permit requirements for the types of assets operated by us that are subject to environmental regulation, our environmental expenditures could increase in the future, and such expenditures may not be fully recovered by insurance or recoverable in rates from our customers, and those costs may adversely affect our financial condition, results of operations and cash flows. We do not expect expenditures for these matters to have a material adverse effect on our financial condition, results of operations or cash flows.

Pipeline Safety - We are subject to PHMSA regulations, including integrity-management regulations. PHMSA regulations require pipeline companies operating high-pressure transmission 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 the Secretary of Transportation to conduct further review or studies on issues that may or may not be material to us. These issues include, but are not limited to, the following:

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

In April 2016, PHMSA published a NPRM, the Safety of Gas Transmission & Gathering Lines Rule, in the Federal Register to revise pipeline safety regulations applicable to the safety of onshore natural gas transmission and gathering pipelines. Proposals include changes to pipeline integrity management requirements and other safety-related requirements. The NPRM comment period ended July 7, 2016, and comments are under review by PHMSA. The potential capital and operating expenditures associated with the NPRM are currently being evaluated and could be significant depending on the final regulations.

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.

10. DERIVATIVE FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

Accounting Treatment - 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 to mitigate the risk 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:

Accounting Treatment	Recognition and Measurement	
	Balance Sheet	Income Statement
Normal purchases and normal sales	- Recorded at historical cost	- 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. Premiums paid and any cash settlements received associated with the commodity derivative instruments entered into by us are included in, and recoverable through, the purchased-gas cost adjustment mechanisms.

Determining Fair Value - 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.

Derivative Instruments - At March 31, 2017, we had no purchased natural gas call options. At December 31, 2016, we held purchased natural gas call options for the heating season ended March 31, 2017, with total notional amounts of 14.3 Bcf, for which we paid premiums of \$5.4 million, and had a fair value of \$6.5 million. The premiums paid and any cash settlements received are recorded as part of our unrecovered purchased-gas costs in current regulatory assets as these contracts are included in, and recoverable through, the purchased-gas cost adjustment mechanisms. Additionally, changes in fair value associated with these contracts are deferred as part of our unrecovered purchased-gas costs in our Balance Sheets. Our natural gas call

options are classified as Level 1 as fair value amounts are based on unadjusted quoted prices in active markets including NYMEX-settled prices. There were no transfers between levels for the three months ended March 31, 2017 and 2016 .

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.

Short-term notes payable and commercial paper are due upon demand and, therefore, the carrying amounts approximate fair value and are classified as Level 1. The book value of our long-term debt, including current maturities, was \$1.2 billion at both March 31, 2017 and December 31, 2016 . The estimated fair value of our long-term debt, including current maturities, was \$1.2 billion at both March 31, 2017 and December 31, 2016 , respectively. The estimated fair value of our Senior Notes at March 31, 2017 and December 31, 2016 , was determined using quoted market prices, and are considered Level 2.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with our unaudited financial statements and the Notes to the Financial Statements in this Quarterly Report, as well as our Annual Report. Due to the seasonal nature of our business, the results of operations for the three months ended March 31, 2017, are not necessarily indicative of the results that may be expected for a 12-month period.

RECENT DEVELOPMENTS

Dividend - In May 2017, we declared a dividend of \$0.42 per share (\$1.68 per share on an annualized basis) for shareholders of record as of May 15, 2017, payable June 1, 2017.

REGULATORY ACTIVITIES

Oklahoma - On March 15, 2017, Oklahoma Natural Gas filed its first annual PBRC following the general rate case that was approved in January 2016. This filing was based on a calendar test year of 2016. The PBRC filing demonstrates that Oklahoma Natural Gas is earning within the allowed range of 9.0 to 10.0 percent return on equity. Therefore, Oklahoma Natural Gas is not seeking a modification in base rates. The filing also requests an energy efficiency program true-up and utility incentive adjustment of approximately \$1.9 million. As required, PBRC filings are made annually on March 15, until the next general rate case, which is currently required to be filed on or before June 30, 2021, based on a calendar test year of 2020.

Kansas - On April 11, 2017, Kansas Gas Service submitted an application to the KCC regarding the costs incurred at its 12 manufactured gas plant sites. Consistent with prior KCC precedent, Kansas Gas Service requested approval to: (1) defer expenditures incurred after December 31, 2016, as a regulatory asset and to amortize and recover such costs from customers in a future base rate proceeding; (2) retain insurance recoveries up to \$9.5 million, the amount Kansas Gas Service has spent for the period November 1, 1997, through December 31, 2016, and to exclude such amounts from the determination of the revenue requirement in future base rate proceedings; and (3) to share insurance recoveries (less legal and other costs prudently incurred in obtaining the insurance recoveries) in excess of \$9.5 million between customers and shareholders. Kansas Gas Service is currently working with the KCC staff and the Citizens' Utility Ratepayer Board on a procedural schedule.

In May 2016, Kansas Gas Service filed a request with the KCC for an increase in base rates, reflecting system investments and operating costs necessary to maintain the safety and reliability of its natural gas distribution system. Kansas Gas Service's request represented a net base rate increase of \$28.0 million. Kansas Gas Service is already recovering approximately \$7.4 million from customers through the GSRS mechanism, resulting in a total base rate increase of \$35.4 million. In October 2016, Kansas Gas Service reached a unanimous settlement agreement with all parties for a net increase in base rates of approximately \$8.1 million. Including the GSRS of approximately \$7.4 million, the total base rate increase is \$15.5 million. The agreement is a "black-box settlement," meaning the parties agreed to a specific revenue number but no specific return on equity. The KCC issued an order approving the unanimous settlement agreement in November 2016, with new rates effective January 1, 2017.

Texas - West Texas Service Area - On March 15, 2017, Texas Gas Service made GRIP filings for all customers in the West Texas Service Area in the amount of \$4.5 million. If approved, new rates are expected to become effective in July 2017.

In March 2016, Texas Gas Service filed a rate case requesting an increase in revenues of \$12.8 million for its El Paso, Dell City and Permian service areas, as well as consolidation of these three areas. In September 2016, the RRC approved the consolidation and a base rate increase of \$8.8 million, which was based on a 9.5 percent return on equity and a 60.1 percent common equity ratio. In October 2016, new rates went into effect for all customers, except for those in the incorporated cities of the former Permian service area. Texas Gas Service filed for these new rates for customers in the incorporated cities of the former Permian service area in October 2016 and the rates became effective in December 2016.

Central Texas Service Area - On March 3, 2017, Texas Gas Service made GRIP filings for the incorporated and environs customers of the consolidated Central Texas Service Area in the amount of \$4.9 million. If approved, new rates are expected to become effective in June 2017.

In June 2016, Texas Gas Service filed a rate case requesting an increase in revenues of \$11.6 million for its Central Texas and South Texas service areas. The filing included a request to consolidate the South Texas service area with the Central Texas service area. Texas Gas Service filed this rate case directly with the incorporated cities of the Central Texas service area, which includes the city of Austin, and the RRC for the unincorporated areas. In October 2016, all parties to the filing reached a

unanimous settlement agreement for an increase in revenues of \$6.8 million for the new consolidated service area. New rates were effective in November 2016, for customers in the incorporated cities of the former Central Texas service area. RRC approval was received in November 2016 and new rates became effective for customers in the unincorporated areas of the new consolidated Central Texas Service Area the same month. Texas Gas Service received approval for the same rates in the incorporated areas of the former South Texas service area with new rates effective in January 2017.

Gulf Coast Service Area - In December 2015, Texas Gas Service filed a rate case requesting an increase in revenues of \$3.1 million for its Galveston and South Jefferson County service areas and to consolidate these two service areas into a new Gulf Coast Service Area. Texas Gas Service filed this rate case directly with the incorporated cities and the RRC for the unincorporated areas. Texas Gas Service reached a unanimous settlement agreement with representatives of the incorporated cities and the staff of the RRC on behalf of the unincorporated areas for an increase in revenues of \$2.3 million. Following RRC approval, new rates became effective in May 2016.

Other Texas service areas - In the normal course of business, Texas Gas Service has filed rate cases and sought GRIP and COSA increases in various other Texas jurisdictions to address investments in rate base and changes in expenses. Annual rate increases associated with approved filings totaled \$2.0 million in 2016.

FINANCIAL RESULTS AND OPERATING INFORMATION

We operate in one reportable business segment: regulated public utilities that deliver natural gas to residential, commercial, industrial, wholesale, public authority and transportation customers. We evaluate our financial performance principally on operating income.

Selected Financial Results - First-quarter 2017 net income was \$76.5 million, or \$1.44 per diluted share, compared with \$64.7 million, or \$1.22 per diluted share, in the first quarter 2016. Our prospective adoption of ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting," resulted in favorable impacts to income tax expense and our net income in the first quarter 2017 from recording \$5.2 million of excess tax benefits as a reduction to income tax expense. The following table sets forth certain selected financial results for our operations for the periods indicated:

Financial Results	Three Months Ended March 31,		Three Months 2017 vs. 2016	
	2017	2016	Increase (Decrease)	
	(Millions of dollars, except percentages)			
Natural gas sales	\$ 512.3	\$ 471.4	\$ 40.9	9 %
Transportation revenues	30.2	29.8	0.4	1 %
Cost of natural gas	263.2	235.7	27.5	12 %
Net margin, excluding other revenues	279.3	265.5	13.8	5 %
Other revenues	7.9	7.1	0.8	11 %
Net margin	287.2	272.6	14.6	5 %
Operating costs	125.1	121.8	3.3	3 %
Depreciation and amortization	37.0	34.7	2.3	7 %
Operating income	\$ 125.1	\$ 116.1	\$ 9.0	8 %
Capital expenditures	\$ 70.5	\$ 75.3	\$ (4.8)	(6)%

Net margin is comprised of total revenues less cost of natural gas. Cost of natural gas includes commodity purchases, fuel, storage, transportation, the cost of gas component of bad debts and other gas purchase costs recovered through our cost of natural gas regulatory mechanisms and does not include an allocation of general operating costs or depreciation and amortization. Our cost of natural gas regulatory mechanisms provide a method of recovering natural gas costs on an ongoing basis without a profit. Therefore, although our revenues will fluctuate with the cost of gas that we recover, net margin is not affected by fluctuations in the cost of natural gas.

The following table sets forth our net margin, excluding other revenues, by type of customer, for the periods indicated:

Net Margin, Excluding Other Revenues	Three Months Ended		Three Months		
	March 31,		2017 vs. 2016		
	2017	2016	Increase (Decrease)		
Natural gas sales	(Millions of dollars, except percentages)				
Residential	\$ 208.2	\$ 194.7	\$ 13.5	7 %	
Commercial and industrial	38.9	38.8	0.1	— %	
Wholesale and public authority	2.0	2.2	(0.2)	(9)%	
Net margin on natural gas sales	249.1	235.7	13.4	6 %	
Transportation revenues	30.2	29.8	0.4	1 %	
Net margin, excluding other revenues	\$ 279.3	\$ 265.5	\$ 13.8	5 %	

Our net margin on natural gas sales is comprised of two components, fixed and variable margin. Fixed margin reflects the portion of our net margin attributable to the monthly fixed customer charge component of our rates, which does not fluctuate based on customer usage in each period. Variable margin reflects the portion of our net margin that fluctuates with the volumes delivered and billed. We believe that the combination of the significant residential component of our customer base, the fixed charge component of our sales margin and our regulatory rate mechanisms that we have in place result in a stable cash flow profile. The following table sets forth our net margin on natural gas sales by revenue type for the periods indicated:

	Three Months Ended			Three Months	
	March 31,			2017 vs. 2016	
Net Margin on Natural Gas Sales	2017	2016		Increase (Decrease)	
Net margin on natural gas sales	(Millions of dollars, except percentages)				
Fixed margin	\$ 139.2	\$ 141.9	\$	(2.7)	(2)%
Variable margin	109.9	93.8		16.1	17 %
Net margin on natural gas sales	\$ 249.1	\$ 235.7	\$	13.4	6 %

Net margin increased \$14.6 million for the three months ended March 31, 2017 , compared with the same period last year, due primarily to the following:

- an increase of \$9.8 million from new rates in Texas and Kansas;
- an increase of \$2.7 million from the impact of weather-normalization mechanisms, which offset warmer weather in 2017 compared with the same period in 2016;
- an increase of \$0.8 million in residential sales due primarily to net customer growth in Oklahoma and Texas; and
- an increase of \$0.7 million due primarily to higher transportation volumes from customers in Kansas.

Operating costs increased \$3.3 million for the three months ended March 31, 2017 , compared with the same period last year, due primarily to the following:

- an increase of \$2.4 million from the deferral in the first quarter of 2016 of certain information technology costs incurred as a result of our separation from ONEOK in 2014, which was approved in Oklahoma as a regulatory asset;
- an increase of \$1.5 million in outside services, fleet and materials expense due to pipeline maintenance activities;
- an increase of \$1.0 million in information technology costs; and
- an increase of \$0.9 million in bad debt expense; offset partially by
- a decrease of \$1.9 million in legal-related costs due to lower claims activity; and
- a decrease of \$1.5 million in employee-related costs due to lower share-based and other benefit costs.

Depreciation and amortization expense increased \$2.3 million for the three months ended March 31, 2017 , compared with the same period last year, due primarily to an increase in depreciation of \$2.8 million from our capital expenditures being placed in service, offset by a decrease of \$0.5 million in amortization expense associated primarily with other postemployment benefit deferrals in Kansas.

Capital Expenditures - Our capital expenditures program includes expenditures for pipeline integrity, extending service to new areas, modifications to customer service lines, increasing system capabilities, pipeline replacements, fleet, facilities and information technology assets. It is our practice to maintain and upgrade our infrastructure, facilities and systems to ensure safe, reliable and efficient operations.

Capital expenditures decreased \$4.8 million for the three months ended March 31, 2017, compared with the same period last year, due primarily to the timing of expenditures for our system maintenance activities and information technology systems.

Selected Operating Information - The following tables set forth certain selected operating information for the periods indicated:

(in thousands)	Three Months Ended March 31,								Variances 2017 vs. 2016			
	2017				2016				Increase (Decrease)			
	OK	KS	TX	Total	OK	KS	TX	Total	OK	KS	TX	Total
Average Number of Customers												
Residential	798	588	617	2,003	793	586	611	1,990	5	2	6	13
Commercial and industrial	75	51	36	162	74	51	35	160	1	—	1	2
Wholesale and public authority	—	—	3	3	—	—	3	3	—	—	—	—
Transportation	5	6	1	12	5	6	1	12	—	—	—	—
Total customers	878	645	657	2,180	872	643	650	2,165	6	2	7	15

Volumes (MMcf)	Three Months Ended March 31,	
	2017	2016
Natural gas sales		
Residential	50,133	51,686
Commercial and industrial	14,159	14,488
Wholesale and public authority	655	943
Total volumes sold	64,947	67,117
Transportation	61,090	59,220
Total volumes delivered	126,037	126,337

Total volumes sold decreased for the three months ended March 31, 2017, compared with the same period last year, due primarily to warmer temperatures in 2017. The impact on residential and commercial margins was mitigated significantly by weather-normalization mechanisms in the first quarter of 2017.

Wholesale sales represent contracted natural gas volumes that exceed the needs of our residential, commercial and industrial customer base and are available for sale to other parties. The impact to net margin from changes in volumes associated with these customers is minimal.

	Three Months Ended						2017	2016
	March 31,							
	2017		2016		2017 vs. 2016			
Heating Degree Days	Actual	Normal	Actual	Normal	Actual Variance	Actual as a percent of Normal		
Oklahoma	1,392	1,775	1,565	1,775	(11)%	78%	88%	
Kansas	1,986	2,503	2,120	2,502	(6)%	79%	85%	
Texas	629	1,009	865	994	(27)%	62%	87%	

Normal HDDs are established through rate proceedings in each of our rate jurisdictions for use primarily in weather-normalization billing calculations. See further discussion on weather normalization in our Regulatory Overview section in Part I, Item 1, “Business,” of our Annual Report. Normal HDDs disclosed above are based on:

- 10-year weighted average HDDs as of December 31, 2014, for years 2005-2014, as calculated using 11 weather stations across Oklahoma and weighted on average customer count for Oklahoma;
- 30-year average for years 1981-2010 published by the National Oceanic and Atmospheric Administration, as calculated using 13 weather stations across Kansas and weighted on HDDs by weather station and customers for Kansas; and

- an average of HDDs authorized in our most recent rate proceeding in each jurisdiction, and weighted using a rolling 10-year average of actual natural gas distribution sales volumes by jurisdiction for Texas.

Actual HDDs are based on the quarter-to-date, weighted average of:

- 11 weather stations and customers by month for Oklahoma;
- 13 weather stations and customers by month for Kansas; and
- 9 weather stations and natural gas distribution sales volumes by service area for Texas.

Through March 31, 2017, Kansas Gas Services' WNA clause required it to accrue the variation in net margin resulting from actual weather differing from normal weather occurring from November through March. Beginning in April 2017, Kansas Gas Services' WNA clause will require an accrual each month of the year. Also, normal HDDs under the new WNA clause will be based on a 30-year average for years 1981-2010 published by the National Oceanic and Atmospheric Administration, as calculated using 4 weather stations across Kansas and weighted on HDDs by weather station and customers.

CONTINGENCIES

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.

LIQUIDITY AND CAPITAL RESOURCES

General - We have relied primarily on operating cash flow and commercial paper for our liquidity and capital resource requirements. We fund operating expenses, working capital requirements, including purchases of natural gas, and capital expenditures primarily with cash from operations and commercial paper.

We believe that the combination of the significant residential component of our customer base, the fixed-charge component of our natural gas sales net margin and our regulatory rate mechanisms that we have in place result in a stable cash flow profile. Because the energy consumption of residential customers is less volatile compared with commercial and industrial customers, our business historically has generated stable and predictable net margin and cash flows. Additionally, we have several regulatory rate mechanisms in place to reduce the lag in earning a return on our capital expenditures. We anticipate that our cash flow generated from operations and our expected short- and long-term financing arrangements will enable us to maintain our current and planned level of operations and provide us flexibility to finance our infrastructure investments.

Our ability to access capital markets for debt and equity financing under reasonable terms depends on market conditions and our financial condition and credit ratings. We believe that stronger credit ratings will provide a significant advantage to our business. By maintaining a conservative financial profile and stable revenue base, we believe that we will be able to maintain an investment-grade credit rating, which we believe will provide us access to diverse sources of capital at favorable rates in order to finance our infrastructure investments.

Short-term Financing - The ONE Gas Credit Agreement, which is scheduled to expire in January 2019, contains certain financial, operational and legal covenants. Among other things, these covenants include maintaining ONE Gas' total debt-to-capital ratio of no more than 70 percent at the end of any calendar quarter. At March 31, 2017, our total debt-to-capital ratio was 40 percent, and we were in compliance with all covenants under the ONE Gas Credit Agreement.

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

The ONE Gas Credit Agreement is available to repay the commercial paper notes, if necessary. Amounts outstanding under the commercial paper program reduce the borrowing capacity under the ONE Gas Credit Agreement. At March 31, 2017, we had \$85.4 million in short-term borrowings and \$1.8 million in letters of credit issued under the ONE Gas Credit Agreement. At March 31, 2017, we had approximately \$13.2 million of cash and cash equivalents and \$612.8 million of remaining credit available under the ONE Gas Credit Agreement. The total amount of short-term borrowings authorized by ONE Gas' Board of Directors is \$1.2 billion.

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

Credit Ratings - Our credit ratings as of March 31, 2017, were:

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

Our commercial paper is currently rated Prime-1 by Moody's and A-2 by S&P. We intend to maintain strong credit metrics while we pursue a balanced approach to capital investment and a return of capital to shareholders via a dividend that we believe will be competitive with our peer group.

Pension and Other Postemployment Benefit Plans - Information about our pension and other postemployment benefits plans, including anticipated contributions, is included under Note 11 of the ONE Gas Notes to the Financial Statements in our Annual Report. See Note 8 of the Notes to the Financial Statements in this Quarterly Report for additional information.

CASH FLOW ANALYSIS

We use the indirect method to prepare our Statements of Cash Flows. Under this method, we reconcile net income to cash flows provided by operating activities by adjusting net income for those items that impact net income but may not result in actual cash receipts or payments and changes in our assets and liabilities not classified as investing or financing activities during the period. Items that impact net income but may not result in actual cash receipts or payments include, but are not limited to, depreciation and amortization, deferred income taxes, share-based compensation expense and provision for doubtful accounts.

The following table sets forth the changes in cash flows by operating, investing and financing activities for the periods indicated:

	Three Months Ended		Variance	
	2017	March 31, 2016	2017 vs. 2016	
<i>(Millions of dollars)</i>				
Total cash provided by (used in):				
Operating activities	\$ 162.2	\$ 188.9	\$ (26.7)	
Investing activities	(70.4)	(74.8)	4.4	
Financing activities	(93.3)	(63.8)	(29.5)	
Change in cash and cash equivalents	(1.5)	50.3	(51.8)	
Cash and cash equivalents at beginning of period	14.7	2.4	12.3	
Cash and cash equivalents at end of period	\$ 13.2	\$ 52.7	\$ (39.5)	

Operating Cash Flows - Changes in cash flows from operating activities are due primarily to changes in net margin and operating expenses discussed in Financial Results and Operating Information. Changes in natural gas prices and demand for our services or natural gas, whether because of general economic conditions, changes in supply or increased competition from other service providers, could affect our earnings and operating cash flows. Typically, our cash flows from operations are greater in the first half of the year compared with the second half of the year.

Before considering the impacts of operating asset and liability changes, cash flows were higher in the first quarter of 2017 compared with the same period in 2016, due primarily to an increase in net income, higher noncash expenses for depreciation and amortization and deferred income taxes. The decrease in operating asset and liability changes more than offset these increases. Working capital changes related to accounts receivable and natural gas in storage were impacted by higher costs of natural gas delivered to customers in the first quarter of 2017, compared with the same period in 2016. Additionally, we collected a tax receivable in 2016 related to the extension of the IRS rules for bonus depreciation in late 2015.

Investing Cash Flows - Cash used in investing activities decreased for the three months ended March 31, 2017, compared with the prior period, due primarily to timing of capital expenditures during the three months ended March 31, 2017.

Financing Cash Flows - Cash used in financing activities increased for the three months ended March 31, 2017, compared with the prior period, due primarily to larger repayments of notes payable and an increase in the dividend rate of seven cents in the first quarter of 2017 compared with the same period in 2016, offset by the purchases of fewer shares of treasury stock.

ENVIRONMENTAL, SAFETY AND REGULATORY MATTERS

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 and results of operations. Our expenditures for environmental investigation, and remediation 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 the three months ended March 31, 2017 and 2016.

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 require us to investigate these sites and set remediation activities based upon the results of the investigations and risk analysis. Remediation typically involves the management of contaminated soils and may involve removal of structures and monitoring and/or remediation of groundwater.

We have completed or addressed removal of the source of soil contamination at 11 of the 12 sites, and continue to monitor groundwater at eight of the 12 sites according to plans approved by the KDHE. Regulatory closure has been achieved at three of the sites, subject to any future regulatory remediation requirements that may require additional costs. During 2016, we completed a site assessment at the twelfth site where no active soil remediation has occurred. We have submitted a work plan to the KDHE for approval to remove contaminated soil at this site. Costs associated with the remediation at this site are not expected to be material to our results of operations or financial position.

With regard to one of our former manufactured natural gas sites, periodic monitoring and a 2016 interim site investigation indicated elevated levels of potentially harmful materials. Additional testing and work plan development is underway in 2017 to determine a remediation work plan to present to the KDHE for approval, which could impact our estimates of the cost of remediation at this site. In the fourth quarter of 2016, we estimated the potential costs associated with additional investigation and remediation to be in the range of \$4.0 million to \$7.0 million. A single reliable estimate of the remediation costs is not feasible due to the amount of uncertainty in the ultimate remediation approach that will be utilized. Accordingly, we recorded a reserve of \$4.0 million for this site in the fourth quarter of 2016.

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 the three months ended March 31, 2017 and 2016. A number of environmental issues may exist with respect to manufactured gas plants that are unknown to us. Accordingly, future costs are dependent on the final determination and regulatory approval of any remedial actions, the complexity of the site, level of remediation required, changing technology and governmental regulations, and to the extent not recovered by insurance or recoverable in rates from our customers, could be material to our financial condition, results of operations or cash flows.

With the trend toward stricter standards, greater regulation and more extensive permit requirements for the types of assets operated by us that are subject to environmental regulation, our environmental expenditures could increase in the future, and such expenditures may not be fully recovered by insurance or recoverable in rates from our customers, and those costs may

adversely affect our financial condition, results of operations and cash flows. We do not expect expenditures for these matters to have a material adverse effect on our financial condition, results of operations or cash flows.

Pipeline Safety - We are subject to PHMSA regulations, including integrity-management regulations. PHMSA regulations require pipeline companies operating high-pressure transmission 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 the Secretary of Transportation to conduct further review or studies on issues that may or may not be material to us. These issues include, but are not limited to, the following:

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

In April 2016, PHMSA published a NPRM, the Safety of Gas Transmission & Gathering Lines Rule, in the Federal Register to revise pipeline safety regulations applicable to the safety of onshore natural gas transmission and gathering pipelines. Proposals include changes to pipeline integrity management requirements and other safety-related requirements. The NPRM comment period ended July 7, 2016, and comments are under review by PHMSA. The potential capital and operating expenditures associated with the NPRM are currently being evaluated and could be significant depending on the final regulations.

Air and Water Emissions - The Clean Air Act, the Clean Water Act, analogous state laws and/or regulations promulgated thereunder, impose restrictions and controls regarding the discharge of pollutants into the air and water in the United States. Under the Clean Air Act, a federally enforceable operating permit is required for sources of significant air emissions. We may be required to incur certain capital expenditures for air-pollution-control equipment in connection with obtaining or maintaining permits and approvals for sources of air emissions. We do not expect that these expenditures will have a material impact on our respective results of operations, financial position or cash flows. The Clean Water Act imposes substantial potential liability for the removal of pollutants discharged to waters of the United States and remediation of waters affected by such discharge.

International, federal, regional and/or state legislative and/or regulatory initiatives may attempt to regulate greenhouse gas emissions. We monitor relevant legislation and regulatory initiatives to assess the potential impact on our operations. The EPA's Mandatory Greenhouse Gas Reporting Rule requires annual greenhouse gas emissions reporting as carbon dioxide equivalents from affected facilities and for the natural gas delivered by us to our natural gas distribution customers who are not otherwise required to report their own emissions. The additional cost to gather and report this emission data did not have, and we do not expect it to have, a material impact on our results of operations, financial position or cash flows. In addition, Congress has considered, and may consider in the future, legislation to reduce greenhouse gas emissions, including carbon dioxide and methane. Likewise, the EPA may institute additional regulatory rulemaking associated with greenhouse gas emissions. At this time, no rule or legislation has been enacted for natural gas distribution that assesses any costs, fees or expenses on any of these emissions.

CERCLA - The federal CERCLA, also commonly known as Superfund, imposes strict, joint and several liability, without regard to fault or the legality of the original act, on certain classes of "persons" (defined under CERCLA) that caused and/or contributed to the release of a hazardous substance into the environment. These persons include, but are not limited to, the owner or operator of a facility where the release occurred and/or companies that disposed or arranged for the disposal of the hazardous substances found at the facility. Under CERCLA, these persons may be liable for the costs of cleaning up the hazardous substances released into the environment, damages to natural resources and the costs of certain health studies. We do not expect that our responsibilities under CERCLA will have a material impact on our respective results of operations, financial position or cash flows.

Pipeline Security - The U.S. Department of Homeland Security's Transportation Security Administration issued updated pipeline security guidelines in April 2012. Our pipeline facilities have been reviewed according to the current guidelines and no material changes have been required to date.

Environmental Footprint - Our environmental and climate change strategy focuses on taking steps to minimize the impact of our operations on the environment. These strategies include: (1) developing and maintaining an accurate greenhouse gas

emissions inventory according to current rules issued by the EPA; (2) improving the integrity of our various pipelines; (3) following developing technologies for emission control; and (4) utilizing practices to reduce the loss of methane from our facilities.

We participate in the EPA's Natural Gas STAR Program to voluntarily reduce methane emissions. We continue to focus on maintaining low rates of lost-and-unaccounted-for natural gas through expanded implementation of best practices to limit the release of natural gas during pipeline and facility maintenance and operations. Additionally, in March 2016, we were one of 40 founding partners to launch the EPA's Natural Gas STAR Methane Challenge Program, whereby oil and natural gas companies agree to promote and track commitments to reduce methane emissions beyond what is federally required. Our Methane Challenge Program commitment to annually replace or rehabilitate at least two percent of our combined inventory of cast iron and noncathodically-protected steel pipe aligns with our planned system integrity expenditures for infrastructure replacements. We anticipate reporting in 2018 our calendar year 2017 performance relative to our commitment.

Additional information about our environmental matters is included in the section entitled "Environmental Matters" in Note 9 of the Notes to the Financial Statements in this Quarterly Report.

Regulatory - Several regulatory initiatives impacted the earnings and future earnings potential of our business. See additional information regarding our regulatory initiatives in Management's Discussion and Analysis of Financial Condition and Results of Operations.

IMPACT OF NEW ACCOUNTING STANDARDS

Information about the impact of new accounting standards, if any, is included in Note 1 of the Notes to the Financial Statements in this Quarterly Report.

ESTIMATES AND CRITICAL ACCOUNTING POLICIES

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 amounts 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. Although we believe these estimates and assumptions are reasonable, actual results could differ from our estimates.

Information about our estimates and critical accounting policies is included under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, "Estimates and Critical Accounting Policies," in our Annual Report.

FORWARD-LOOKING STATEMENTS

Some of the statements contained and incorporated in this Quarterly Report are forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. The forward-looking statements relate to our anticipated financial performance, liquidity, management's plans and objectives for our future operations, our business prospects, the outcome of regulatory and legal proceedings, market conditions and other matters. We make these forward-looking statements in reliance on the safe harbor protections provided under the Private Securities Litigation Reform Act of 1995. The following discussion is intended to identify important factors that could cause future outcomes to differ materially from those set forth in the forward-looking statements.

Forward-looking statements include the items identified in the preceding paragraph, the information concerning possible or assumed future results of our operations and other statements contained or incorporated in this Quarterly Report identified by words such as "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," "should," "goal," "forecast," "guidance," "could," "may," "continue," "might," "potential," "scheduled," and other words and terms of similar meaning.

One should not place undue reliance on forward-looking statements, which are applicable only as of the date of this Quarterly Report. Known and unknown risks, uncertainties and other factors may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by forward-looking statements. Those factors may affect our operations, markets, products, services and prices. In addition to any assumptions and other factors referred to specifically in connection with the forward-looking statements, factors that could cause our actual results to differ materially from those contemplated in any forward-looking statement include, among others, the following:

- our ability to recover operating costs and amounts equivalent to income taxes, costs of property, plant and equipment and regulatory assets in our regulated rates;
- our ability to manage our operations and maintenance costs;

- changes in regulation of natural gas distribution services, particularly those in Oklahoma, Kansas and Texas;
- the economic climate and, particularly, its effect on the natural gas requirements of our residential and commercial industrial customers;
- competition from alternative forms of energy, including, but not limited to, electricity, solar power, wind power, geothermal energy and biofuels;
- conservation efforts of our customers;
- variations in weather, including seasonal effects on demand, the occurrence of storms and disasters, and climate change;
- indebtedness could make us more vulnerable to general adverse economic and industry conditions, limit our ability to borrow additional funds and/or place us at competitive disadvantage compared with competitors;
- our ability to secure reliable, competitively priced and flexible natural gas transportation and supply, including decisions by natural gas producers to reduce production or shut-in producing natural gas wells and expiration of existing supply, and transportation and storage arrangements that are not replaced with contracts with similar terms and pricing;
- the mechanical integrity of facilities operated;
- operational hazards and unforeseen operational interruptions;
- adverse labor relations;
- the effectiveness of our strategies to reduce earnings lag, margin protection strategies and risk mitigation strategies;
- our ability to generate sufficient cash flows to meet all our cash needs;
- changes in the financial markets during the periods covered by the forward-looking statements, particularly those affecting the availability of capital and our ability to refinance existing debt and fund investments and acquisitions;
- actions of rating agencies, including the ratings of debt, general corporate ratings and changes in the rating agencies' ratings criteria;
- changes in inflation and interest rates;
- our ability to recover the costs of natural gas purchased for our customers;
- impact of potential impairment charges;
- volatility and changes in markets for natural gas;
- possible loss of LDC franchises or other adverse effects caused by the actions of municipalities;
- payment and performance by counterparties and customers as contracted and when due;
- changes in existing or the addition of new environmental, safety, tax and other laws, rules and regulations to which we and our subsidiaries are subject;
- the uncertainty of estimates, including accruals and costs of environmental remediation;
- advances in technology;
- population growth rates and changes in the demographic patterns of the markets we serve;
- acts of nature and the potential effects of threatened or actual terrorism, including war;
- cyber attacks or breaches of technology systems or information, affecting us, our customers or vendors;
- the sufficiency of insurance coverage to cover losses;
- the effects of our strategies to reduce tax payments;
- the outcomes, timing and effects of litigation and regulatory investigations, proceedings, including our rate cases, or inquiries;
- changes in accounting standards;
- changes in corporate governance standards;
- discovery of material weaknesses in our internal controls;
- our ability to comply with all covenants in our indentures and the ONE Gas Credit Agreement, a violation of which, if not cured in a timely manner, could trigger a default of our obligations;
- our ability to attract and retain talented employees, management and directors;
- declines in the discount rates on, declines in the market value of the debt and equity securities of, and increases in funding requirements for, our defined benefit plans;
- the ability to successfully complete merger, acquisition or divestiture plans, regulatory or other limitations imposed as a result of a merger, acquisition or divestiture, and the success of the business following a merger, acquisition or divestiture;
- the final resolutions or outcomes with respect to our contingent and other corporate liabilities related to the natural gas distribution business and any related actions for indemnification made pursuant to the Separation and Distribution Agreement with ONEOK; and
- the costs associated with increased regulation and enhanced disclosure and corporate governance requirements pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

These factors are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in any of our forward-looking statements. Other factors could also have material adverse effects on our future

results. These and other risks are described in greater detail in Item 1A, Risk Factors, in our Annual Report. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these factors. Other than as required under securities laws, we undertake no obligation to update publicly any forward-looking statement whether as a result of new information, subsequent events or change in circumstances, expectations or otherwise.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our quantitative and qualitative disclosures about market risk are consistent with those discussed in Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk, in our Annual Report.

Commodity Price Risk

Our commodity price risk, driven primarily by fluctuations in the price of natural gas, is mitigated by our purchased-gas cost adjustment mechanisms. Additionally, we inject natural gas into storage during the summer months and withdraw the natural gas during the winter heating season. Pursuant to programs that are approved by the state commissions, we use derivative instruments to mitigate the volatility of natural gas prices for anticipated natural gas purchases during the winter heating months. Premiums paid and any cash settlements received associated with these derivative instruments are included in, and recoverable through our purchased-gas cost adjustment mechanisms.

Interest-Rate Risk

We would be exposed to interest-rate risk with any new debt financing. We are able to manage interest-rate risk through the use of fixed-rate debt, floating-rate debt and, at times, interest-rate swaps. Fixed-rate swaps may be used to reduce our risk of increased interest costs during periods of rising interest rates. Floating-rate swaps may be used to convert the fixed rates of long-term borrowings into short-term variable rates.

Counterparty Credit Risk

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 a provision for doubtful accounts based upon factors surrounding the credit risk of customers, historical trends, consideration of the current credit environment and other information. In Oklahoma, Kansas and most jurisdictions we serve in Texas, we are able to recover the natural gas cost component of our uncollectible accounts through our purchased-gas cost adjustment mechanisms.

ITEM 4. CONTROLS AND PROCEDURES

Quarterly 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 were effective as of the end of the period covered by this report based on the evaluation of the controls and procedures required by Rules 13(a)-15(b) of the Exchange Act.

Changes in Internal Control Over Financial Reporting - There have been no changes in our internal control over financial reporting during the three months ended March 31, 2017, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. 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.

ITEM 1A. RISK FACTORS

Our investors should consider the risks set forth in Part I, Item 1A, Risk Factors, of our Annual Report that could affect us and our business. Although we have tried to discuss key factors, our investors need to be aware that other risks may prove to be important in the future. New risks may emerge at any time, and we cannot predict such risks or estimate the extent to which they may affect our financial performance. Investors should carefully consider the discussion of risks and the other information included or incorporated by reference in this Quarterly Report, including “Forward-Looking Statements,” which are included in Part I, Item 2, Management’s Discussion and Analysis of Financial Condition and Results of Operations.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table sets forth information relating to our purchases of our common stock for the periods indicated:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
January 1 - 30, 2017	—	—	—	
February 1 - 28, 2017	—	—	—	
March 1 - 31, 2017	37,000	\$66.74	37,000	
Total	37,000	\$66.74	37,000	\$21,926,639 (a)

(a) - In February 2015, our Board of Directors established an annual limit of \$20 million of treasury stock purchases, plus funds received through the dividend reinvestment, direct stock purchase and employee stock purchase plans. Stock purchases may be made in the open market or in private transactions at times and in amounts that we deem appropriate. There is no guarantee as to the exact number of shares that we may purchase, and we can terminate or limit the program at any time.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

On February 21, 2017, our Board of Directors amended our Deferred Compensation Plan for Non-Employee Directors to reflect that interest for cash payments deferred under the plan would be calculated with reference to Moody’s Bond Indices Corporate AAA Index because of the discontinuation of Moody’s AAA-30-Year Bond Index. The description of our Deferred Compensation Plan for Non-Employee Directors, as amended to date, is qualified in its entirety by reference to the full text of such plan, which is attached hereto or incorporated by reference as Exhibit 10.3.

ITEM 6. EXHIBITS

Readers of this report should not rely on or assume the accuracy of any representation or warranty or the validity of any opinion contained in any agreement filed as an exhibit to this Quarterly Report, because such representation, warranty or opinion may be subject to exceptions and qualifications contained in separate disclosure schedules, may represent an allocation of risk between parties in the particular transaction, may be qualified by materiality standards that differ from what may be viewed as material for securities law purposes, or may no longer continue to be true as of any given date. All exhibits attached to this Quarterly Report are included for the purpose of complying with requirements of the SEC. Other than the certifications made by our officers pursuant to the Sarbanes-Oxley Act of 2002 included as exhibits to this Quarterly Report, all exhibits are included only to provide information to investors regarding their respective terms and should not be relied upon as constituting or providing any factual disclosures about us, any other persons, any state of affairs or other matters.

The following exhibits are filed as part of this Quarterly Report:

<u>Exhibit No.</u>	<u>Exhibit Description</u>
10.1	Form of 2017 Restricted Unit Award Agreement (incorporated by reference to Exhibit 10.15 to ONE Gas, Inc.'s Annual Report on Form 10-K filed on February 23, 2017 (File No. 1-36108)).
10.2	Form of 2017 Performance Unit Award Agreement (incorporated by reference to Exhibit 10.16 to ONE Gas, Inc.'s Annual Report on Form 10-K filed on February 23, 2017 (File No. 1-36108)).
10.3	ONE Gas, Inc. Deferred Compensation Plan for Non-Employee Directors (incorporated by reference to Exhibit 10.19 to ONE Gas, Inc.'s Annual Report on Form 10-K filed on February 23, 2017 (File No. 1-36108)).
31.1	Certification of Pierce H. Norton II pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Curtis L. Dinan pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Pierce H. Norton II pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished only pursuant to Rule 13a-14(b)).
32.2	Certification of Curtis L. Dinan pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished only pursuant to Rule 13a-14(b)).
101.INS	XBRL Instance Document.
101.SCH	XBRL Schema Document.
101.CAL	XBRL Calculation Linkbase Document.
101.LAB	XBRL Label Linkbase Document.
101. PRE	XBRL Presentation Linkbase Document.
101.DEF	XBRL Extension Definition Linkbase Document.

Attached as Exhibit 101 to this Quarterly Report are the following XBRL-related documents: (i) Document and Entity Information; (ii) Statements of Income for the three months ended March 31, 2017 and 2016 ; (iii) Statements of Comprehensive Income for the three months ended March 31, 2017 and 2016 ; (iv) Balance Sheets at March 31, 2017 and December 31, 2016 ; (v) Statements of Cash Flows for the three months ended March 31, 2017 and 2016 ; (vi) Statement of Equity for the three months ended March 31, 2017 ; and (vii) Notes to the Financial Statements.

We also make available on our website the Interactive Data Files submitted as Exhibit 101 to this Quarterly Report.

SIGNATURE

Pursuant to the requirements of the Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: May 2, 2017

ONE Gas, Inc.
Registrant

By: /s/ Curtis L. Dinan
Curtis L. Dinan
Senior Vice President,
Chief Financial Officer and Treasurer
(Principal Financial Officer)

Certification

I, Pierce H. Norton II, certify that:

I have reviewed this quarterly report on Form 10-Q of ONE Gas, Inc.;

Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

- a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
- c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 2, 2017

/s/ Pierce H. Norton II

Pierce H. Norton II

Chief Executive Officer

Certification

I, Curtis L. Dinan, certify that:

I have reviewed this quarterly report on Form 10-Q of ONE Gas, Inc.;

Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

- a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
- c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 2, 2017

/s/ Curtis L. Dinan

Curtis L. Dinan

Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of ONE Gas, Inc. (the “Registrant”) for the period ending March 31, 2017, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Pierce H. Norton II, Chief Executive Officer of the Registrant, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ Pierce H. Norton II
Pierce H. Norton II
Chief Executive Officer

May 2, 2017

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to ONE Gas, Inc. and will be retained by ONE Gas, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of ONE Gas, Inc. (the “Registrant”) for the period ending March 31, 2017, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Curtis L. Dinan, Chief Financial Officer of the Registrant, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ Curtis L. Dinan

Curtis L. Dinan
Chief Financial Officer

May 2, 2017

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to ONE Gas, Inc. and will be retained by ONE Gas, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.