26-Feb-2021

ONE Gas, Inc. (OGS)

Q4 2020 Earnings Call

CORPORATE PARTICIPANTS

Brandon Lohse
Director-Investor Relations, ONE Gas, Inc.

Pierce H. Norton
President, Chief Executive Officer & Director, ONE Gas, Inc.

Robert Sid McAnnally
Chief Operating Officer & Senior Vice President, ONE Gas, Inc.

Caron A. Lawhorn
Chief Financial Officer & Senior Vice President, ONE Gas, Inc.

Curtis L. Dinan
Chief Commercial Officer & Senior Vice President, ONE Gas, Inc.

OTHER PARTICIPANTS

Richard Ciciarelli
Analyst, BofA Securities, Inc.

Sarah Akers
Analyst, Wells Fargo Securities LLC

Aga Zmigrodzka
Analyst, UBS Securities LLC

Gabriel Moreen
Analyst, Mizuho Securities USA LLC

Stephen D'Ambrisi
Analyst, Granite Lane

MANAGEMENT DISCUSSION SECTION

Operator: Good day, and welcome to the ONE Gas Fourth Quarter Year-End Earnings Conference Call. Today's conference is being recorded. At this time, I'd like to turn the conference over to Mr. Brandon Lohse. Please go ahead.

Brandon Lohse
Director-Investor Relations, ONE Gas, Inc.

Good morning, and thank you for joining us on our fourth quarter and year-end 2020 earnings conference call. This call is being webcast live, and a replay will be made available later today. After our prepared remarks, we will be happy to take your questions.

I remind you that statements made during this call that might include ONE Gas expectations or predictions should be considered forward-looking statements and are covered by the Safe Harbor provision of the Securities Acts of 1933 and 1934. Actual results could differ materially from those projected in any forward-looking statements. For a discussion of factors that could cause actual results to differ, please refer to our SEC filings.

Joining us on the call this morning are Pierce Norton, President and Chief Executive Officer; Caron Lawhorn, Senior Vice President and Chief Financial Officer; Curtis Dinan, Senior Vice President and Chief Commercial Officer; and Sid McAnnally, Senior Vice President and Chief Operating Officer.

And now I'll turn the call over to Pierce.

Pierce H. Norton

President, Chief Executive Officer & Director, ONE Gas, Inc.

Thanks, Brandon. Good morning, and thank you all for joining us today. I'd like to begin the call by acknowledging that our employees and our customers recently endured some of the coldest and most extreme weather ever seen in our service areas. Due to the intensity and the duration of this winter storm, we experienced unforeseeable and unprecedented circumstances in our Kansas, Oklahoma, and Texas jurisdictions. We saw the coldest day recorded in over a century in Oklahoma City. Some of our largest cities experienced rolling electric brownouts and countless water main breaks. In Texas, grocery store shelves were bare and long lines formed at gas stations. For seven long days, our employees worked through these adverse conditions, some experiencing their own personal challenges. And collectively with our customers' help, we kept the gas flowing to meet the most basic need of our customers: keeping them warm.

I'd like to take this opportunity to express my gratitude for our employees' teamwork, resiliency, and responsiveness as we dealt with this historic winter storm. On today's call, we will cover some of the challenges that we faced and how we're managing the recovery and impact to our customers. We will also discuss our 2020 results and 2021 guidance. You will hear how our culture and our core values let us through this recent event.

So, Sid, I'll turn the call over to you.

Robert Sid McAnnally

Chief Operating Officer & Senior Vice President, ONE Gas, Inc.

Thank you, Pierce. As you just heard, last week, our team faced an unprecedented weather event. On the coldest day, February 16, we experienced low temperatures between 6 degrees and minus 16 degrees Fahrenheit in our largest metro areas with employees working in windchills as low as 25 degrees below zero. In Oklahoma, we experienced the coldest day since 1899. For context, average February lows normally range between 25 degrees and 45 degrees in our largest metro areas. Our more than 3,600 employees responded to the challenge, remaining focused on our primary goals: providing natural gas service and prioritizing human needs and safety; commitments that were supported by orders from our regulators in all three states.

Since ONE Gas was founded in 2014, the company has focused on improving the resilience of our system. We have successfully completed 19 projects that provided new transmission supply points and 81 projects that provided interconnects to reinforce our system, all focused on improving reliability and in anticipation of events that might challenge our ability to serve our customers. As the weather developed, our system models were updated to identify those areas that would need additional reinforcement under worst-case forecasts.

Engineering was engaged to identify opportunities to enhance pressures across the system, locating additional supply points for mobile compressed natural gas trailers and designing 18 overland projects that could provide additional supply to lower-pressure systems in the short term. Our supply chain personnel provided materials, and the construction teams safely executed each of the 18 projects in just a few days.

Knowing that roads might become impassible, we deployed pressure and measurement technicians to critical locations across each state in advance. Customer service orders were adjusted to build response capacity. And work shifts changed to meet the anticipated increase in emergency calls from customers. Call centers prepared scripts so that we would be able to share updated information with customers who contacted us.

The communications team proactively released conservation and gas safety messaging to all available outlets. In addition, a series of news releases and videos were provided to local media outlets to prepare our customers across all three states. The government affairs and community relations teams remained in constant contact with key stakeholders including governmental officials, regulatory officials, and emergency response agencies throughout the duration of the event.

Our commercial team was simultaneously working with large industrial transport customers, advising that gas supply and system issues were possible, and that they should begin voluntary reductions to prepare their facilities for critical flow only. Using this information, customers have the opportunity to stage down their operations in a way that protected their assets and protected the overall system pressure to help prevent widespread outages.

Over the weekend, with a focus on protecting health and safety, we issued formal curtailment notices to large-volume commercial and transport customers across all three states. Throughout the following week, we consistently coordinated with customers to manage gas volumes. I want to take this opportunity to thank those large-volume customers who, through these curtailments, allowed us to maintain pressures and stabilize the system to protect the health and safety of customers across our territory. These reductions, in addition to the volumes saved through conservation by our residential and commercial customers, were meaningful to our ability to withstand the unexpected supply constraints that we experienced.

Despite these efforts, the duration of subfreezing temperature has led to continuously increasing natural gas use at the same time that supply was constrained. By February 15, freeze-offs of many wellheads severely restricted the production of natural gas when demand was at its highest. The combination of increased demand and upstream supply issues led to natural gas market prices never seen before. On February 18, the spot price for natural gas in Oklahoma rose to over $1,200 per MCF. For comparison, the average natural gas industrial price in February last year was $3.54 per MCF.

As electric utilities instituted load-shedding plans by executing brownouts, we remodeled our system to consider the impact of highly variable pressures created by the cycling of electric outages with a concentration in Oklahoma and Texas. We also extended our normal damage prevention measures and added patrols to watch our critical infrastructure in order to minimize any potential negative impacts by third parties including water utilities as they began to experience water main breaks in numerous cities.

By February 19, it was clear that our system would withstand the storm without significant outages. As soon as possible, and as gas supply showed a sustained increase, we began working with our large customers to increase volumes starting over the weekend and into the first part of this week. We've returned service to all large customers and to those subject to storm-related curtailments.

For the entirety of the event, we lost service to approximately 900 of our 2.2 million customers across three states. In most cases, for less than 24 hours. This performance was the result of many elements coming together: the system improvements since 2014; the dedication of employees across our company who went the extra mile to maintain gas service; the goodwill of customers who conserve their usage; and the work of our field operations team who, in the most challenging conditions, worked tirelessly to ensure that our system continued to provide natural gas to our residential customers and critical care facilities.

And now I'll turn it over to Caron.

Caron A. Lawhorn

Chief Financial Officer & Senior Vice President, ONE Gas, Inc.

Thanks, Sid, and good morning, everyone. Before I discuss the financial impact of the winter weather events, let's close the loop on 2020. Yesterday, we announced diluted earnings per share of $1.09 for the fourth quarter of

2020 and $3.68 for the full year. These results were in line with our revised 2020 guidance range, which was EPS of $3.66 to $3.70. Our capital expenditures and asset removal costs for the year were $512 million, also in line with our expectations. In January, the ONE Gas board of directors declared a dividend of $0.58 per share, an increase of $0.04 or 7.4% compared with the previous dividend of $0.54 per share. We're happy to address any questions you may have for 2020. But given the number of questions we've already received about the winter weather event, let's turn to that.

As we shared in the 8-K we issued Monday, the unforeseeable and unprecedented market pricing for natural gas costs in our jurisdictions resulted in aggregated gas purchases for the month of February of approximately $2.2 billion, multiples higher than what we would expect for a normal February and in excess of our then available liquidity.

Our purchased gas costs are recoverable through the tariffs in each state where we operate. We have the authority to defer the extraordinary costs associated with this winter weather event, including natural gas purchases and costs related to the procurement and transportation of gas supply in Texas and Kansas, and we expect to receive similar authority in Oklahoma. The period over which we will recover these deferred costs will be determined in future regulatory proceedings.

Payments for February's natural gas purchases are generally due on March 25. We have obtained a $2.5 billion two-year term loan to provide us the additional liquidity we need to meet these obligations. With that financing, as of February 24, we had access to approximately $3.1 billion in total liquidity, including $2.5 billion in commitments under the new term loan and approximately $595 million available under our existing credit facilities and cash on hand. Our existing credit facilities include a $250 million 364-day revolver which expires on April 4. We're working with our lead bank to upsize our $700 million revolver upon expiration of the 364-day facility. The new term loan and our existing credit facilities will provide us with sufficient liquidity until we have clarity regarding how and over what period these deferred costs will be recovered before we determine how best to refinance the term loan.

Subsequent to our entering into the term loan on February 23, Moody's downgraded our senior unsecured rating to A3 from A2; and S&P downgraded us to BBB+ from A. Both downgraded our commercial paper to Tier 2 from Tier 1, and revised the outlook for the ratings to negative from stable. Our credit facilities and the term loan include a provision to adjust pricing in the event of a change in our ratings. Although our cost of borrowing will increase slightly, we are confident these investment-grade ratings will continue to allow us to access the capital markets on terms that will support our current and planned level of operations.

Last month, we announced our 2021 financial guidance, including net income of $198 million to $210 million, earnings per diluted share of $3.68 to $3.92, and capital investments of $540 million. Despite the weather events, the fundamentals of our business haven't changed. As evidence of the confidence we have in our business outlook and commercial and operational capabilities, we are affirming our guidance ranges for 2021. We are not withdrawing our five-year growth outlook. However, we recognize that the financial impact of the recent weather event has introduced a greater degree of potential variability to our longer range forecasts. Once we have regulatory clarity on the recovery period for the deferred costs, we can assess any impact to our five-year growth outlook.

Since our separation from ONEOK in 2014, we have provided annual forecasts for a range of financial metrics which we have generally attained or exceeded. We have also demonstrated an ability to consistently extend our long-range growth outlook via focused, cost-conscious investments primarily geared towards safety, system integrity, and reliability. Our system's resiliency in the face of historic stresses this month is a testament to those investments, the hard work of our teams, and the cooperation of our customers. Our focus has not changed nor has our ability to source and execute commercial opportunities. The forecasting challenges I note stem entirely from the timing of recovery of the cost we incurred from this isolated weather event. As has been our hallmark since day one, we will remain transparent with you and provide updates as information is forthcoming.

We're having productive discussions with our regulators and others regarding the regulatory orders for deferral of the extraordinary costs of the weather event and the potential for securitizing the obligation.

I'll turn it over to Curtis to update you on the latest. Curtis?

Curtis L. Dinan

Chief Commercial Officer & Senior Vice President, ONE Gas, Inc.

Thank you, Caron, and good morning, everyone. I'll start by providing a brief overview of current storm-related regulatory and legislative activity, and then give an update on our commercial and other regulatory activities. As Caron described, both the Kansas Corporation Commission and the Railroad Commission of Texas issued emergency orders, authorizing all state utilities to defer costs incurred as a result of the winter storm. This includes the costs related to procuring and transporting natural gas supplies, all other costs necessary to ensure stability and reliability of our gas system and related financing cost. We have also filed a motion with the Oklahoma Corporation Commission to seek comparable regulatory accounting deferrals.

The hearing before an administrative law judge occurred yesterday. And at the conclusion of the hearing, the ALJ recommended approval of an interim order that was supported by the company, commission staff, and the attorney general's office. The recommendation will next be considered by the Oklahoma Corporation Commission.

As Caron mentioned earlier, our government relations and rates and regulatory staff have been working with our state governments and regulatory commissions to develop legislation related to securitization of the regulatory assets to help lessen the impact to our customers. While early in the process, we are hopeful of finding a legislative solution whereby utilities affected by the winter storm will be able to issue securitized bonds to finance the costs of responding to the winter storm. Ratepayers will benefit from the lower cost of securitized debt. And the utilities will benefit from a credit-positive financing vehicle, which will also benefit ratepayers in the long run.

Now switching to our normal regulatory activity. In November, Kansas Gas Service received approval for a $7.5 million increase related to its Gas System Reliability Surcharge filing with new rates taking effect in December. As a reminder, this was the first filing with a full year of capital spending since the revised GSRS statute became effective. The new rates resulted in a $0.77 monthly increase to a residential customer's bill below the statutory limit of $0.80 per month. In August, Kansas Gas Service submitted an application to the KCC to reduce its base rates by approximately $4.9 million to reflect the elimination of Kansas State income taxes for utilities. In December, the KCC approved the reduction effective January 1, 2021 which is not expected to have a material impact on net income as the reduction in revenues will be offset by a reduction in income tax expense.

This month, Texas Gas Service made a Gas Reliability Infrastructure Program filing for all customers in the Central-Gulf Service Area, requesting a $10.7 million increase to be effective in the third quarter 2021. And as a reminder, in Oklahoma, we are required under our tariff to file a full rate case on or before June 30 of this year, which will be based on a calendar 2020 test year.

Moving on to a summary of our 2020 commercial activities. While residential, commercial, and industrial sales volumes were lower than 2019 due to the warmer-than-normal weather, net margin from residential sales was up 4% year-over-year, and commercial and industrial margins were relatively flat. In spite of COVID, transport sales volumes and net margin remain consistent with the prior year. Capital spending related to growth, which includes extending service to reach new customers, was up 13% from 2019 to $144 million.

An increase in economic activity across our territories has resulted in continued growth in our customer base. During the year, we connected 26,400 new customers compared with 22,300 in 2019. While average customer counts for the fourth quarter and full year were skewed slightly higher due to the suspension of disconnects, we were able to set more meters last year than any previous year in our history. Our market development team also secured 28,000 future meter additions that will be set as builders and developers complete projects. Going into 2021, we see this trend continuing. In our recent financial guidance, we announced 2021 capital investments are expected to be approximately $540 million with nearly 30% of that for customer growth, which equates to a 20% increase over 2020 growth CapEx.

And now I'll turn it back to Pierce for concluding remarks.

Pierce H. Norton

President, Chief Executive Officer & Director, ONE Gas, Inc.

Sid, Caron, and Curtis, I want to thank you for the leadership that you've shown and how we've navigated this extraordinary event. As I reflect on this winter storm, two words come to my mind about our company: safety and resiliency. From the initial onset of this severe weather event, our employees demonstrated their commitment to our primary responsibility as a natural gas distribution company by taking care of the people in their dwellings and critical care facilities. What I have witnessed the past 14 days is people coming together, working collaboratively for the safety of our customers.

I'd like to express my appreciation to our employees, customers, and communities. What we have accomplished together in the last two weeks is unprecedented. I'm proud of how our company stood strong in the face of adversity. I'm extremely pleased with the incredible work completed in such a short period of time. We plan for crisis. We run drills. But when they occur, we see how the strength of our core values really play out. What is extraordinary is we've experienced back-to-back 100-year events between the pandemic and this latest winter storm. Both of these events overlapped in the month of February.

I'd like to recognize the ONE Gas employees and give each of them a special thank you for their continued professionalism under stress, resolve in the most severe conditions, and poise in the face of uncertainty. Our response to this event is a testimony to the culture of this company.

Thank you all for joining in this morning. And, operator, we're now ready for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from Richard Ciciarelli with Bank of America.

Richard Ciciarelli
Analyst, BofA Securities, Inc.
Q

Hey. Good morning. Thanks for taking my question.

Pierce H. Norton
President, Chief Executive Officer & Director, ONE Gas, Inc.
A

Good morning, Richard.

Richard Ciciarelli
Analyst, BofA Securities, Inc.
Q

Hey. I appreciate all the opening remarks here, but I was just curious if you can provide a little bit more detail on your discussions with regulators and policymakers on the timeline for recovery of fuel costs and financing costs. Any early expectations on what the amortization period could look like? And what's your confidence level that these costs will be fully recouped in light of the customer billing impact?

Curtis L. Dinan
Chief Commercial Officer & Senior Vice President, ONE Gas, Inc.
A

So, Richard, this is Curtis. We're very early in that process. As you heard in my remarks, the commissions in Kansas and in Texas have issued their orders, and we're working through the process in Oklahoma to get a similar order to address exactly the questions you were asking. In each case, the first step will be actually filing the final gas costs once those are known. And until we complete balancing and final pricing and invoicing in March, we won't even have those numbers yet to begin that process. So, once all that's complete, we'll file with the commissions, as well as a recommendation as to how to approach collection of those costs and the timeframe in which to do so. So, it'd really be premature to comment or try to speculate on what those periods may be.

Richard Ciciarelli
Analyst, BofA Securities, Inc.
Q

Okay. Yeah. That makes a lot of sense. I recognize it's early here. And then just separately on the legislative front, you mentioned securitization. I guess, can you provide a breakdown or at least broadly on the fuel costs per jurisdiction, and what bills need to be passed in each state, and what's the kind of timeframe for that?

Curtis L. Dinan
Chief Commercial Officer & Senior Vice President, ONE Gas, Inc.
A

So, there's not any actual statutes in place today and there have just been, since the storm, preliminary discussions about opportunities to look at legislation like that. Historically, you've seen that in different parts of the country primarily related to electric utilities as they've dealt with different storm costs. There hasn't been that I'm aware of situations that would apply to a gas utility similar to that until this most recent event. So I guess I wouldn't characterize it as early in the process, but those conversations have been very positive to-date, and we just have to let those processes continue to work through the normal systems.

Richard Ciciarelli
Analyst, BofA Securities, Inc.

Q

Got it. That's helpful. And then just last one for me. Can you remind us if short-term debt is excluded from your regulatory cap structure in each of your jurisdictions? And could that be a potential solution to this roll forward that term loan once it comes due in each?

Curtis L. Dinan
Chief Commercial Officer & Senior Vice President, ONE Gas, Inc.

A

So, Richard, in our current rate making, it is our long-term debt and equity that is our cap structure. In each of these orders, the two that are in place and the one in Oklahoma that I mentioned, the carrying cost directly related to those gas costs and other related costs to ensure supply are contemplated. So, it's not just the costs, but it's also the direct carrying costs related to those. So, I think that's a really good way to isolate the actual cost of the event to record that through our normal gas cost or a regulatory asset longer term, and then the financing to do that is all part of that same recovery. And so I think that's a pretty good approach to doing that. It will work well in each of the states. If there is the opportunity to have securitized securities issued later, I think that makes it even more clear as to how those would be recovered, and that's a really good solution. In that way, from a long-term perspective, it doesn't necessarily change how you're capitalizing the company because the point Caron made, our core business is intact and there's not a lot of drastic changes that would need to be made. So, it wouldn't really be appropriate to totally change that in the longer term.

Richard Ciciarelli
Analyst, BofA Securities, Inc.

Q

All right. Excellent. That's all I had. Thanks for all the color today.

Curtis L. Dinan
Chief Commercial Officer & Senior Vice President, ONE Gas, Inc.

A

Thank you. You're welcome.

Operator: Thank you. Our next question comes from Sarah Akers with Wells Fargo.

Sarah Akers
Analyst, Wells Fargo Securities LLC

Q

Hey. Good morning.

Pierce H. Norton
President, Chief Executive Officer & Director, ONE Gas, Inc.

A

Hey. Good morning, Sarah.

Sarah Akers
Analyst, Wells Fargo Securities LLC

Q

Can you talk a little bit about your hedging program for gas, whether hedging practices are approved by the commissions, and whether hedges were even effective during the cold spike?

Caron A. Lawhorn
Chief Financial Officer & Senior Vice President, ONE Gas, Inc.

A

Good morning, Sarah. This is Caron. So, yes, our hedging programs are part of our gas supply plans that we present to the commissions every year. The call options that we use for our hedges are settled on first-of-month index. So, they were not effective in providing much mitigation for this weather event because most of the prices that we experienced as a result of gas daily pricing and prices in the spot market.

Sarah Akers
Analyst, Wells Fargo Securities LLC

Q

Okay. And then shifting to the rating agencies, given the credit rating outlooks are negative, can you just share how some of those conversations with the rating agencies are going, and what they need to see to gain confidence in the regulatory compact here?

Caron A. Lawhorn
Chief Financial Officer & Senior Vice President, ONE Gas, Inc.

A

Well, I really can't talk about the conversations we have with the agencies. But what I will tell you is, I think it's quite apparent that the extent that the dollar value of these deferred costs are – is meaningful. And it would be reasonable for someone who's evaluating our credit worthiness to want to understand how those costs are going to be financed in the long term before making any final decisions.

Sarah Akers
Analyst, Wells Fargo Securities LLC

Q

And do you get the sense that the commissions are cognizant to that? And is there some urgency there to provide clarity and maintain the financial integrity of the utilities?

Curtis L. Dinan
Chief Commercial Officer & Senior Vice President, ONE Gas, Inc.

A

Sarah, this is Curtis. And what I would say is that the reactions that we've seen from the commissions, Texas and Kansas, very quickly issuing emergency orders for how to deal with these and very quickly going through the normal process of it on an expedited basis in Oklahoma shows you that their willingness to work with the utilities to address the impact that this could have long-term – longer term on customers. So, I think we'll be able to work through in each state a reasonable approach to collecting these costs and over an appropriate timeframe considering all the parties involved.

Sarah Akers
Analyst, Wells Fargo Securities LLC

Q

Great. Thank you.

Pierce H. Norton
President, Chief Executive Officer & Director, ONE Gas, Inc.

A

Thanks, Sarah.

Operator: Thank you. [Operator Instructions] Our next question comes from Aga Zmigrodzka with UBS.

Aga Zmigrodzka
Analyst, UBS Securities LLC

Q

Thank you for the comprehensive overview in the prepared remarks. My first question is really, you mentioned asset securitization. I know people ask the question a different way. But when you talk to credit agencies and mentioned that scenario, is that part of their evaluation to – that maybe could change their view versus what happened last year with – last week with the downgrade?

Caron A. Lawhorn
Chief Financial Officer & Senior Vice President, ONE Gas, Inc.

A

Good morning, Aga. It's Caron. I'm not going to speak for the agencies, but I would tell you just as Curtis described, we think securitization would be a very positive development and a good way to finance this long-term obligation that would benefit our customers. So, I would assume that it would be a positive development, but that will be up to them.

Aga Zmigrodzka
Analyst, UBS Securities LLC

Q

Do you have any sense what percent of the $2.2 billion could we actually recover immediately with the bills in March? I know you said that you still are trying to get the numbers from meters, but can you provide [ph] any sense if 10%, 15% actually you can (00:31:36) recover immediately or – any sense on that?

Curtis L. Dinan
Chief Commercial Officer & Senior Vice President, ONE Gas, Inc.

A

Aga, this is Curtis again. And the way gas costs get set, they get set in advance of the month based upon the prior month's actual gas purchases updating for our total unrecovered gas costs to that point in time. So, the gas costs in February would be our previously unrecovered gas cost, plus January purchases; and that sets an average rate that gets applied to February bills. And you can keep rolling that forward.

So, the earliest that this would impact any customer, assuming that there was no regulatory action, would be the filing that we would do at the end of March, that would incorporate unrecovered gas costs through February plus February purchases, and that new rate would be applied to April bills. So, that would be the earliest that you would see any of these costs start to affect the average gas costs that we bill to customers. But, again, we've already got the orders to defer these extraordinary costs in Kansas and in Texas, and we're expecting to get that in Oklahoma as well. And then following up, once we have the actual numbers, we'll work through with the commissions to determine the appropriate recovery periods.

Aga Zmigrodzka
Analyst, UBS Securities LLC

Q

And how do you think the attitude towards natural gas could change post these extreme winter weather events? Like, do you think we'll see more energy choice legislation passed sooner, or have you heard any change in attitude towards natural gas – towards the peak heating days?

Pierce H. Norton
President, Chief Executive Officer & Director, ONE Gas, Inc.

A

So, Aga, this is Pierce. I think what you're going to see is everyone taking a step back and looking at this extraordinary event and just doing a post-incident analysis just like we do on just any other extraordinary event. So, I think that's going to be done by the regulators. I think it's going to be done by our state officials. It's certainly going to be done by the company. And I think it's a little too early to tell. But I would say what I've seen out of this is just the importance of natural gas, because the magnitude of the energy that was needed was certainly more out when you look at the amount of energy that was supplied through the natural gas distribution companies.

And as far as what happened on the electric side, I think you're just going to have to go back and look at all the different energy sources and see what exactly happened on that side of the business. But I do think there's going to be some discussion about it and some analysis. And I'm sure through that, there's going to be improvements.

Aga Zmigrodzka
Analyst, UBS Securities LLC

Q

Thank you for taking my question.

Pierce H. Norton
President, Chief Executive Officer & Director, ONE Gas, Inc.

A

You're welcome.

Operator: Thank you. Our next question comes from Gabe Moreen with Mizuho Securities.

Gabriel Moreen
Analyst, Mizuho Securities USA LLC

Q

Hey. Good morning, everyone I know a lot of questions have been asked at this point, but I just wanted to ask whether in your conversations thus far with regulators there's any chatter or talk about I guess investigating what happened on the gas spot market, and justifying the prudence of the gas costs, you're investigating some of the players upstream to see sort what happened here. So, I'm just wondering if those conversations kind of are extending to those topics.

Curtis L. Dinan
Chief Commercial Officer & Senior Vice President, ONE Gas, Inc.

A

So, Gabe, when you say our regulators, I assume you're meaning the commissions, and there's not been conversations with the commissions about that. Just as a reminder, as you know, that we are – we purchase gas on behalf of our customers. And whatever the cost is that we pay for the gas, that passes straight through to the customer. There's no markup on that. And when we're securing our supply, we're doing that with third parties. And we're going out into the market to try to find multiple sources from which to secure that supply so that we can get – make sure that we're getting a market price for that supply.

If you're talking about other regulators, we haven't had direct conversations about the topic you're highlighting. It wouldn't be a surprise for that to come out of as a normal course that they would look at that because it was such an extraordinary change in the prices in a very quick amount of time. And as you also say, we have to go through our normal prudency review, which we do every year on the gas costs. So, that process will run in its normal course as well.

Pierce H. Norton
President, Chief Executive Officer & Director, ONE Gas, Inc.

A

And, Gabe, this is Pierce. The only thing that I would add to that is, I'm pretty certain that there will be an analysis on what was the true shortage on the supply side? What was the freeze-offs from the wellheads that didn't get into the system? And then a look on the other end, which is, based on these temperatures, what was the true demand? And comparing that delta, I think, is going to be very important to understanding why prices went to the levels that they did in comparison to past events and past spreads that were – the difference between the supply and the demand. So, I'm relatively certain that there will be many companies and many people that are interested in doing that analysis.

Gabriel Moreen
Analyst, Mizuho Securities USA LLC

Q

Understood. Thanks, Pierce and Curtis. And just maybe as a follow-up, I mean, would having access to more gas storage have helped significantly here? And I'm just wondering if that's sort of part of the future conversation. I know there was a question earlier about hedging, [ph] but whether contracting or trying to replace or build (00:37:43) your own gas storage?

Robert Sid McAnnally
Chief Operating Officer & Senior Vice President, ONE Gas, Inc.

A

Gabe, it's Sid McAnnally. That kind of follows what Pierce's point was earlier. We'll definitely be looking at the gas supply plan. As you heard earlier, our gas supply plans are presented to our regulators for review. And the work that was done to execute that plan went on unabated, although the price curve was volatile. So, we'll look at, does it make sense to change our storage profile, as we look at any other opportunities that we have to better respond to events like this.

Gabriel Moreen
Analyst, Mizuho Securities USA LLC

Q

Thanks, Sid.

Operator: Thank you. [Operator Instructions] Our next question comes from Steven D'Ambrisi with Granite Lane.

Stephen D'Ambrisi
Analyst, Granite Lane

Q

Hi, guys. Thank you very much for taking my question. I just wanted to follow-up on one of the things that was in the prepared remarks that you mentioned high variability around the long-term CAGR. But I was just wondering, if you're able to defer financing costs into a regulatory asset, I guess what is driving that potential greater variability? Is it [ph] build pressure crowding out (00:39:06) CapEx? Or can you just talk about what you're I guess potentially concerned about? Thanks.

Caron A. Lawhorn
Chief Financial Officer & Senior Vice President, ONE Gas, Inc.

A

This is Caron. So, I wouldn't say that we're concerned. It's just the magnitude of the dollars in question in terms of over what period it will be recovered and how we ultimately finance it. I mean, if we get to securitization, that is a great result. But if we don't, we'll just have to determine how it gets financed. And so we're just trying to be thoughtful and be transparent about how we're thinking about that liability and how it gets financed.

Stephen D'Ambrisi
Analyst, Granite Lane

Q

Okay. That's all I have. Thank you very much. I appreciate it.

Pierce H. Norton
President, Chief Executive Officer & Director, ONE Gas, Inc.

A

Thanks, Steve.

Operator: Thank you. [Operator Instructions] There are currently no additional questions at this time. I'd like to now turn it back to you, Mr. Brandon Lohse, for closing remarks.

Brandon Lohse

Director-Investor Relations, ONE Gas, Inc.

Thank you, all, again for your interest in ONE Gas. Our quiet period for the first quarter starts when we close our books at the beginning of April and extends until we release earnings in early May. We'll provide details on the conference call at a later date. Have a great day.

Operator: Thank you. Ladies and gentlemen, this concludes today's presentation. You may now disconnect.