

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 September 30, 2020.

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

46-3561936

(State or other jurisdiction of
incorporation or organization)

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

15 East Fifth Street

Tulsa, OK

74103

(Address of principal
executive offices)

(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of exchange on which registered
Common Stock, par value \$0.01 per share	OGS	New York Stock Exchange

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 every Interactive Data File required to be submitted 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 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	☐ 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 October 26, 2020, the Company had 53,096,893 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 subsidiaries, 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,” “likely,” 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,” and Part II, Item 1A, “Risk Factors” in this Quarterly Report and under Part I, Item 1A, “Risk Factors,” in our Annual Report.

AVAILABLE INFORMATION

We make available, free of charge, on our website (www.onegas.com) copies of our Annual Report, 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, which also makes these materials available on its website (www.sec.gov). Copies of our Code of Business Conduct and Ethics, Corporate Governance Guidelines, Certificate of Incorporation, bylaws, the written charters of our Audit Committee, Executive Compensation Committee, Corporate Governance Committee and Executive Committee and our Sustainability Report are also available on our website, and copies of these documents are available upon request.

In addition to filings with the SEC and materials posted on our website, we also use social media platforms as channels of information distribution to reach public investors. Information contained on our website or posted on or disseminated through our social media accounts is not incorporated by reference into this report.

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

AAO	Accounting Authority Order
ADIT	Accumulated deferred income tax
Annual Report	Annual Report on Form 10-K for the year ended December 31, 2019
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
Bcf	Billion cubic feet
CDC	Centers for Disease Control and Prevention
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
CNG	Compressed natural gas
Code	Internal Revenue Code of 1986, as amended
COSA	Cost-of-service Adjustment
COVID-19	Coronavirus Disease 2019
DOT	United States Department of Transportation
EDIT	Excess accumulated deferred income taxes resulting from a change in enacted tax rates
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
GPAC	Gas Pipeline Advisory Committee
GRIP	Gas Reliability Infrastructure Program
GSRS	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
HCA(s)	High consequence area(s)
KCC	Kansas Corporation Commission
KDHE	Kansas Department of Health and Environment
LDC	Local distribution company
MAOP(s)	Maximum allowable operating pressure(s)
MGP	Manufactured gas plant
MMcf	Million cubic feet
Moody's	Moody's Investors Service, Inc.
Net margin	Non-GAAP measure defined as total revenues less cost of natural gas
NPRM	Notice of Proposed Rulemaking
NYMEX	New York Mercantile Exchange
NYSE	New York Stock Exchange
OCC	Oklahoma Corporation Commission
ONE Gas	ONE Gas, Inc.
ONE Gas 364-day Credit Agreement	ONE Gas' \$250 million 364-day revolving credit agreement, which expires on April 6, 2021
ONE Gas Credit Agreement	ONE Gas' \$700 million amended and restated revolving credit agreement, which expires on October 4, 2024
OSHA	Occupational Safety and Health Administration
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
ROE	Return on equity, calculated consistent with utility ratemaking principles in each jurisdiction in which we operate
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 3.61 percent senior notes due 2024, \$300 million of 2.00 percent senior notes due 2030, \$600 million of 4.658 percent senior notes due 2044 and \$400 million of 4.50 percent notes due 2048
XBRL	eXtensible Business Reporting Language

PART I - FINANCIAL INFORMATION
ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

ONE Gas, Inc.

CONSOLIDATED STATEMENTS OF INCOME

<i>(Unaudited)</i>	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2020	2019	2020	2019
<i>(Thousands of dollars, except per share amounts)</i>				
Total revenues	\$ 244,640	\$ 248,563	\$ 1,046,095	\$ 1,200,123
Cost of natural gas	40,485	49,607	329,134	497,271
Operating expenses				
Operations and maintenance	100,285	100,486	308,641	310,243
Depreciation and amortization	47,998	45,471	142,898	134,260
General taxes	15,193	14,222	46,931	45,062
Total operating expenses	163,476	160,179	498,470	489,565
Operating income	40,679	38,777	218,491	213,287
Other income (expense), net	198	(1,397)	(3,196)	(1,833)
Interest expense, net	(15,542)	(15,783)	(47,078)	(46,968)
Income before income taxes	25,335	21,597	168,217	164,486
Income taxes	(4,256)	(4,140)	(30,136)	(28,899)
Net income	\$ 21,079	\$ 17,457	\$ 138,081	\$ 135,587
Earnings per share				
Basic	\$ 0.40	\$ 0.33	\$ 2.60	\$ 2.56
Diluted	\$ 0.39	\$ 0.33	\$ 2.59	\$ 2.55
Average shares (thousands)				
Basic	53,190	52,933	53,084	52,883
Diluted	53,408	53,267	53,313	53,229
Dividends declared per share of stock	\$ 0.54	\$ 0.50	\$ 1.62	\$ 1.50

See accompanying Notes to Consolidated Financial Statements.

ONE Gas, Inc.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
(Thousands of dollars)				
Net income	\$ 21,079	\$ 17,457	\$ 138,081	\$ 135,587
Other comprehensive income, net of tax				
Change in pension and other postemployment benefit plan liability, net of tax of \$(75), \$(53), \$(224) and \$(159), respectively	223	160	670	480
Total other comprehensive income, net of tax	223	160	670	480
Comprehensive income	\$ 21,302	\$ 17,617	\$ 138,751	\$ 136,067

See accompanying Notes to Consolidated Financial Statements.

ONE Gas, Inc.
CONSOLIDATED BALANCE SHEETS

<i>(Unaudited)</i>	September 30, 2020	December 31, 2019
Assets	<i>(Thousands of dollars)</i>	
Property, plant and equipment		
Property, plant and equipment	\$ 6,735,032	\$ 6,433,119
Accumulated depreciation and amortization	1,955,200	1,867,893
Net property, plant and equipment	4,779,832	4,565,226
Current assets		
Cash and cash equivalents	6,184	17,853
Accounts receivable, net	106,777	260,012
Materials and supplies	55,492	55,732
Natural gas in storage	105,377	104,259
Regulatory assets	71,748	47,440
Other current assets	24,126	20,906
Total current assets	369,704	506,202
Goodwill and other assets		
Regulatory assets	364,117	391,036
Goodwill	157,953	157,953
Other assets	92,158	87,883
Total goodwill and other assets	614,228	636,872
Total assets	\$ 5,763,764	\$ 5,708,300

See accompanying Notes to Consolidated Financial Statements.

ONE Gas, Inc.
CONSOLIDATED BALANCE SHEETS
(Continued)

	September 30, 2020	December 31, 2019
<i>(Unaudited)</i>		
Equity and Liabilities	<i>(Thousands of dollars)</i>	
Equity and long-term debt		
Common stock, \$0.01 par value: authorized 250,000,000 shares; issued and outstanding 53,096,893 shares at September 30, 2020; issued and outstanding 52,771,749 shares at December 31, 2019	\$ 531	\$ 528
Paid-in capital	1,751,350	1,733,092
Retained earnings	454,205	402,509
Accumulated other comprehensive loss	(6,069)	(6,739)
Total equity	2,200,017	2,129,390
Long-term debt, excluding current maturities and net of issuance costs of \$13,341 and \$10,936, respectively	1,582,193	1,286,064
Total equity and long-term debt	3,782,210	3,415,454
Current liabilities		
Notes payable	308,000	516,500
Accounts payable	65,311	120,490
Accrued taxes other than income	57,732	47,956
Regulatory liabilities	20,454	45,201
Customer deposits	55,319	57,987
Other current liabilities	68,898	84,603
Total current liabilities	575,714	872,737
Deferred credits and other liabilities		
Deferred income taxes	642,309	682,632
Regulatory liabilities	555,258	503,518
Employee benefit obligations	98,257	115,657
Other deferred credits	110,016	118,302
Total deferred credits and other liabilities	1,405,840	1,420,109
Commitments and contingencies		
Total liabilities and equity	\$ 5,763,764	\$ 5,708,300

See accompanying Notes to Consolidated Financial Statements.

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ONE Gas, Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)	Nine Months Ended September 30,	
	2020	2019
	(Thousands of dollars)	
Operating activities		
Net income	\$ 138,081	\$ 135,587
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	142,898	134,260
Deferred income taxes	11,175	9,099
Share-based compensation expense	7,439	7,153
Provision for doubtful accounts	8,836	4,600
Changes in assets and liabilities:		
Accounts receivable	144,399	160,053
Materials and supplies	240	(12,455)
Natural gas in storage	(1,118)	(11,155)
Asset removal costs	(29,019)	(38,101)
Accounts payable	(50,848)	(113,665)
Accrued taxes other than income	9,776	(435)
Customer deposits	(2,668)	(3,652)
Regulatory assets and liabilities	(24,478)	20,196
Other assets and liabilities	(29,384)	(2,942)
Cash provided by operating activities	325,329	288,543
Investing activities		
Capital expenditures	(348,915)	(305,797)
Other investing expenditures	(1,379)	(4,056)
Other investing receipts	2,482	1,036
Cash used in investing activities	(347,812)	(308,817)
Financing activities		
Borrowings (repayments) on notes payable, net	(208,500)	95,500
Issuance of debt, net of discounts	297,750	—
Long-term debt financing costs	(2,885)	—
Issuance of common stock	16,325	2,536
Dividends paid	(85,698)	(79,055)
Tax withholdings related to net share settlements of stock compensation	(6,178)	(7,468)
Cash used in financing activities	10,814	11,513
Change in cash and cash equivalents	(11,669)	(8,761)
Cash and cash equivalents at beginning of period	17,853	21,323
Cash and cash equivalents at end of period	\$ 6,184	\$ 12,562

See accompanying Notes to Consolidated Financial Statements.

ONE Gas, Inc.
CONSOLIDATED STATEMENTS OF EQUITY

<i>(Unaudited)</i>	Common Stock Issued <i>(Shares)</i>	Common Stock <i>(Thousands of dollars)</i>	Paid-in Capital
January 1, 2020	52,771,749 \$	528 \$	1,733,092
Net income	—	—	—
Other comprehensive income	—	—	—
Common stock issued and other	89,059	1	(3,737)
Common stock dividends - \$0.54 per share	—	—	232
March 31, 2020	52,860,808 \$	529 \$	1,729,587
Net income	—	—	—
Other comprehensive income	—	—	—
Common stock issued and other	59,722	—	5,974
Common stock dividends - \$0.54 per share	—	—	227
June 30, 2020	52,920,530 \$	529 \$	1,735,788
Net income	—	—	—
Other comprehensive income	—	—	—
Common stock issued and other	176,363	2	15,334
Common stock dividends - \$0.54 per share	—	—	228
September 30, 2020	53,096,893 \$	531 \$	1,751,350
January 1, 2019	52,598,005 \$	526 \$	1,727,492
Net income	—	—	—
Other comprehensive income	—	—	—
Reclassification of stranded tax effects	—	—	—
Common stock issued and other	88,629	1	(7,499)
Common stock dividends - \$0.50 per share	—	—	227
March 31, 2019	52,686,634 \$	527 \$	1,720,220
Net income	—	—	—
Other comprehensive income	—	—	—
Common stock issued and other	47,588	—	5,397
Common stock dividends - \$0.50 per share	—	—	226
June 30, 2019	52,734,222 \$	527 \$	1,725,843
Net income	—	—	—
Other comprehensive income	—	—	—
Common stock issued and other	2,401	—	2,169
Common stock dividends - \$0.50 per share	—	—	225
September 30, 2019	52,736,623 \$	527 \$	1,728,237

See accompanying Notes to Consolidated Financial Statements.

ONE Gas, Inc.
CONSOLIDATED STATEMENTS OF EQUITY
(Continued)

<i>(Unaudited)</i>	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Equity
	<i>(Thousands of dollars)</i>			
January 1, 2020	\$ 402,509	\$ —	\$ (6,739)	\$ 2,129,390
Net income	91,677	—	—	91,677
Other comprehensive income	—	—	224	224
Common stock issued and other	—	—	—	(3,736)
Common stock dividends - \$0.54 per share	(28,775)	—	—	(28,543)
March 31, 2020	\$ 465,411	\$ —	\$ (6,515)	\$ 2,189,012
Net income	25,325	—	—	25,325
Other comprehensive income	—	—	223	223
Common stock issued and other	—	—	—	5,974
Common stock dividends - \$0.54 per share	(28,774)	—	—	(28,547)
June 30, 2020	\$ 461,962	\$ —	\$ (6,292)	\$ 2,191,987
Net income	21,079	—	—	21,079
Other comprehensive income	—	—	223	223
Common stock issued and other	—	—	—	15,336
Common stock dividends - \$0.54 per share	(28,836)	—	—	(28,608)
September 30, 2020	\$ 454,205	\$ —	\$ (6,069)	\$ 2,200,017
January 1, 2019	\$ 320,869	\$ (2,145)	\$ (4,086)	\$ 2,042,656
Net income	93,660	—	—	93,660
Other comprehensive income	—	—	160	160
Reclassification of stranded tax effects	1,218	—	(1,218)	—
Common stock issued and other	—	2,145	—	(5,353)
Common stock dividends - \$0.50 per share	(26,570)	—	—	(26,343)
March 31, 2019	\$ 389,177	\$ —	\$ (5,144)	\$ 2,104,780
Net income	24,470	—	—	24,470
Other comprehensive income	—	—	160	160
Common stock issued and other	—	—	—	5,397
Common stock dividends - \$0.50 per share	(26,570)	—	—	(26,344)
June 30, 2019	\$ 387,077	\$ —	\$ (4,984)	\$ 2,108,463
Net income	17,457	—	—	17,457
Other comprehensive income	—	—	160	160
Common stock issued and other	—	—	—	2,169
Common stock dividends - \$0.50 per share	(26,593)	—	—	(26,368)
September 30, 2019	\$ 377,941	\$ —	\$ (4,824)	\$ 2,101,881

See accompanying Notes to Consolidated Financial Statements.

ONE Gas, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Our accompanying unaudited consolidated 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 2019 year-end consolidated balance sheet data was derived from audited consolidated financial statements but does not include all disclosures required by GAAP. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and footnotes in our Annual Report. Our significant accounting policies are described in Note 1 of our Notes to Consolidated Financial Statements in our Annual Report. Due to the seasonal nature of our business, the results of operations for the three and nine months ended September 30, 2020, are not necessarily indicative of the results that may be expected for a 12-month period.

We provide natural gas distribution services to our approximately 2.2 million customers through our divisions in Oklahoma, Kansas and Texas through Oklahoma Natural Gas, Kansas Gas Service and Texas Gas Service, respectively. We primarily serve residential, commercial and transportation customers in all three states.

Use of Estimates - The preparation of our consolidated 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 consolidated financial statements. These estimates and assumptions also affect the reported amounts of revenues 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 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 to us.

Segments - We operate in one reportable business segment: regulated public utilities that deliver natural gas primarily to residential, commercial and transportation customers. The accounting policies for our segment are the same as those described in Note 1 of our Notes to Consolidated Financial Statements in our Annual Report. We evaluate our financial performance principally on net income. For the three and nine months ended September 30, 2020, and 2019, we had no single external customer from which we received 10 percent or more of our gross revenues.

Property, Plant and Equipment and Asset Removal Costs - Accounts payable for construction work in process and asset removal costs decreased by approximately \$4.3 million and increased \$1.7 million for the nine months ended September 30, 2020 and 2019, respectively. Such amounts are not included in capital expenditures or asset removal costs in our consolidated statements of cash flows.

Goodwill Impairment Test - We assess our goodwill for impairment at least annually on July 1, unless events or changes in circumstances indicate an impairment may have occurred before that time. As part of our goodwill impairment test, we may first assess qualitative factors (including macroeconomic conditions, industry and market considerations, cost factors and overall financial performance) to determine whether it is more likely than not that the fair value of our reporting unit is less than its carrying amount. If further testing is necessary or a quantitative test is elected to refresh our recurring qualitative assessments, we perform a quantitative impairment test for goodwill. We did not identify any impairment indicators for our goodwill and determined that no further testing was necessary.

Accounts Receivable - Accounts receivable represent valid claims against nonaffiliated customers for natural gas sold or services rendered, net of allowances for doubtful accounts. We assess the creditworthiness of our customers. Those customers who do not meet minimum standards may be required to provide security, including deposits and other forms of collateral, when appropriate and allowed by our tariffs. With approximately 2.2 million customers across three states, we are not exposed materially to a concentration of credit risk. We maintain an allowance for doubtful accounts based upon factors surrounding the credit risk of customers, historical trends, consideration of the current environment and other information. We recover natural gas costs related to accounts written off when they are deemed uncollectible through the purchased-gas cost adjustment

mechanisms in each of our jurisdictions. At September 30, 2020 and December 31, 2019, our allowance for doubtful accounts was \$11.0 million and \$6.6 million, respectively.

Recently Issued Accounting Standards Update - In March 2020, the FASB issued ASU 2020-04, “Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting,” which provides relief from the accounting analysis and impacts that may otherwise be required for modifications to agreements (e.g., loans, debt securities, derivatives, borrowings) necessitated by reference rate reform. It also provides optional expedients to enable companies to continue to apply hedge accounting to certain hedging relationships impacted by reference rate reform. In the first quarter 2020, we adopted this new guidance effective for contracts modified between March 12, 2020 and December 31, 2022. Our revolving lines of credit under the ONE Gas Credit Agreement and the ONE Gas 364-day Credit Agreement utilize LIBOR as the reference rate. If modified, we may elect the optional practical expedients to account for the modifications prospectively. Our adoption did not result in a material impact to our consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, “Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes,” which removes certain exceptions for recognizing deferred taxes for investments, performing intra-period allocation and calculating income taxes in interim periods. ASU 2019-12 also adds guidance to reduce complexity in certain areas, including recognizing deferred taxes for tax goodwill and allocating taxes to members of a consolidated group. This standard is effective for interim and annual periods in fiscal years beginning after December 15, 2020, and early adoption is permitted. We will adopt this new guidance on January 1, 2021. We do not expect a material impact to our financial position or results of operations or to our consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, “Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (a consensus of the FASB Emerging Issues Task Force).” Under this guidance, a company should defer implementation costs that it incurs if a company would capitalize those same costs under the internal-use software guidance for an arrangement that is a software license. The deferred implementation costs should be amortized over the term of the hosting arrangement, including any probable renewals. We are party to hosting arrangements identified as service contracts for various information systems used in our operations. We adopted this new guidance using the prospective transition approach for implementation costs incurred in hosting arrangement service contracts beginning January 1, 2020. In certain jurisdictions, we have orders from our regulators allowing us to amortize deferred implementation costs for hosting arrangements entered into after January 1, 2020, over the life approved by our regulators for our internal-use software systems rather than the term of the hosting arrangement. The difference in amortization calculated between the term of the hosting arrangement and internal-use software life approved by our regulators is deferred as a regulatory asset and amortized over the remaining internal-use software life that exceeds the term of the hosting arrangement. Our adoption did not result in a material impact to our consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, “Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income,” which allows a reclassification from accumulated other comprehensive income (loss) to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017. We adopted this new guidance in the first quarter 2019 and our adoption did not result in a material impact to our consolidated financial statements. This change is reflected in our consolidated statements of equity.

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments,” which introduces new guidance to the accounting for credit losses on instruments within its scope, including trade receivables. We adopted this new guidance in the first quarter 2020 using the modified retrospective method. Our financial assets within scope of this guidance primarily include our trade receivables from customers. Our policy for measuring our allowance for doubtful accounts is disclosed in the aforementioned policy for accounts receivable. We did not create any new accounting policies, nor did we modify any of our existing policies as a result of adopting this guidance. Our adoption did not result in a cumulative adjustment to our opening retained earnings or have a material impact to our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842),” as amended, (“Topic 842”) which prescribes recognizing lease assets and liabilities on the balance sheet and includes disclosure of key information about leasing arrangements. We adopted this new guidance effective January 1, 2019 and applied the modified retrospective approach to all existing leases. Upon adoption we recognized lease liabilities of approximately \$32 million, with corresponding right-of-use assets of the same amount based on the present value of the remaining minimum rental payments for existing operating leases. Our adoption did not result in a material impact to our results of operations or cash flows. We utilized the practical expedients that allow us to: (1) not reassess expired or existing contracts to determine whether they are subject to lease accounting guidance; (2) not reconsider lease classification at transition; and (3) not evaluate previously capitalized initial direct costs under the revised requirements. We also utilized the practical expedients that allowed us to: (1) not evaluate under Topic 842

existing or expired land easements that were not previously accounted for as leases under the current lease guidance in ASC Topic 840 (“Topic 840”); and (2) use an additional transition method in which an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. We adopted an accounting policy that exempts leases with terms of less than one year from the recognition requirements of Topic 842 and disclose such leases in our interim and annual disclosures upon adoption. Our adoption did not result in a cumulative adjustment to our opening retained earnings or have a material impact to our consolidated financial statements.

2. REVENUE

The following table sets forth our revenues disaggregated by source for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	<i>(Thousands of dollars)</i>			
Natural gas sales to customers	\$ 212,723	\$ 215,996	\$ 936,749	\$ 1,096,048
Transportation revenues	24,305	23,707	82,543	82,726
Miscellaneous revenues	3,800	4,677	11,390	15,533
Total revenues from contracts with customers	240,828	244,380	1,030,682	1,194,307
Other revenues - natural gas sales related	(66)	735	6,478	(2,002)
Other revenues	3,878	3,448	8,935	7,818
Total other revenues	3,812	4,183	15,413	5,816
Total revenues	\$ 244,640	\$ 248,563	\$ 1,046,095	\$ 1,200,123

Accrued unbilled natural gas sales revenues at September 30, 2020 and December 31, 2019, were \$52.0 million and \$109.7 million, respectively, and are included in accounts receivable on our consolidated balance sheets.

3. REGULATORY ASSETS AND LIABILITIES

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

	September 30, 2020		
	Current	Noncurrent	Total
	<i>(Thousands of dollars)</i>		
Under-recovered purchased-gas costs	\$ 22,485	\$ —	\$ 22,485
Pension and postemployment benefit costs	21,132	345,006	366,138
Reacquired debt costs	812	5,068	5,880
MGP remediation costs	98	11,636	11,734
Ad-valorem tax	5,260	—	5,260
Weather normalization	4,289	—	4,289
Customer credit deferrals	14,899	—	14,899
Other	2,773	2,407	5,180
Total regulatory assets, net of amortization	71,748	364,117	435,865
Income tax rate changes (a)	—	(555,258)	(555,258)
Over-recovered purchased-gas costs	(20,454)	—	(20,454)
Total regulatory liabilities, net of amortization	(20,454)	(555,258)	(575,712)
Net regulatory assets and liabilities	\$ 51,294	\$ (191,141)	\$ (139,847)

(a) Includes the reclassification of \$81.5 million of deferred taxes related to the elimination of state income tax for utilities in Kansas.

	December 31, 2019		
	Current	Noncurrent	Total
	(Thousands of dollars)		
Under-recovered purchased-gas costs	\$ 17,172	\$ —	\$ 17,172
Pension and postemployment benefit costs	21,213	373,266	394,479
Reacquired debt costs	812	5,677	6,489
MGP remediation costs	98	9,709	9,807
Ad-valorem tax	2,921	—	2,921
Other	5,224	2,384	7,608
Total regulatory assets, net of amortization	47,440	391,036	438,476
Income tax rate changes	(10,297)	(503,518)	(513,815)
Over-recovered purchased-gas costs	(27,623)	—	(27,623)
Weather normalization	(7,281)	—	(7,281)
Total regulatory liabilities	(45,201)	(503,518)	(548,719)
Net regulatory assets and liabilities	\$ 2,239	\$ (112,482)	\$ (110,243)

Regulatory assets in our consolidated balance sheets, as authorized by various regulatory authorities, are probable of recovery. Base rates and certain riders are designed to provide a recovery of costs during the period such 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.

The regulatory liability for income tax rate changes represents deferral of the effects of enacted federal and state income tax rate changes on our ADIT and other regulatory liabilities resulting from the effect of the changes in income taxes on our rates. In May 2020, a bill amending the Kansas state income tax code was signed into law that exempts public utilities regulated by the KCC from paying Kansas state income taxes beginning January 1, 2021. As a result of the enactment of this legislation, we remeasured our ADIT. As a regulated entity, the reduction in ADIT of \$81.5 million was recorded as an EDIT regulatory liability and will be refunded to our customers. The bill stipulates, if requested by the utility, this EDIT will be returned to Kansas customers over a period of no less than 30 years, with the exact timing to be determined in our next general rate proceeding.

In response to the Tax Cuts and Jobs Act of 2017, we received accounting orders requiring us to establish a regulatory liability for the difference in taxes included in our rates that have been calculated based on a 35 percent federal corporate income tax rate and the new 21 percent federal corporate income tax rate effective in January 2018 and to refund the reduction in ADIT due to the remeasurement resulting from the change in the effective tax rate. The regulatory liability for income tax rate changes reflects the credit resulting from the 2018 Oklahoma Natural Gas PBRC that was accrued in 2018 and credited to Oklahoma Natural Gas customers over a 12-month period that began in August 2019.

In addition, the income tax rate changes regulatory liability reflects EDIT associated with the remeasurement of our ADIT as a result of the Tax Cuts and Jobs Act of 2017. Our customers began receiving credit for this liability as determined by our regulators in 2019. Our customers receive credit annually based upon amortization periods in compliance with the tax normalization rules for the portions of EDIT stipulated by the Code and varying periods of five to ten years for all other components of EDIT. During the three months ended September 30, 2020 and 2019, income tax expense reflects credits of \$2.2 million and \$1.4 million, respectively, for the amortization of the regulatory liability associated with EDIT that was returned to customers. During the nine months ended September 30, 2020 and 2019, income tax expense reflects credits of \$11.6 million and \$10.3 million, respectively.

We have received accounting orders in each of our jurisdictions authorizing us to accumulate and defer for regulatory purposes certain incremental costs incurred, including bad debt expenses, and certain lost revenues, net of offsetting expense reductions associated with COVID-19. Pursuant to these orders, the recovery of any net incremental costs and lost revenues will be determined in future rate cases or alternative rate recovery filings in each jurisdiction. For financial reporting purposes, any amounts deferred as a regulatory asset for future recovery under these accounting orders must be probable of recovery. At September 30, 2020, no regulatory assets have been recorded. We continue to evaluate the impacts of COVID-19 on our business and will record regulatory assets for financial reporting purposes at such time as recovery is deemed probable.

4. CREDIT FACILITY AND SHORT-TERM NOTES PAYABLE

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 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. At September 30, 2020, we had \$308.0 million of commercial paper outstanding.

The ONE Gas Credit Agreement is a \$700 million revolving unsecured credit facility and includes a \$20 million letter of credit subfacility and a \$60 million swingline subfacility. We can request an increase in commitments of up to an additional \$500 million upon satisfaction of customary conditions, including receipt of commitments from either new lenders or increased commitments from existing lenders. In October 2019, we exercised a one-year extension of the ONE Gas Credit Agreement and amended the agreement to provide that we may extend the maturity date by one year, subject to the lenders' consent, two additional times. The ONE Gas Credit Agreement expires in October 2024, and is available to provide liquidity for working capital, capital expenditures, acquisitions and mergers, the issuance of letters of credit and for other general corporate purposes.

The ONE Gas Credit Agreement contains certain financial, operational and legal covenants. Among other things, these covenants include maintaining ONE Gas' total debt-to-capital ratio of no more than 70 percent at the end of any calendar quarter. At September 30, 2020, our total debt-to-capital ratio was 46 percent and we were in compliance with all covenants under the ONE Gas Credit Agreement.

At September 30, 2020, we had \$1.2 million in letters of credit issued and no borrowings under the ONE Gas Credit Agreement, with \$698.8 million of remaining credit, which is available to repay any of our commercial paper borrowings.

In April 2020, we entered into the ONE Gas 364-day Credit Agreement. The ONE Gas 364-day Credit Agreement is a \$250 million revolving unsecured credit facility containing various customary conditions to borrowing and affirmative, negative and financial ratio maintenance covenants, all of which are substantially the same as those of the ONE Gas Credit Agreement. The ONE Gas 364-day Credit Agreement also contains provisions for an applicable margin rate and a quarterly facility fee, both of which adjust with changes in our credit rating. Based on our current credit ratings, borrowings, if any, will accrue interest at LIBOR plus 115 basis points, and the quarterly facility fee is 10 basis points. In the event LIBOR is not available, and such circumstances are unlikely to be temporary, our lenders may establish an alternative interest rate for the impacted loans by replacing LIBOR with one or more secured overnight financing-based rates or another alternate benchmark rate. At September 30, 2020, we had no borrowings under the ONE Gas 364-day Credit Agreement.

5. LONG-TERM DEBT

In April 2020, ONE Gas issued \$300 million of 2.00 percent senior notes due 2030. The proceeds from the issuance were used to reduce the amount of outstanding commercial paper and for general corporate purposes.

Our long-term debt includes \$300 million of 3.61 percent senior notes due 2024, \$300 million of 2.00 percent senior notes due 2030, \$600 million of 4.658 percent senior notes due 2044, and \$400 million of 4.50 percent senior notes due 2048. 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.

6. LEASES

In March 2020, we reassessed certain operating leases for office facilities which were extended or modified. At March 31, 2020, we recorded increases of \$9.0 million and \$9.4 million to our right-of-use assets and operating lease liabilities, respectively. Our right-of-use assets and operating lease liabilities are reported within our other assets and our other current liabilities and other liabilities, respectively, in our consolidated balance sheets.

7. EQUITY

At-the-Market Equity Program - In February 2020, we initiated an at-the-market equity program by entering into an equity distribution agreement under which we may issue and sell shares of our common stock with an aggregate offering price up to \$250 million (including any shares of common stock that may be sold pursuant to the master forward sale confirmation entered into in connection with the equity distribution agreement and the related supplemental confirmations). Sales of common stock are made by means of ordinary brokers' transactions on the NYSE, in block transactions or as otherwise agreed to between us and the sales agent. We are under no obligation to offer and sell common stock under the program. At September 30, 2020, we

had issued and sold 179,514 shares of our common stock and had \$236.4 million of equity available for issuance under the program.

Dividends Declared - In November 2020, we declared a dividend of \$0.54 per share (\$2.16 per share on an annualized basis) for shareholders of record as of November 16, 2020, payable on December 1, 2020.

8. ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table sets forth the effect of reclassifications from accumulated other comprehensive loss in our consolidated statements of income for the periods indicated:

Details About Accumulated Other Comprehensive Loss Components	Three Months Ended		Nine Months Ended		Affected Line Item in the Consolidated Statements of Income
	September 30,		September 30,		
	2020	2019	2020	2019	
(Thousands of dollars)					
Pension and other postemployment benefit plan obligations (a)					
Amortization of net loss	\$ 10,623	\$ 8,821	\$ 31,869	\$ 26,463	
Amortization of unrecognized prior service credit	(29)	(168)	(87)	(504)	
	10,594	8,653	31,782	25,959	
Reclassification of stranded tax effects (b)	—	—	—	(1,218)	
Regulatory adjustments (c)	(10,296)	(8,440)	(30,888)	(24,102)	
	298	213	894	639	Income before income taxes
	(75)	(53)	(224)	(159)	Income tax expense
Total reclassifications for the period	\$ 223	\$ 160	\$ 670	\$ 480	Net income

(a) These components of accumulated other comprehensive loss are included in the computation of net periodic benefit cost. See Note 10 for additional detail of our net periodic benefit cost.

(b) Reflects the impact of the adoption of ASU 2018-02 in fiscal year 2019 related to stranded tax effects in accumulated other comprehensive income as a result of the Tax Cuts and Jobs Act of 2017. See Note 1 for additional information regarding our adoption of this standard.

(c) 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 3 for additional disclosures of regulatory assets and liabilities.

9. 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 September 30, 2020		
	Income	Shares	Per Share Amount
<i>(Thousands, except per share amounts)</i>			
Basic EPS Calculation			
Net income available for common stock	\$ 21,079	53,190	\$ 0.40
Diluted EPS Calculation			
Effect of dilutive securities	—	218	
Net income available for common stock and common stock equivalents	\$ 21,079	53,408	\$ 0.39

Three Months Ended September 30, 2019				
	Income	Shares	Per Share Amount	
(Thousands, except per share amounts)				
Basic EPS Calculation				
Net income available for common stock	\$ 17,457	52,933	\$	0.33
Diluted EPS Calculation				
Effect of dilutive securities	—	334		
Net income available for common stock and common stock equivalents	\$ 17,457	53,267	\$	0.33
Nine Months Ended September 30, 2020				
	Income	Shares	Per Share Amount	
(Thousands, except per share amounts)				
Basic EPS Calculation				
Net income available for common stock	\$ 138,081	53,084	\$	2.60
Diluted EPS Calculation				
Effect of dilutive securities	—	229		
Net income available for common stock and common stock equivalents	\$ 138,081	53,313	\$	2.59
Nine Months Ended September 30, 2019				
	Income	Shares	Per Share Amount	
(Thousands, except per share amounts)				
Basic EPS Calculation				
Net income available for common stock	\$ 135,587	52,883	\$	2.56
Diluted EPS Calculation				
Effect of dilutive securities	—	346		
Net income available for common stock and common stock equivalents	\$ 135,587	53,229	\$	2.55

10. 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		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
<i>(Thousands of dollars)</i>				
Components of net periodic benefit cost				
Service cost	\$ 3,217	\$ 3,008	\$ 9,651	\$ 9,024
Interest cost	8,545	10,168	25,635	30,504
Expected return on assets	(15,280)	(15,485)	(45,840)	(46,455)
Amortization of net loss	10,580	8,260	31,740	24,780
Net periodic benefit cost	\$ 7,062	\$ 5,951	\$ 21,186	\$ 17,853

	Other Postemployment Benefits			
	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2020	2019	2020	2019
<i>(Thousands of dollars)</i>				
Components of net periodic benefit cost (credit)				
Service cost	\$ 423	\$ 434	\$ 1,269	\$ 1,302
Interest cost	1,889	2,329	5,667	6,987
Expected return on assets	(3,867)	(3,147)	(11,601)	(9,441)
Amortization of unrecognized prior service credit	(29)	(168)	(87)	(504)
Amortization of net loss	43	561	129	1,683
Net periodic benefit cost (credit)	\$ (1,541)	\$ 9	\$ (4,623)	\$ 27

We recover qualified pension benefit plan and other postemployment benefit plan costs through rates charged to our customers. Certain regulatory authorities 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 regulatory authorities. Regulatory deferrals related to net periodic benefit cost were not material for the three and nine months ended September 30, 2020 and 2019.

We continue to capitalize all eligible service cost and non-service cost components under the accounting requirements of ASC Topic 980 (Regulated Operations) for rate-regulated entities. Our consolidated balance sheets reflect the capitalized non-service cost components as a regulatory asset. We have recognized a regulatory asset of \$6.6 million and \$4.7 million as of September 30, 2020 and December 31, 2019, respectively. See Note 3 of the Notes to Consolidated Financial Statements in this Quarterly Report for additional information.

11. INCOME TAXES

We use an estimated annual effective tax rate for purposes of determining the income tax provision during interim reporting periods. In calculating our estimated annual effective tax rate, we consider forecasted annual pre-tax income and estimated permanent book versus tax differences, as well as tax credits. Adjustments to the effective tax rate and estimates will occur as information and assumptions change.

As of September 30, 2020, we have no uncertain tax positions. Changes in tax laws or tax rates are recognized in the financial reporting period that includes the enactment date. We are no longer subject to income tax examination for years prior to 2017.

In May 2020, a bill amending the Kansas state income tax code was signed into law that exempts public utilities regulated by the KCC from paying Kansas state income taxes beginning January 1, 2021. As a result of the enactment of this legislation, we remeasured our ADIT. As a regulated entity, the reduction in ADIT of \$81.5 million was recorded as an EDIT regulatory liability and will be refunded to our customers. The bill stipulates, if requested by the utility, this EDIT will be returned to Kansas customers over a period of no less than 30 years, with the exact timing to be determined in our next general rate proceeding. See Note 3 of the Notes to Consolidated Financial Statements in this Quarterly Report for additional information.

12. OTHER INCOME AND OTHER EXPENSE

The following table sets forth the components of other income and other expense for the periods indicated:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2020	2019	2020	2019
	<i>(Thousands of dollars)</i>			
Net periodic benefit cost other than service cost	\$ (1,310)	\$ (1,364)	\$ (3,686)	\$ (4,432)
Earnings (losses) on investments associated with nonqualified employee benefit plans	1,820	189	1,508	3,680
Other, net	(312)	(222)	(1,018)	(1,081)
Total other income (expense), net	\$ 198	\$ (1,397)	\$ (3,196)	\$ (1,833)

13. COMMITMENTS AND CONTINGENCIES

COVID-19 - We are providing essential services during the COVID-19 pandemic. We have implemented a comprehensive set of policies, procedures and guidelines to protect the safety of our employees, customers and communities, while continuing to provide natural gas service to our customers. As ordered by our regulators, customer disconnects for nonpayment were suspended from mid-March through May 20, 2020, in Oklahoma, through May 31, 2020, in Kansas, and through October 4, 2020, in some areas of Texas. During the second and third quarters, we have experienced impacts on our results of operations as a result of COVID-19 including, but not limited to: lower late payment, reconnect and collection fees and incremental expenses for bad debts related to the moratoriums on disconnects for nonpayment in each of our rate jurisdictions; incremental expenses for personal protective equipment, cleaning supplies, outside services and other expenses; and lower expenses for travel that has been restricted due to the pandemic. We have received accounting orders in each of our jurisdictions authorizing us to accumulate and defer for regulatory purposes certain incremental costs incurred, including bad debt expenses, and certain lost revenues, net of offsetting expense reductions associated with COVID-19. Going forward, we expect these impacts on our revenues and expenses to continue during the course of the pandemic. We also could experience a possible reduction in revenues from commercial and transportation customers temporarily or permanently impacted by the pandemic.

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 or the discovery of presently unknown environmental conditions 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 and nine months ended September 30, 2020 and 2019.

We own or retain legal responsibility for certain environmental conditions at 12 former MGP sites in Kansas. These sites contain contaminants generally associated with MGP sites and are subject to control or remediation under various environmental laws and regulations. A consent agreement with the KDHE governs all environmental investigation and remediation 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. Regulatory closure has been achieved at three of the 12 sites, but these sites remain subject to potential future requirements that may result in additional costs.

We have an AAO that allows Kansas Gas Service to defer and seek recovery of costs necessary for investigation and remediation at, and nearby, these 12 former MGP sites that are incurred after January 1, 2017, up to a cap of \$15.0 million, net of any related insurance recoveries. Costs approved for recovery in a future rate proceeding would then be amortized over a 15-year period. The unamortized amounts will not be included in rate base or accumulate carrying charges. At the time future

investigation and remediation work, net of any related insurance recoveries, is expected to exceed \$15.0 million, Kansas Gas Service will be required to file an application with the KCC for approval to increase the \$15.0 million cap.

We have completed or are addressing removal of the source of soil contamination at all 12 sites and continue to monitor groundwater at eight of the 12 sites according to plans approved by the KDHE. During the first quarter 2019, we completed a project to remove a source of contamination and associated contaminated materials at the twelfth site where no active soil remediation had previously occurred. We are also finalizing a study of the feasibility of various options to address the remainder of the site.

At another site, periodic monitoring indicated elevated levels of contaminants generally associated with MGP sites. In 2020, we estimated the potential costs associated with additional investigation and remediation to be in the range of \$2.0 million to \$6.0 million. We have submitted a remediation plan to the KDHE for this site, which the KDHE is reviewing. A single reliable estimate of the remediation costs was not feasible due to the amount of uncertainty in the ultimate remediation approach that will be utilized. Accordingly, in the second quarter 2020, we recorded an adjustment to the reserve of \$2.0 million for this site, which also increased our regulatory asset pursuant to our AAO in Kansas.

We also own or retain legal responsibility for certain environmental conditions at a former MGP site in Texas. At the request of the Texas Commission on Environmental Quality, we began investigating the level and extent of contamination associated with the site under their Texas Risk Reduction Program. A preliminary site investigation revealed that this site contains contaminants generally associated with MGP sites and is subject to control or remediation under various environmental laws and regulations. Until the investigation is complete, we are unable to determine what, if any, active remediation will be required. A reliable estimate of potential remediation costs is not feasible at this point due to the amount of uncertainty as to the levels and extent of contamination.

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 and nine months ended September 30, 2020 and 2019. Environmental issues may exist with respect to MGP sites 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.

We are subject to environmental regulation by federal, state and local authorities. Due to the inherent uncertainties surrounding the development of federal and state environmental laws and regulations, we cannot determine with specificity the impact such laws and regulations may have on our existing and future facilities. With the trend toward stricter standards, greater regulation and more extensive permit requirements for the types of assets operated by us, 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 HCAs. 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 HCAs;
- a verification of records for pipelines in class 3 and 4 locations and HCAs to confirm MAOPs; and
- a requirement to test previously untested pipelines operating above 30 percent yield strength in HCAs.

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. As part of the comment review process, PHMSA is being advised by the Technical Pipeline Safety Standards Committee, informally known by PHMSA as the GPAC, a statutorily mandated advisory committee that advises PHMSA on proposed safety policies for natural gas pipelines. The GPAC reviews PHMSA's proposed regulatory initiatives to assure the technical feasibility, reasonableness, cost-effectiveness and practicality

of each proposal. The GPAC has met six times since January 2017 to review public comments and make recommendations to PHMSA. The GPAC completed their review of the NPRM on March 28, 2018, except for gas gathering pipelines. The GPAC met in June 2019 on gas gathering pipelines. In addition to reviewing public and committee comments, PHMSA announced they will split this NPRM into three separate final rulemakings:

- the first final rule addresses the legislative mandates from the Pipeline Safety, Regulatory Certainty and Jobs Creation Act and will be called the Safety of Gas Transmission Pipelines: MAOP Reconfirmation, Expansion of Assessment Requirements, and Other Related Amendments;
- the second final rule will be called the Safety of Gas Transmission Pipelines: Repair Criteria, Integrity Management Improvements, Cathodic Protection, Management of Change, and Other Related Amendments and will cover all remaining elements of the NPRM (except for gas gathering pipelines); and
- the third final rule will be called the Safety of Gas Gathering Pipelines and will address gas gathering pipelines.

A significant number of recommendations have been made to PHMSA to improve the NPRM. The industry trade associations filed joint comments to the “legislative mandates” rulemaking to amend the federal safety regulations applicable to gas transmission and gathering pipelines.

On October 1, 2019, PHMSA published the first of the three final rules referenced above, which addressed the 2011 congressional mandates. This final rule expands integrity management principles beyond HCAs and requires operators to collect traceable, verifiable and complete records moving forward, retain existing and new records for the life of the pipeline, and reconfirm pipeline MAOP in populated areas. The final rule also outlines methods for reconfirming a pipeline’s MAOP within 15 years. The first final rule became effective July 1, 2020. The estimated capital and operating expenditures associated with compliance with the first final rulemaking are not material.

PHMSA has indicated it now expects the second pending rulemaking to be issued as a final rule during 2020. The potential capital and operating expenditures associated with compliance with this pending rulemaking is currently being evaluated and could be significant depending on the final regulations. We do not expect to be impacted by the third final rule, as we do not own gas gathering pipelines.

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 outcome of such matters will not have a material adverse effect on our results of operations, financial position or cash flows.

14. DERIVATIVE FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

Accounting Treatment - We record all derivative instruments at fair value, except for 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. We have not elected to designate any of our derivative instruments as hedges.

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

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

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

executed. We measure the fair value of a group of financial assets and liabilities consistent with how a market participant would price the net risk exposure at the measurement date.

Fair Value Hierarchy - At each balance sheet date, we utilize a fair value hierarchy to classify fair value amounts recognized or disclosed in our consolidated 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 September 30, 2020, we held purchased natural gas call options for the heating season ending March 2021, with total notional amounts of 35.4 Bcf, for which we paid premiums of \$13.5 million, and which had a fair value of \$15.3 million. At December 31, 2019, we held purchased natural gas call options for the heating season ended March 2020, with total notional amounts of 14.3 Bcf, for which we paid premiums of \$4.4 million, and which had a fair value of \$0.3 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 consolidated balance sheets. Our natural gas call options are classified as Level 1, as fair value amounts are based on unadjusted quoted prices in active markets including NYMEX-settled prices. There were no transfers between levels for the periods presented.

Other Financial Instruments - The approximate fair value of cash and cash equivalents, accounts receivable and accounts payable is equal to book value, due to the short-term nature of these items. Our cash and cash equivalents are comprised of bank and money market accounts and are classified as Level 1. At September 30, 2020 and December 31, 2019, our other current and noncurrent assets include \$1.9 million and \$2.6 million of corporate bonds, respectively, and \$2.8 million and \$3.0 million of United States treasury notes, respectively. The fair value of corporate bonds and United States treasury notes approximate our carrying value, and are classified as Level 2 and Level 1, respectively.

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 \$1.6 billion and \$1.3 billion at September 30, 2020 and December 31, 2019, respectively. The estimated fair value of our long-term debt, including current maturities, was \$1.9 billion and \$1.5 billion at September 30, 2020 and December 31, 2019, respectively. The estimated fair value of our long-term debt at September 30, 2020 and December 31, 2019, was determined using quoted market prices, and is classified as 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 consolidated financial statements and the Notes to Consolidated 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 and nine months ended September 30, 2020, are not necessarily indicative of the results that may be expected for a 12-month period.

RECENT DEVELOPMENTS

COVID-19 - We are providing essential services during the COVID-19 pandemic. We have implemented a comprehensive set of policies, procedures and guidelines to protect the safety of our employees, customers and communities, while continuing to provide natural gas service to our customers. The following summarizes actions we have taken and the impact on our operations:

<u>Workforce</u>	Following the guidance of the CDC, OSHA and third-party subject matter experts we have engaged, we have established a number of protocols to protect our employees. For all employees, we are encouraging social distancing and proper hygiene, and are requiring the use of masks in our facilities. Employees who may be exhibiting symptoms or who may have been exposed to COVID-19 are required to contact a third-party medical consultant engaged by the Company who follows protocols specifically developed for COVID-19 to determine whether the employee should seek medical attention, self-isolate or can safely return to work. Our business continuity planning and investments in information technology enabled an orderly transition to remote work for approximately 50 percent of our employees. For those employees who continue to report to our offices and service centers, the reduced number of employees working in these locations provides space for social distancing. We have implemented health screenings at all of our employee work locations, which include a self-assessment health screening application using mobile devices and automated thermal temperature checks at our larger facilities. We routinely disinfect employee work locations, placing emphasis on high-touch surfaces in common areas. For employees who continue to interact with customers, we are providing additional personal protective equipment in accordance with CDC and OSHA guidelines. In addition, we have implemented a Paid Pandemic Leave Policy, increased medical benefits for COVID-19 testing and are reminding employees of our benefit plans and programs for their financial, physical and mental health and well-being.
<u>Customers</u>	For customers requesting service orders, we have implemented protocols to determine whether someone in the home has been exposed to COVID-19. Employees entering customers' homes are provided appropriate personal protective equipment in accordance with CDC and OSHA guidelines to protect themselves and our customers. Customers are also asked to provide for social distancing while our employees are in the customer's home. As ordered by our regulators, customer disconnects for nonpayment were suspended from mid-March through May 20, 2020, in Oklahoma, through May 31, 2020, in Kansas, and through October 4, 2020, in some areas of Texas. Customers who are finding it difficult to pay their bills are being encouraged to contact us so we can work with them to establish alternative payment arrangements and advise them of public-assistance programs that may be available.
<u>Operations</u>	Although we have experienced employee absences due to our protocols for self-isolation of employees who may be exhibiting symptoms or who may have been exposed to or contracted the COVID-19 virus, we have continued, and expect to continue, to execute our work in the field, including our capital work for system integrity, pipeline replacements and extending service to new customers. Our work going forward could be impacted if we do not have access to the personal protective equipment needed to keep our employees and customers safe or experience a significant increase in employee and contractor absences.

<u>Supply Chain</u>	We are actively managing the materials, supplies and contract services necessary for our operations. We utilize a diverse group of suppliers and contractors and are in frequent contact with our vendors to understand their ability to continue to provide the materials, supplies and services we require. To date, we have not experienced significant disruption to our supply chain and have no indication of significant disruptions in the future. Our suppliers and contractors could be impacted if they, or the businesses they rely on, experience a significant increase in employee absences. Our natural gas supply portfolio consists of contracts with varying terms from a diverse group of suppliers. We acquire our natural gas supply from natural gas processors, marketers and producers from multiple production areas and lease capacity from third-party natural gas storage providers. This strategy is designed to mitigate the impact on our supply from physical interruption, financial difficulties of a single supplier, natural disasters and other unforeseen force majeure events, as well as to ensure these resources are reliable and flexible to meet the variations of customer demands. To date, we have not experienced disruption to our natural gas supply and we do not anticipate significant disruption in the future.
<u>Regulatory</u>	We are in regular communication with our regulators to keep them apprised of the effects COVID-19 is having on the service we provide. We have received accounting orders in each of our jurisdictions authorizing us to accumulate and defer for regulatory purposes certain incremental costs incurred, including bad debt expenses, and certain lost revenues, net of offsetting expense reductions, associated with COVID-19.
<u>Liquidity</u>	In April 2020, we entered into the ONE Gas 364-day Credit Agreement in the amount of \$250 million, which provides us an additional source of liquidity. At September 30, 2020, we had short-term liquidity available through our commercial paper program, credit facilities and cash on hand totaling \$647.0 million. In April 2020, we issued \$300 million of 2.00 percent senior notes due 2030. The proceeds from the issuance were used to reduce the amount of our outstanding commercial paper and for general corporate purposes. We believe our investment-grade credit ratings and strong balance sheet provide us access to the financial markets for the issuance of long-term debt. We believe our sources of liquidity are adequate to support our current and planned level of operations.

During the nine months ended September 30, 2020, impacts on our results of operations as a result of COVID-19 include but are not limited to:

- lower late payment, reconnect and collection fees and incremental expenses for bad debts related to the moratoriums on disconnects for nonpayment in each of our rate jurisdictions;
- incremental expenses for personal protective equipment, cleaning supplies, outside services and other expenses; and
- lower expenses for travel that has been restricted due to the pandemic.

Going forward, we expect these impacts on our revenues and expenses to continue during the course of the pandemic. We also could experience a possible reduction in revenues from commercial and transportation customers temporarily or permanently impacted by the pandemic. We have received accounting orders in each of our jurisdictions authorizing us to accumulate and defer for regulatory purposes certain incremental costs incurred, including bad debt expenses, and certain lost revenues, net of offsetting expense reductions associated with COVID-19. Pursuant to these orders, the recovery of any deferred net incremental costs and lost revenue will be determined in future rate cases or alternative rate recovery filings in each jurisdiction. For financial reporting purposes, any amounts deferred as a regulatory asset for future recovery under these accounting orders must be probable of recovery. At September 30, 2020, no regulatory assets have been recorded. We continue to evaluate the impacts of COVID-19 on our business and will record regulatory assets for financial reporting purposes at such time as recovery is deemed probable. Accordingly, there could be a delay in the recognition of amounts that may be approved for recovery until the conclusion of future regulatory proceedings.

See “Regulatory Activities,” “Financial Results and Operating Information,” “Capital Expenditures and Asset Removal Costs,” Note 3 and Note 13 of the Notes to Consolidated Financial Statements and Part II, Item 1A, “Risk Factors” in this Quarterly Report for additional discussion.

Dividend - In November 2020, we declared a dividend of \$0.54 per share (\$2.16 per share on an annualized basis) for shareholders of record as of November 16, 2020, payable on December 1, 2020.

At-the-Market Equity Program - In February 2020, we initiated a \$250 million at-the-market equity program. Proceeds from the program are available for general corporate purposes, which may include repaying or refinancing a portion of our outstanding indebtedness and funding working capital and capital expenditures. See “Liquidity and Capital Resources” in this Quarterly Report for additional discussion.

REGULATORY ACTIVITIES

Oklahoma - In June 2020, the OCC issued an order permitting the creation of regulatory assets and deferrals related to COVID-19. Each utility is authorized under the OCC’s order to record as a regulatory asset increased bad debt expenses, costs associated with expanded payment plans, waived fees, and incremental expenses that are directly related to the suspension of or delay in disconnection of service (or the reconnection of service) beginning March 15, 2020, as a result of the governor’s executive order declaring a state of emergency. In addition, the OCC recognizes that utilities report taking many steps to ensure the continuity of utility service, while protecting utility personnel, customers, and the general public. Such steps include procuring additional personal protective equipment (PPE), increasing sanitation efforts at facilities, implementing health-screening processes, and securing temporary facilities for potential sequestration of critical operations personnel. The OCC has stated it supports the continuation of these critical response and planning efforts and acknowledges such efforts cause incremental costs that it will allow to be deferred and reviewed in a future rate case. The OCC’s deferral authorization does not bind the OCC to any specific treatment of these items in any future proceeding, nor does it prohibit the OCC from considering the effect of any operational savings, or other financial impacts that may occur as a result of COVID-19. Determination of the recovery of the regulatory assets and deferrals will occur in the next rate case that is required to be filed on or before June 30, 2021.

In February 2020, Oklahoma Natural Gas filed its fourth annual PBRC application following the general rate case that was approved in January 2016. A settlement was reached, and the OCC approved a joint stipulation in July 2020. This stipulation includes a base rate increase of \$9.7 million and an energy efficiency incentive of \$2.2 million, with new rates reflecting these changes effective in June 2020. This stipulation also includes a credit of \$12.2 million associated with EDIT to be issued through a bill credit to Oklahoma customers in the first quarter 2021.

In March 2019, Oklahoma Natural Gas filed its third annual PBRC application following the general rate case that was approved in January 2016. This filing was made in compliance with the January 2019 OCC order settling tax issues resulting from the Tax Cuts and Jobs Act of 2017. A settlement was reached, and the OCC approved a joint stipulation in August 2019. This stipulation includes a PBRC credit of \$15.6 million to be spread over a 12-month period through a bill credit to Oklahoma customers beginning in the third quarter 2019 and a credit of \$12.7 million associated with EDIT.

In March 2018, Oklahoma Natural Gas filed its second annual PBRC application following the general rate case that was approved in January 2016. This filing was based on a calendar test year of 2017 and addressed the tax issues resulting from the Tax Cuts and Job Act of 2017. In January 2019, the OCC issued an order requiring Oklahoma Natural Gas to lower base rates by \$11.3 million beginning February 2019 to reflect the lower federal corporate income tax rate and the authorized ROE of 9.5 percent prospectively and to credit customers for EDIT based upon amortization periods in compliance with the tax normalization rules for the portions of EDIT stipulated by the Code and ten years for all other components. This order also required the March 15, 2019, PBRC filing to include the return of all earnings above 9.5 percent occurring in the 2018 test year.

As required, PBRC filings are made annually on or before 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 2020 test year.

Kansas - In August 2020, Kansas Gas Service submitted an application to the KCC requesting an increase of approximately \$7.8 million related to its GSRS. This filing incorporates the effect on the requested GSRS rate increase of a bill amending the Kansas income tax code that eliminates public utilities regulated by the KCC from paying Kansas state income taxes beginning January 1, 2021. In September 2020, Kansas Gas Service submitted an errata to the application which modified the requested increase to approximately \$7.5 million. An order from the KCC is expected in December 2020, with new rates going into effect on January 1, 2021.

In May 2020, a bill amending the Kansas state income tax code was signed into law that exempts public utilities regulated by the KCC from paying Kansas state income taxes beginning January 1, 2021, and authorizes the KCC to adjust utility rates for the elimination of Kansas state income tax beginning January 1, 2021. As a result of the enactment of this legislation, we remeasured our ADIT. As a regulated entity, the reduction in ADIT of \$81.5 million was recorded as an EDIT regulatory liability and will be refunded to our customers. This adjustment had no material impact on our income tax expense and no impact on our cash flows for the three and nine months ended September 30, 2020. The bill stipulates, if requested by the utility, this EDIT will be returned to Kansas customers over a period of no less than 30 years, with the exact timing to be determined in our next general rate proceeding. In August 2020, Kansas Gas Service submitted an application to the KCC to reduce its base rates to reflect the elimination of Kansas state income taxes by approximately \$4.9 million. An order from the KCC is expected in December 2020, with new rates going into effect on January 1, 2021. See Notes 3 and 11 of the Notes to Consolidated Financial Statements in this Quarterly Report for additional information.

In April 2020, Kansas Gas Service filed an application with the KCC for an AAO to accumulate and defer certain incremental costs incurred, including bad debt expenses and lost revenues, as well as associated carrying costs, related to COVID-19 beginning March 1, 2020, for recovery in Kansas Gas Service's next rate case filing. In July 2020, the KCC approved the request for an AAO subject to the recommendations set forth in its Staff Report and Recommendation and clarifications sought by Kansas Gas Service. The AAO provides notice that Kansas Gas Service may identify, track, document, accumulate, and defer in a regulatory asset extraordinary costs (net of any cost decreases) and lost revenue, plus carrying costs, associated with the COVID-19 pandemic. The KCC states that approval of the AAO is not a finding that tracked costs and lost revenue will be included in future rates; rather, any determination regarding recoverability will occur in a future rate proceeding. In a separate order applicable to all regulated utilities, the KCC approved the deferral of bad debt expense and late payment fees associated with the KCC's suspension of disconnection activity and customer protection provisions. The recovery, the carrying charges and amortization period will be determined in Kansas Gas Service's next rate case or alternative rate recovery filing.

In August 2019, Kansas Gas Service submitted an application to the KCC requesting an increase of approximately \$4.2 million related to its GSRS. In November 2019, the KCC approved the increase effective December 2019.

In November 2018, Kansas Gas Service submitted an application to the KCC requesting approval of its contract to own, operate and maintain the natural gas distribution system at Fort Riley, a United States Army installation, for approximately \$5.8 million. The KCC approved the Company's application in May 2019 and Kansas Gas Service and Fort Riley began preparing for the transition. In response to the COVID-19 pandemic, Kansas Gas Service entered into an agreement dated April 1, 2020, with the U.S. government to stay the transition period and contract performance until concerns surrounding the COVID-19 pandemic are resolved. The 10-month transition period work officially started in June 2020, with the understanding that there may be excusable delays in the future because of new state of Kansas requirements related to COVID-19 or changes in Fort Riley's health protection conditions. The duration of the stay and any future excusable delays will impact the timing of the asset acquisition.

In June 2018, Kansas Gas Service filed a request with the KCC for an increase in base rates, reflecting investments in system improvements and changes in operating costs necessary to maintain the safety and reliability of its natural gas distribution system, as well as addressing the tax issues resulting from the Tax Cuts and Jobs Act of 2017. In February 2019, the KCC issued an order that included a net base rate increase of \$18.6 million and a GSRS pre-tax carrying charge of approximately 9.1 percent. Kansas Gas Service was already recovering \$2.9 million from customers through the GSRS, therefore, this order represents a total base rate increase of \$21.5 million. The increase in base rates reflects an amortization credit for the refund of EDIT over a period in compliance with the tax normalization rules for the portions stipulated by the Code and five years for all other components of EDIT. Additionally, the settlement provides for extending application of the weather normalization adjustment rider to small transportation customers and the implementation of a cybersecurity tracker.

In a separate order issued by the KCC, Kansas Gas Service was required to refund to customers the amount of the regulatory liability for the decrease in the federal corporate income tax rate in 2018 through the date on which Kansas Gas Service's new rates went into effect in February 2019. The total refund of \$16.6 million was issued through a bill credit to Kansas customers in the second quarter 2019.

Texas - In April 2020, the RRC issued an order authorizing utilities to use a regulatory accounting mechanism and a subsequent process through which Texas Gas Service may seek future recovery of incremental expenses resulting from the effects of COVID-19, including bad debt and associated credit and collections costs, and other reasonable and necessary incremental costs to address the impact of COVID-19. The timing of any recovery will be determined as we work with our regulators.

West Texas Service Area - In March 2020, Texas Gas Service made GRIP filings for all customers in the West Texas service area. In June 2020, the RRC and the cities in the West Texas service area agreed to an increase of \$4.7 million, and new rates became effective in June 2020.

In March 2019, Texas Gas Service made GRIP filings for all customers in the West Texas service area. In June 2019, the RRC and the cities in the West Texas service area agreed to an increase of \$4.1 million, and new rates became effective in July 2019.

Central-Gulf Service Area - In 2019, Texas Gas Service filed a rate case for all customers in the Central Texas and Gulf Coast service areas, seeking a rate increase of \$15.6 million and a \$1.3 million credit to customers associated with EDIT, and requesting to consolidate the two service areas into one. In August 2020, the RRC approved all terms of a \$10.3 million settlement, as well as consolidation of the Central Texas service area and the Gulf Coast service area into a new Central-Gulf service area. The RRC also approved an \$8.5 million credit to customers associated with EDIT. The settlement included an ROE of 9.5 percent and a capital structure with equity of 59 percent and debt of 41 percent, and new rates became effective in August 2020.

In March 2019, Texas Gas Service made GRIP filings for all customers in the Central Texas service area. In June 2019, the RRC and the cities in the Central Texas service area agreed to an increase of \$5.5 million, and new rates became effective in June 2019.

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 these filings that were approved totaled \$1.6 million for the nine months ended September 30, 2020, and \$1.9 million for the year ended December 31, 2019.

FINANCIAL RESULTS AND OPERATING INFORMATION

We operate in one reportable business segment: regulated public utilities that deliver natural gas to residential, commercial and transportation customers. The accounting policies for our segment are the same as described in Note 1 of our Notes to Consolidated Financial Statements in our Annual Report. We evaluate our financial performance principally on net income.

Selected Financial Results - For the three months ended September 30, 2020, net income was \$21.1 million, or \$0.39 per diluted share, compared with \$17.5 million, or \$0.33 per diluted share, in the same period last year. For the nine months ended September 30, 2020, net income was \$138.1 million, or \$2.59 per diluted share, compared with \$135.6 million, or \$2.55 per diluted share, in the same period last year.

The following table sets forth certain selected financial results for our operations for the periods indicated:

Financial Results	Three Months Ended		Nine Months Ended		Three Months		Nine Months		
	September 30,		September 30,		2020 vs. 2019		2020 vs. 2019		
	2020	2019	2020	2019	Increase (Decrease)		Increase (Decrease)		
(Millions of dollars, except percentages)									
Natural gas sales	\$ 212.7	\$ 216.7	\$ 943.0	\$ 1,093.9	\$ (4.0)	(2)%	\$ (150.9)	(14)%	
Transportation revenues	24.3	23.8	82.8	82.9	0.5	2 %	(0.1)	— %	
Other revenues	7.6	8.0	20.3	23.3	(0.4)	(5)%	(3.0)	(13)%	
Total revenues	244.6	248.5	1,046.1	1,200.1	(3.9)	(2)%	(154.0)	(13)%	
Cost of natural gas	40.5	49.6	329.1	497.3	(9.1)	(18)%	(168.2)	(34)%	
Net margin	204.1	198.9	717.0	702.8	5.2	3 %	14.2	2 %	
Operating costs	115.4	114.6	355.6	355.2	0.8	1 %	0.4	— %	
Depreciation and amortization	48.0	45.5	142.9	134.3	2.5	5 %	8.6	6 %	
Operating income	\$ 40.7	\$ 38.8	\$ 218.5	\$ 213.3	\$ 1.9	5 %	\$ 5.2	2 %	
Capital expenditures and asset removal costs	\$ 123.9	\$ 135.3	\$ 377.9	\$ 343.9	\$ (11.4)	(8)%	\$ 34.0	10 %	

Natural gas sales to customers represent revenue from contracts with customers through implied contracts established by our tariffs and rates approved by the regulatory authorities, as well as revenues from regulatory mechanisms related to natural gas sales, which are included as other revenues in our Notes to Consolidated Financial Statements.

Transportation revenues represent revenue from contracts with customers through implied contracts established by our tariffs and rates approved by the regulatory authorities, as well as tariff-based negotiated contracts.

Other utility revenues include primarily miscellaneous service charges which represent implied contracts with customers established by our tariffs and rates approved by the regulatory authorities and other revenues from regulatory mechanisms, which are included in the consolidated statements of income and our Notes to Consolidated Financial Statements as other revenues.

Non-GAAP Financial Measure - We have disclosed net margin, which is considered a non-GAAP financial measure, in our selected financial data and selected financial results. Net margin is comprised of total revenues less cost of natural gas. Cost of natural gas includes commodity purchases, fuel, storage, transportation 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. In addition, these 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 natural gas that we pass-through to our customers, net margin is not affected by fluctuations in the cost of natural gas. Accordingly, we routinely use net margin in the analysis of our financial performance. We believe that net margin provides investors a more relevant and useful measure to analyze our financial performance as a 100 percent regulated natural gas utility than total revenues because the change in the cost of natural gas from period to period does not impact our operating income. As such, the following discussion and analysis of our financial performance will reference net margin rather than total revenues and cost of natural gas individually.

The following table sets forth a reconciliation of net margin to the most directly comparable GAAP measure for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,		Three Months 2020 vs. 2019		Nine Months 2020 vs. 2019	
Non-GAAP Reconciliation	2020	2019	2020	2019	Increase (Decrease)		Increase (Decrease)	
(Millions of dollars, except percentages)								
Total revenues	\$ 244.6	\$ 248.5	\$ 1,046.1	\$ 1,200.1	\$ (3.9)	(2)%	\$ (154.0)	(13)%
Cost of natural gas	40.5	49.6	329.1	497.3	(9.1)	(18)%	(168.2)	(34)%
Net margin	\$ 204.1	\$ 198.9	\$ 717.0	\$ 702.8	\$ 5.2	3 %	\$ 14.2	2 %

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

	Three Months Ended September 30,		Nine Months Ended September 30,		Three Months 2020 vs. 2019		Nine Months 2020 vs. 2019	
Net Margin	2020	2019	2020	2019	Increase (Decrease)		Increase (Decrease)	
Natural gas sales	(Millions of dollars, except percentages)							
Residential	\$ 144.1	\$ 139.4	\$ 511.4	\$ 495.1	\$ 4.7	3 %	\$ 16.3	3 %
Commercial and industrial	26.7	26.3	96.9	96.0	0.4	2 %	0.9	1 %
Other	1.4	1.3	5.6	5.5	0.1	8 %	0.1	2 %
Net margin on natural gas sales	172.2	167.0	613.9	596.6	5.2	3 %	17.3	3 %
Transportation revenues	24.3	23.8	82.8	82.9	0.5	2 %	(0.1)	— %
Other revenues	7.6	8.1	20.3	23.3	(0.5)	(6)%	(3.0)	(13)%
Net margin	\$ 204.1	\$ 198.9	\$ 717.0	\$ 702.8	\$ 5.2	3 %	\$ 14.2	2 %

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 and the effects of weather normalization. The following table sets forth our net margin on natural gas sales by revenue type for the periods indicated:

	Three Months Ended		Nine Months Ended		Three Months		Nine Months		
	September 30,		September 30,		2020 vs. 2019		2020 vs. 2019		
Net Margin on Natural Gas Sales	2020	2019	2020	2019	Increase (Decrease)		Increase (Decrease)		
Net margin on natural gas sales	(Millions of dollars, except percentages)								
Fixed margin	\$ 154.2	\$ 149.8	\$ 457.7	\$ 440.7	\$ 4.4	3 %	\$ 17.0	4 %	
Variable margin	18.0	17.2	156.2	155.9	0.8	5 %	0.3	— %	
Net margin on natural gas sales	\$ 172.2	\$ 167.0	\$ 613.9	\$ 596.6	\$ 5.2	3 %	\$ 17.3	3 %	

Net margin increased \$5.2 million for the three months ended September 30, 2020, compared with the same period last year, due primarily to the following:

- an increase of \$3.7 million from new rates, primarily in Oklahoma and Kansas;
- an increase of \$2.7 million in residential sales due primarily to net customer growth; and
- an increase of \$1.3 million due to the beneficial impact of a retroactive CNG federal excise tax credit, offset partially by:
- a decrease of \$0.9 million due to lower fees associated with collection activities and late payments primarily related to the moratoriums on disconnects for nonpayment in response to the COVID-19 pandemic in each of our rate jurisdictions.

Net margin increased \$14.2 million for the nine months ended September 30, 2020, compared with the same period last year, due primarily to the following:

- an increase of \$15.0 million from new rates;
- an increase of \$7.2 million in residential sales due primarily to net customer growth;

- an increase of \$1.5 million in rider and surcharge recoveries due to a higher ad-valorem surcharge in Kansas, which is offset with higher regulatory amortization expense in depreciation and amortization expense; and
- an increase of \$1.3 million due to the beneficial impact of a retroactive CNG federal excise tax credit, offset partially by:
- a decrease of \$4.6 million due to lower sales volumes, net of weather normalization, primarily in Kansas and Oklahoma from warmer weather in 2020 compared with the same period in 2019. For the nine months ended September 30, 2020, heating degree days in Kansas and Oklahoma were 12% and 14% lower, respectively, compared with the same period in 2019;
- a decrease of \$3.7 million due to lower fees associated with collection activities and late payments primarily related to the moratoriums on disconnects for nonpayment in response to the COVID-19 pandemic in each of our rate jurisdictions; and
- a decrease of \$2.1 million due to lower transport volumes primarily in Kansas.

Operating costs increased \$0.8 million for the three months ended September 30, 2020, compared with the same period last year, due primarily to the following:

- an increase of \$1.8 million in expenses related to our response to the COVID-19 pandemic; and
- an increase of \$1.5 million in employee-related costs, offset partially by:
- a decrease of \$1.6 million in expenses for travel and employee training costs that have been impacted by the COVID-19 pandemic.

Operating costs for the nine months ended September 30, 2020, were relatively consistent with the same period last year, but reflect the following:

- an increase of \$4.2 million in bad debt expense;
- an increase of \$4.0 million in expenses related to our response to the COVID-19 pandemic; and
- an increase of \$1.6 million in ad-valorem taxes, offset partially by:
- a decrease of \$3.6 million in expenses for travel and employee training costs that have been impacted by the COVID-19 pandemic;
- a decrease of \$2.3 million in legal-related costs;
- a decrease of \$1.3 million in materials for pipeline repair and maintenance activities; and
- a decrease of \$1.2 million in employee-related costs, which reflects a decrease of \$4.2 million in expense associated with the change in the value of the liabilities for nonqualified employee benefit plans offset partially by a \$2.7 million increase in labor and benefit costs.

The portion of the decrease in late payment, reconnect and collection fees resulting from the moratoriums on disconnecting customers for nonpayment in response to the COVID-19 pandemic, increased bad debt expense and the net incremental expenses related to the COVID-19 pandemic are eligible for future recovery under the regulatory orders we have received in each of our jurisdictions. For financial reporting purposes, the amounts deferred as a regulatory asset for future recovery under the accounting orders must be probable of recovery. At September 30, 2020, no regulatory assets have been recorded. We continue to evaluate the impacts of COVID-19 on our business and will record regulatory assets for financial statement purposes at such time as recovery is deemed probable.

Depreciation and amortization expense increased \$2.5 million and \$8.6 million for the three and nine months ended September 30, 2020, respectively, compared with the same periods last year, due primarily to an increase in depreciation from our capital expenditures being placed in service and an increase in the amortization of the ad-valorem surcharge rider in Kansas.

Other Factors Affecting Net Income - Other factors that affected net income for the three months ended September 30, 2020, compared with the same period last year, include an increase of \$1.6 million in other income (expense), net, due primarily to a \$1.6 million increase in the value of investments associated with nonqualified employee benefit plans.

Other factors that affected net income for the nine months ended September 30, 2020, compared with the same period last year, include a decrease of \$1.4 million in other income (expense), net, due primarily to a \$2.2 million decrease in the value of investments associated with nonqualified employee benefit plans.

EDIT - The return of EDIT to our customers is not expected to have a material impact on earnings, as any reduction or credit in rates is offset by a reduction in income tax expense. During the three months ended September 30, 2020 and 2019, we credited income tax expense \$2.2 million and \$1.4 million, respectively, for the amortization of the regulatory liability associated with EDIT that was returned to customers. During the nine months ended September 30, 2020 and 2019, we credited income tax

expense \$11.6 million and \$10.3 million. See “Liquidity and Capital Resources” and Note 3 of the Notes to Consolidated Financial Statements for additional discussion of the Tax Cuts and Jobs Act of 2017.

Capital Expenditures and Asset Removal Costs - Our capital expenditures program includes expenditures for pipeline integrity, extension of service to new areas, modifications to customer service lines, increases in system capacity, pipeline replacements, automated meter reading, government-mandated pipeline relocations, fleet, facilities, information technology assets and cybersecurity. It is our practice to maintain and upgrade our infrastructure, facilities and systems to ensure safe, reliable and efficient operations. Asset removal costs include expenditures associated with the replacement or retirement of long-lived assets that result from the construction, development and/or normal use of our assets, primarily our pipeline assets.

Capital expenditures and asset removal costs decreased \$11.4 million for the three months ended September 30, 2020, compared with the same period last year, due primarily to the timing of our capital projects in the third quarter 2020, compared with the third quarter 2019. Capital expenditures and asset removal costs increased \$34.0 million for the nine months ended September 30, 2020, compared with the same period last year, due primarily to increased system integrity activities, extension of service to new areas and higher government relocation activities. Our capital expenditures and asset removal costs are expected to be in the range of \$500 million to \$525 million for 2020, although the amount and timing of these expenditures could be impacted by the COVID-19 pandemic. While we have not experienced a significant impact to our capital expenditures program in the nine months ended September 30, 2020, our capital activity for the remainder of the year could experience a delay if conditions associated with COVID-19 worsen, impacting employee absences, or our supply chain for contract labor, materials and supplies, which may cause us to suspend or curtail certain business operations for an indefinite period.

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

(in thousands)	Three Months Ended September 30,								Variances 2020 vs. 2019			
	2020				2019				Increase (Decrease)			
	OK	KS	TX	Total	OK	KS	TX	Total	OK	KS	TX	Total
Average Number of Customers												
Residential	811	585	642	2,038	799	579	630	2,008	12	6	12	30
Commercial and industrial	74	49	35	158	73	49	35	157	1	—	—	1
Other	—	—	3	3	—	—	3	3	—	—	—	—
Transportation	5	6	1	12	5	6	1	12	—	—	—	—
Total customers	890	640	681	2,211	877	634	669	2,180	13	6	12	31

(in thousands)	Nine Months Ended September 30,								Variances 2020 vs. 2019			
	2020				2019				Increase (Decrease)			
	OK	KS	TX	Total	OK	KS	TX	Total	OK	KS	TX	Total
Average Number of Customers												
Residential	813	589	640	2,042	804	585	630	2,019	9	4	10	23
Commercial and industrial	75	50	36	161	74	50	36	160	1	—	—	1
Other	—	—	3	3	—	—	3	3	—	—	—	—
Transportation	5	6	1	12	5	6	1	12	—	—	—	—
Total customers	893	645	680	2,218	883	641	670	2,194	10	4	10	24

The increase in the average number of customers for the three and nine months ended September 30, 2020, compared with the same period last year, is due primarily to the connection of new customers resulting from the extension and expansion of our system in our service areas. For the nine months ending September 30, 2020, our average customer count includes 18,600 new customer connections compared to 14,600 for the same period last year. Also contributing to the increase is a reduction in disconnects for nonpayment by our customers as a result of moratoriums on collection activities in response to the COVID-19 pandemic.

The following table reflects the total volumes delivered, excluding the effects of weather normalization mechanisms on sales volumes.

Volumes (MMcf)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Natural gas sales				
Residential	8,251	7,797	79,135	86,911
Commercial and industrial	3,603	4,008	24,644	28,373
Other	265	240	1,598	1,767
Total sales volumes delivered	12,119	12,045	105,377	117,051
Transportation	49,574	47,901	165,905	164,912
Total volumes delivered	61,693	59,946	271,282	281,963

Total sales volumes delivered decreased for the nine months ended September 30, 2020, compared with the same period last year, due primarily to warmer weather in the first quarter 2020. The impact of weather on residential and commercial net margin is mitigated by weather normalization mechanisms in all jurisdictions.

The following table sets forth the HDD's by state for the periods indicated:

Heating Degree Days	Three Months Ended September 30,						2020	
	2020		2019		2020 vs. 2019	Actual as a percent of Normal	2020	2019
	Actual	Normal	Actual	Normal	Actual Variance			
Oklahoma	22	2	—	2	100 %	1,100 %	— %	
Kansas	55	46	—	46	100 %	120 %	— %	
Texas	10	—	—	—	100 %	100 %	100 %	

Heating Degree Days	Nine Months Ended September 30,						2020	
	2020		2019		2020 vs. 2019	Actual as a percent of Normal	2020	2019
	Actual	Normal	Actual	Normal	Actual Variance			
Oklahoma	1,947	1,968	2,265	1,968	(14) %	99 %	115 %	
Kansas	2,719	2,901	3,093	2,970	(12) %	94 %	104 %	
Texas	910	1,062	1,054	1,058	(14) %	86 %	100 %	

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

- *Oklahoma* - For years 2016-2020, 10-year weighted average HDDs as of December 31, 2014, as calculated using 11 weather stations across Oklahoma and weighted on average customer count.
- *Kansas* - For April 2019 and forward, a 30-year rolling average for years 1988-2017 calculated using three weather stations across Kansas and weighted on HDDs by weather station and customers. For 2017 to March 2019, 30-year average for years 1981-2010 published by the National Oceanic and Atmospheric Administration, as calculated using four weather stations across Kansas and weighted on HDDs by weather station and customers.
- *Texas* - 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 service area.

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

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

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 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 rate mechanisms that we have in place result in a stable cash flow profile and historically has generated stable earnings. Additionally, we have rate mechanisms in place in our jurisdictions that reduce the lag in earning a return on our capital expenditures and provide for recovery of certain changes in our cost of service by allowing for adjustments to rates between rate cases. 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, our financial condition and credit ratings. By maintaining a conservative financial profile and stable revenue base, we expect to maintain a strong credit rating, which we believe will provide us access to diverse sources of capital at favorable rates for certain investments and expenses.

Short-term Financing - 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 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. At September 30, 2020, we had \$308.0 million of commercial paper outstanding.

The ONE Gas Credit Agreement is a \$700 million revolving unsecured credit facility and includes a \$20 million letter of credit subfacility and a \$60 million swingline subfacility. We can request an increase in commitments of up to an additional \$500 million upon satisfaction of customary conditions, including receipt of commitments from either new lenders or increased commitments from existing lenders. In October 2019, we exercised a one-year extension of the ONE Gas Credit Agreement and amended the agreement to provide that we may extend the maturity date by one year, subject to the lenders' consent, two additional times. The ONE Gas Credit Agreement expires in October 2024, and is available to provide liquidity for working capital, capital expenditures, acquisitions and mergers, the issuance of letters of credit and for other general corporate purposes.

The ONE Gas Credit Agreement contains certain financial, operational and legal covenants. Among other things, these covenants include maintaining ONE Gas' total debt-to-capital ratio of no more than 70 percent at the end of any calendar quarter. At September 30, 2020, our total debt-to-capital ratio was 46 percent and we were in compliance with all covenants under the ONE Gas Credit Agreement.

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

In April 2020, we entered into the ONE Gas 364-day Credit Agreement. The ONE Gas 364-day Credit Agreement is a \$250 million revolving unsecured credit facility containing various customary conditions to borrowing and affirmative, negative and financial ratio maintenance covenants, all of which are substantially the same as those of the ONE Gas Credit Agreement. The ONE Gas 364-day Credit Agreement also contains provisions for an applicable margin rate and a quarterly facility fee, both of which adjust with changes in our credit rating. Based on our current credit ratings, borrowings, if any, will accrue

interest at LIBOR plus 115 basis points, and the quarterly facility fee is 10 basis points. In the event LIBOR is not available, and such circumstances are unlikely to be temporary, our lenders may establish an alternative interest rate for the impacted loans by replacing LIBOR with one or more secured overnight financing-based rates or another alternate benchmark rate.

At September 30, 2020, we had \$1.2 million in letters of credit issued and no borrowings under the ONE Gas Credit Agreement or the ONE Gas 364-day Credit Agreement, with \$948.8 million of remaining credit available to repay our commercial paper borrowings.

Long-Term Debt - In April 2020, ONE Gas issued \$300 million of 2.00 percent senior notes due 2030. The proceeds from the issuance were used to reduce the amount of outstanding commercial paper and for general corporate purposes.

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.

At September 30, 2020, our long-term debt-to-capital ratio was 42 percent.

Credit Ratings - Our credit ratings as of September 30, 2020, were:

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

Our commercial paper is rated Prime-1 by Moody's and A-1 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.

At-the-Market Equity Program - In February 2020, we initiated an at-the-market equity program by entering into an equity distribution agreement under which we may issue and sell shares of our common stock with an aggregate offering price up to \$250 million. Sales of common stock are made by means of ordinary brokers' transactions on the NYSE, in block transactions or as otherwise agreed to between us and the sales agent. We are under no obligation to offer and sell common stock under the program. At September 30, 2020, we had issued and sold 179,514 shares of our common stock for \$13.6 million, generating proceeds of \$13.5 million, and had \$236.4 million of equity available for issuance under the program. Proceeds from the program are available for general corporate purposes, which may include repaying or refinancing a portion of our outstanding indebtedness and funding working capital and capital expenditures.

Tax Reform - We have addressed the regulatory liability for EDIT resulting from the Tax Cuts and Jobs Act of 2017 in each of our jurisdictions. The regulatory liability for income tax rate changes represents deferral of the effects of enacted federal and state income tax rate changes on our ADIT and other regulatory liabilities resulting from the effect of the changes in income taxes on our rates.

In May 2020, a bill amending the Kansas state income tax code was signed into law that exempts public utilities regulated by the KCC from paying Kansas state income taxes beginning January 1, 2021. As a result of the enactment of this legislation, we remeasured our ADIT. As a regulated entity, the reduction in ADIT of \$81.5 million was recorded as an EDIT regulatory liability and will be refunded to our customers. The bill stipulates, if requested by the utility, this EDIT will be returned to Kansas customers over a period of no less than 30 years, with the exact timing to be determined in our next general rate proceeding.

Cash flows for the three months ended September 30, 2020 and 2019, were reduced by approximately \$2.2 million and \$1.4 million, respectively, for EDIT returned to customers. Cash flows for the nine months ended September 30, 2020 and 2019, were reduced by approximately \$11.6 million and \$10.3 million, respectively, for EDIT returned to customers.

Pension and Other Postemployment Benefit Plans - Volatility in the capital markets resulting from the COVID-19 pandemic impacts the values of plan assets in our pension and other post-employment benefit plans. Despite the volatility in the values of our plan assets, we do not expect to be required to contribute to our pension or other postemployment benefit plans in 2020. However, declines in the values of these plan assets could require discretionary contributions to maintain the funded status that we desire for our plans. Information about our pension and other postemployment benefits plans, including anticipated

contributions, is included under Note 13 of the Notes to Consolidated Financial Statements in our Annual Report. See Note 10 of the Notes to Consolidated Financial Statements in this Quarterly Report for additional information.

CASH FLOW ANALYSIS

We use the indirect method to prepare our consolidated 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:

	Nine Months Ended September 30,		Variance
	2020	2019	2020 vs. 2019
<i>(Millions of dollars)</i>			
Total cash provided by (used in):			
Operating activities	\$ 325.3	\$ 288.6	\$ 36.7
Investing activities	(347.8)	(308.8)	(39.0)
Financing activities	10.8	11.5	(0.7)
Change in cash and cash equivalents	(11.7)	(8.7)	(3.0)
Cash and cash equivalents at beginning of period	17.9	21.3	(3.4)
Cash and cash equivalents at end of period	\$ 6.2	\$ 12.6	\$ (6.4)

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, the effects of tax reform discussed in Regulatory Activities and changes in working capital. 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.

Operating cash flows were higher for the nine months ended September 30, 2020, compared with the prior period, due primarily to working capital changes resulting from the timing of payments for natural gas purchases.

Investing Cash Flows - Cash used in investing activities increased for the nine months ended September 30, 2020, compared with the prior period, due primarily to an increase in capital expenditures related to increased system integrity activities and extending service to new areas.

Financing Cash Flows - Cash used in financing activities decreased for the nine months ended September 30, 2020, compared with the prior period, due primarily to proceeds from issuance of long-term debt, offset by larger repayments of notes payable.

ENVIRONMENTAL, SAFETY AND REGULATORY MATTERS

COVID-19 - We are providing essential services during the COVID-19 pandemic. We have implemented a comprehensive set of policies, procedures and guidelines to protect the safety of our employees, customers and communities, while continuing to provide natural gas service to our customers. As ordered by our regulators, customer disconnects for nonpayment were suspended from mid-March through May 20, 2020, in Oklahoma, through May 31, 2020, in Kansas, and through October 4, 2020, in some areas of Texas. During the second and third quarters, we have experienced impacts on our results of operations as a result of COVID-19 including, but not limited to: lower late payment, reconnect and collection fees and incremental expenses for bad debts related to the moratoriums on disconnects for nonpayment in each of our rate jurisdictions; incremental expenses for personal protective equipment, cleaning supplies, outside services and other expenses; and lower expenses for travel that has been restricted due to the pandemic. We have received accounting orders in each of our jurisdictions authorizing us to accumulate and defer for regulatory purposes certain incremental costs incurred, including bad debt expenses, and certain lost revenues, net of offsetting expense reductions associated with COVID-19. Going forward, we expect these impacts on our

revenues and expenses to continue during the course of the pandemic. We also could experience a possible reduction in revenues from commercial and transportation customers temporarily or permanently impacted by the pandemic.

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 or the discovery of presently unknown environmental conditions 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 and nine months ended September 30, 2020 and 2019.

We own or retain legal responsibility for certain environmental conditions at 12 former MGP sites in Kansas. These sites contain contaminants generally associated with MGP sites and are subject to control or remediation under various environmental laws and regulations. A consent agreement with the KDHE governs all environmental investigation and remediation 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. Regulatory closure has been achieved at three of the 12 sites, but these sites remain subject to potential future requirements that may result in additional costs.

We have an AAO that allows Kansas Gas Service to defer and seek recovery of costs necessary for investigation and remediation at, and nearby, these 12 former MGP sites that are incurred after January 1, 2017, up to a cap of \$15.0 million, net of any related insurance recoveries. Costs approved for recovery in a future rate proceeding would then be amortized over a 15-year period. The unamortized amounts will not be included in rate base or accumulate carrying charges. At the time future investigation and remediation work, net of any related insurance recoveries, is expected to exceed \$15.0 million, Kansas Gas Service will be required to file an application with the KCC for approval to increase the \$15.0 million cap.

We have completed or are addressing removal of the source of soil contamination at all 12 sites and continue to monitor groundwater at eight of the 12 sites according to plans approved by the KDHE. During the first quarter 2019, we completed a project to remove a source of contamination and associated contaminated materials at the twelfth site where no active soil remediation had previously occurred. We are also finalizing a study of the feasibility of various options to address the remainder of the site.

At another site, periodic monitoring indicated elevated levels of contaminants generally associated with MGP sites. In 2020, we estimated the potential costs associated with additional investigation and remediation to be in the range of \$2.0 million to \$6.0 million. We have submitted a remediation plan to the KDHE for this site, which the KDHE is reviewing. A single reliable estimate of the remediation costs was not feasible due to the amount of uncertainty in the ultimate remediation approach that will be utilized. Accordingly, in the second quarter 2020, we recorded an adjustment to the reserve of \$2.0 million for this site, which also increased our regulatory asset pursuant to our AAO in Kansas.

We also own or retain legal responsibility for certain environmental conditions at a former MGP site in Texas. At the request of the Texas Commission on Environmental Quality, we began investigating the level and extent of contamination associated with the site under their Texas Risk Reduction Program. A preliminary site investigation revealed that this site contains contaminants generally associated with MGP sites and is subject to control or remediation under various environmental laws and regulations. Until the investigation is complete, we are unable to determine what, if any, active remediation will be required. A reliable estimate of potential remediation costs is not feasible at this point due to the amount of uncertainty as to the levels and extent of contamination.

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 and nine months ended September 30, 2020 and 2019.

Environmental issues may exist with respect to MGP sites 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.

We are subject to environmental regulation by federal, state and local authorities. Due to the inherent uncertainties surrounding the development of federal and state environmental laws and regulations, we cannot determine with specificity the impact such laws and regulations may have on our existing and future facilities. With the trend toward stricter standards, greater regulation and more extensive permit requirements for the types of assets operated by us, 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 HCAs. 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 HCAs;
- a verification of records for pipelines in class 3 and 4 locations and HCAs to confirm MAOPs; and
- a requirement to test previously untested pipelines operating above 30 percent yield strength in HCAs.

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. As part of the comment review process, PHMSA is being advised by the Technical Pipeline Safety Standards Committee, informally known by PHMSA as the GPAC, a statutorily mandated advisory committee that advises PHMSA on proposed safety policies for natural gas pipelines. The GPAC reviews PHMSA's proposed regulatory initiatives to assure the technical feasibility, reasonableness, cost-effectiveness and practicality of each proposal. The GPAC has met six times since January 2017 to review public comments and make recommendations to PHMSA. The GPAC completed their review of the NPRM on March 28, 2018, except for gas gathering pipelines. The GPAC met in June 2019 on gas gathering pipelines. In addition to reviewing public and committee comments, PHMSA announced they will split this NPRM into three separate final rulemakings:

- the first final rule addresses the legislative mandates from the Pipeline Safety, Regulatory Certainty and Jobs Creation Act and will be called the Safety of Gas Transmission Pipelines: MAOP Reconfirmation, Expansion of Assessment Requirements, and Other Related Amendments;
- the second final rule will be called the Safety of Gas Transmission Pipelines: Repair Criteria, Integrity Management Improvements, Cathodic Protection, Management of Change, and Other Related Amendments and will cover all remaining elements of the NPRM (except for gas gathering pipelines); and
- the third final rule will be called the Safety of Gas Gathering Pipelines and will address gas gathering pipelines.

A significant number of recommendations have been made to PHMSA to improve the NPRM. The industry trade associations filed joint comments to the "legislative mandates" rulemaking to amend the federal safety regulations applicable to gas transmission and gathering pipelines.

On October 1, 2019, PHMSA published the first of the three final rules referenced above, which addressed the 2011 congressional mandates. This final rule expands integrity management principles beyond HCAs and requires operators to collect traceable, verifiable and complete records moving forward, retain existing and new records for the life of the pipeline, and reconfirm pipeline MAOP in populated areas. The final rule also outlines methods for reconfirming a pipeline's MAOP within 15 years. The first final rule became effective July 1, 2020. The estimated capital and operating expenditures associated with compliance with the first final rulemaking are not material.

PHMSA has indicated it now expects the second pending rulemaking to be issued as a final rule during 2020. The potential capital and operating expenditures associated with compliance with this pending rulemaking is currently being evaluated and

could be significant depending on the final regulations. We do not expect to be impacted by the third final rule, as we do not own gas gathering pipelines.

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 - 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 March 2018. 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 pipelines; (3) following developing technologies for emission control; and (4) reducing 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 exceeded our goals in 2018 and 2017. We anticipate reporting in 2020 our calendar year 2019 performance relative to our commitment.

Additional information about our environmental matters is included in the section entitled "Environmental Matters" in Note 13 of the Notes to Consolidated 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 Consolidated Financial Statements in this Quarterly Report.

ESTIMATES AND CRITICAL ACCOUNTING POLICIES

The preparation of our consolidated 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 consolidated financial statements. These estimates and assumptions also affect the reported amounts of revenues 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," "likely," 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, income taxes and amounts equivalent to the cost of property, plant and equipment, regulatory assets and our allowed rate of return 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 customers;
- the length and severity of a pandemic or other health crisis, such as the recent outbreak of COVID-19, including its impacts to our operations, customers, contractors, vendors and employees, and the measures that international, federal, state and local governments, agencies, law enforcement and/or health authorities implement to address it, which may (as with COVID-19) precipitate or exacerbate one or more of the above-mentioned and/or other risks, and significantly disrupt or prevent us from operating our business in the ordinary course for an extended period;
- competition from alternative forms of energy, including, but not limited to, electricity, solar power, wind power, geothermal energy and biofuels;
- conservation and energy storage 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, which may be affected by risks beyond our control such as commodity price volatility and counterparty creditworthiness;
- the availability of and access to, in general, funds to meet our debt obligations prior to or when they become due and to fund our operations and capital expenditures, either through (i) cash on hand, (ii) operating cash flow, or (iii) access to the capital markets;
- 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 to which we and our subsidiaries are subject;
- the uncertainty of estimates, including accruals and costs of environmental remediation;
- advances in technology, including technologies that increase efficiency or that improve electricity's competitive position relative to natural gas;
- population growth rates and changes in the demographic patterns of the markets we serve, and conditions in these areas' housing markets;
- acts of nature and the potential effects of threatened or actual terrorism and war;
- cyber-attacks, which, according to experts, have increased in volume and sophistication since the beginning of the COVID-19 pandemic, or breaches of technology systems that could disrupt our operations or result in the loss or exposure of confidential or sensitive customer, employee or Company information; further, increased remote working arrangements as a result of the pandemic have required enhancements and modifications to our IT infrastructure (e.g. Internet, Virtual Private Network, remote collaboration systems, etc.), and any failures of the technologies, including third-party service providers, that facilitate working remotely could limit our ability to conduct ordinary operations or expose us to increased risk or effect of an attack;
- the sufficiency of insurance coverage to cover losses;
- the effects of our strategies to reduce tax payments;
- the effects of litigation and regulatory investigations, proceedings, including our rate cases, or inquiries and the requirements of our regulators as a result of the Tax Cuts and Jobs Act of 2017;
- 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, the ONE Gas Credit Agreement and the ONE Gas 364-day 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;
- unexpected increases in the costs of providing health care benefits, along with pension and postretirement health care benefits, as well as 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; 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 Part 1, 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. We may use derivative instruments to economically hedge the cost of anticipated natural gas purchases during the winter heating months to reduce the impact on our customers of upward market price volatility of natural gas. Additionally, we inject natural gas into storage during the summer months and withdraw the natural gas during the winter heating season. Gains or losses associated with these derivative instruments and storage activities are included in, and recoverable through our purchased-gas cost adjustment mechanisms, which are subject to review by regulatory authorities.

Interest-Rate Risk

We are exposed to interest-rate risk primarily associated with commercial paper borrowings and new debt financing needed to fund capital requirements, including future contractual obligations and maturities of long-term and short-term debt. We expect to manage interest-rate risk on future borrowings 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 and allowed by tariff. With approximately 2.2 million customers across three states, we are not exposed materially to a concentration of credit risk. As ordered by our regulators, customer disconnects for nonpayment were suspended from mid-March through May 20, 2020, in Oklahoma, through May 31, 2020, in Kansas, and through October 4, 2020, in some areas of Texas. We have received accounting orders in each of our jurisdictions authorizing us to accumulate and defer for regulatory purposes certain incremental costs incurred, including bad debt expenses, and certain lost revenues, net of offsetting expense reductions associated with COVID-19. Pursuant to these orders, the recovery of any net deferred incremental costs and lost revenues will be determined in future rate cases or alternative rate recovery filings in each jurisdiction. For financial reporting purposes, any amounts deferred as a regulatory asset for future recovery under these accounting orders must be probable of recovery. At September 30, 2020, no regulatory assets have been recorded. We continue to evaluate the impacts of COVID-19 on our business and will record regulatory assets for financial reporting purposes at such time as recovery is deemed probable. 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. We are able to recover the fuel-related portion of bad debts 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 - In response to the COVID-19 pandemic, we have required employees, some of whom are involved in the operation of our internal controls over financial reporting, to work from home. Despite working remotely, there have been no changes in our internal control over financial reporting during the third quarter ended September 30, 2020, 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. Additionally, investors should consider the following risk factor identified since the filing of our Annual Report.

Pandemics or other health crises could have an adverse effect on our business.

Our business and our customers could be materially and adversely affected by the risks, or the public perception of the risks, related to a pandemic or other health crisis, such as the recent outbreak of COVID-19. The COVID-19 pandemic is having an unprecedented impact on the U.S. and its economy and has created significant uncertainties about the potential adverse effect of the pandemic on the economy, our customers, our employees and supply chain partners. These uncertainties have also resulted in significant volatility within financial markets and a decrease in the value of equity securities, including our common stock.

International, federal, state and local public health and governmental authorities have taken extraordinary and wide-ranging actions to contain and combat the outbreak and spread of COVID-19 across the U.S. and throughout the world, including quarantines, “stay-at-home” orders and similar mandates for many individuals to substantially restrict daily activities and for many businesses to curtail or cease normal operations. These recommendations and/or mandates from federal, state and local authorities may remain in place for a prolonged period or may be reimposed in connection with a resurgence of the virus following resumption or partial resumption of normal economic activities. These recommendations and/or mandates result in temporary or long-term financial hardships for our residential customers and business interruptions and/or closures for our commercial, industrial and transportation customers, all of which increases the risk of delinquencies and defaults of payments on their accounts and may also affect our supply chain. It is possible that COVID-19 public health containment efforts will be intensified to such an extent that we will be forced to curtail or possibly suspend certain business operations for an indefinite period. Regulatory orders require us to continue serving our natural gas customers in default during the pandemic outbreak, which may adversely affect our earnings, liquidity and cash flows.

Experts have observed an increase in the volume and the sophistication of cyberattacks since the beginning of the COVID-19 pandemic. Any breaches of technology systems could disrupt our operations or result in the loss or exposure of confidential or sensitive customer, employee or Company information and adversely affect our business, financial condition and results of operations.

Remote working arrangements for our employees have increased as a result of the COVID-19 pandemic, requiring enhancements and modifications to our IT infrastructure (e.g. Internet, Virtual Private Network, remote collaboration systems, etc.), and any failures of the technologies, including third-party service providers, that facilitate working remotely could limit our ability to conduct ordinary operations and expose us to increased risk or impact of a cyberattack.

Continued impacts of the pandemic could materially adversely affect our near-term and long-term earnings, liquidity and cash flows. The extent of the impact of the pandemic on our business and financial results will depend largely on future developments, including the duration and intensity of the outbreak within our service areas and across the U.S., continued volatility within financial markets and the related impact on our customers’ ability to pay their bills, and the outcomes of accounting orders and future proceedings with our regulators, all of which are highly uncertain and cannot be predicted.

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

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

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>
3.1	<u>Amended Certificate of Incorporation of ONE Gas, Inc., dated May 24, 2018 (incorporated by reference to Exhibit 3.1 to ONE Gas, Inc.'s Current Report on Form 8-K filed on May 30, 2018 (File No. 1-36108)).</u>
3.2	<u>Amended and Restated By-Laws of ONE Gas, Inc. dated April 27, 2020 (incorporated by reference to Exhibit 3.1 to ONE Gas, Inc.'s Current Report on Form 8-K filed on April 27, 2020 (File No. 1-36108)).</u>
31.1	<u>Certification of Pierce H. Norton II pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2	<u>Certification of Caron A. Lawhorn pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1	<u>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)).</u>
32.2	<u>Certification of Caron A. Lawhorn 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)).</u>

101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL 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.
104	Cover Page Interactive Data File (embedded within the Inline XBRL document and contained in Exhibit 101).

Attached as Exhibit 101 to this Quarterly Report are the following XBRL-related documents: (i) Document and Entity Information; (ii) Consolidated Statements of Income for the three and nine months ended September 30, 2020 and 2019; (iii) Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2020 and 2019; (iv) Consolidated Balance Sheets at September 30, 2020 and December 31, 2019; (v) Consolidated Statements of Cash Flows for the nine months ended September 30, 2020 and 2019; (vi) Consolidated Statements of Equity for the three and nine months ended September 30, 2020 and 2019; and (vii) Notes to Consolidated 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: November 3, 2020

ONE Gas, Inc.
Registrant

By: /s/ Caron A. Lawhorn
Caron A. Lawhorn
Senior Vice President and
Chief Financial Officer
(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: November 3, 2020

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

Certification

I, Caron A. Lawhorn, 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: November 3, 2020

/s/ Caron A. Lawhorn
Caron A. Lawhorn
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 September 30, 2020, 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

November 3, 2020

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 September 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Caron A. Lawhorn, 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/ Caron A. Lawhorn
Caron A. Lawhorn
Chief Financial Officer

November 3, 2020

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.