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OGS.N - Q2 2026 ONE Gas Inc Earnings Call

EVENT DATE/TIME: AUGUST 05, 2026 / 3:00PM GMT

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PRESENTATION

Operator

Good day, and welcome to the ONE Gas second quarter earnings conference call and webcast. Today's conference is being recorded.

At this time, I would like to turn the conference over to Erin Dailey. Please go ahead, Ms. Dailey.

Erin Dailey - ONE Gas, Inc. - Director, Investor Relations and Sustainability

Thank you, Dennis. Good morning, everyone, and thank you for joining us on our second quarter 2026 earnings conference call. This call is being webcast live, and a replay will be available later today. After our prepared remarks, we're happy to take your questions.

A reminder 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 provisions of the Private Securities Litigation Reform Act of 1995, the Securities Act of 1933, and the Securities and Exchange Act of 1934, each as amended. 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.

This call will include financial results and guidance with respect to adjusted net income and adjusted net income per share, which are` non-GAAP financial measures as defined by the SEC. A reconciliation of the company's GAAP net income and GAAP earnings per share to adjusted net income and adjusted net income per share, along with additional disclosures required by Regulation G are available in the earnings release that we issued yesterday.

Joining us this morning are Sid McAnnally, Chief Executive Officer; Chris Sighinolfi, Senior Vice President and Chief Financial Officer; and Curtis Dinan, President and Chief Operating Officer.

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

Robert McAnnally - ONE Gas, Inc. - Chief Executive Officer

Thanks, Erin, and good morning, everyone. Our strong second quarter performance reflects solid execution across the business and the continued strength of our growth strategy supported by constructive jurisdictions. Adjusted EPS was $0.82 for the quarter compared to $0.54 in the same period last year. Through the first half of the year, we've grown adjusted EPS by 16% over last year despite weather that was 25% warmer.

Importantly, we delivered these results while keeping the average customer bill flat year-over-year and increasing our dividend. This balanced approach to operating a 100% regulated company is intentional. Our strategy is to strengthen our delivery system and grow the business through disciplined investment while keeping our long-term customer bill growth in line with inflation. Combined with the legislative and regulatory framework that supports investment and economic development, we're able to deliver growth that is both durable and sustainable.

The opportunity to serve large-load customers continues to broaden across our service territory. Rising demand is being driven by ongoing electric load growth and the need for reliable, dispatchable energy. Interest from gas-fired generation, data centers and advanced manufacturing has grown meaningfully, creating additional avenues for sustainable long-term growth.

We expect the factors driving our strong performance in the first half of this year to continue, and we now expect to achieve adjusted earnings within the upper half of our 2026 guidance range. We are confident in our outlook which is supported by new rates taking effect and continued customer growth, along with ongoing benefits from constructive legislative developments in Kansas and Texas.

Now I'll turn it over to Chris to discuss the details of our financial performance and regulatory activities. Chris?

Christopher Sighinolfi - ONE Gas, Inc. - Chief Financial Officer, Senior Vice President

Thanks, Sid, and good morning, everyone. Adjusted net income for the second quarter was $52.1 million or $0.82 per diluted share compared with $32.7 million or $0.54 in the same period last year, a 52% increase. On a GAAP basis, EPS was $0.74 compared with $0.53 last year, a nearly 40% increase. These results were supported by approximately $16 million of new revenue from new rates and greater-than-anticipated benefits from Texas House Bill 4384.

As we have discussed previously, the Texas House bill supports economic development by allowing natural gas utilities to defer depreciation expense and ad valorem taxes and accrue a carrying cost on capital expenditures between the time of project in service and its inclusion in rates. The impact will fluctuate by quarter based on the timing and amount of eligible capital placed into service. Given the cadence of our annual GRIP filing, we generally expect the second quarter to represent a larger share of the annual benefit, with a smaller contribution in the third quarter. This timing reflects how eligible investments are accrued before the annual GRIP filing takes effect. Once the filing is reflected in customer rates, the amount recognized through accruals declines in the third quarter before building again.

With first-half 2026 results complete, we now expect House Bill 4384 to contribute approximately $0.42 to full year adjusted EPS. This expectation, along with new rates and ongoing cost discipline, gives us confidence in raising our financial expectations for the full year.

As I noted on our last quarter call, the warm winter weather created some positive offsets which we expected to see play out later in the year, and that has proven true. We consumed less gas from storage this winter than we would have under normal conditions, finishing the first quarter with inventory levels about 25% higher than we had planned. Higher spring storage balances mean we have less to inject this refill season, creating the opportunity for capacity release in Kanas, the revenues from which we share 50/50 with customers. Net to our interests, we recognized about $900k in related revenues during the second quarter and have realized a total of $2.8 million in capacity release revenues year-to-date. We believe an incremental $1.2 million in capacity release opportunities remain through the injection season.

Second quarter O&M expenses increased approximately 6.6 percent year over year, moderating from the first quarter increase. Line locating tickets, largely related to fiber installation activity, remain elevated, reflecting continued construction and economic activity across our service territories. We have also experienced increased fuel costs for our fleet due to geopolitical unrest. We are not changing our 3-4% long-term guidance for annual O&M increases, however, and expect the sequential growth in overall O&M expenses to move meaningfully lower over the back-half of this year.

Excluding amounts related to KGSS-I, second-quarter interest expense decreased by $3.8 million compared with the prior year, due in part to lower commercial paper rates.

Turning to equity, we have forward sale agreements in place which total approximately $41.5 million, roughly half our need for this year. We will continue to be opportunistic about issuing equity as we meet our remaining needs, which, given our trading liquidity, can easily be funded through our ATM program.

Yesterday, the ONE Gas board of directors declared a dividend of 68 cents per share, unchanged from the previous quarter. Our financial guidance for the year remains adjusted net income of $306 million to $314 million and adjusted EPS of $4.83 to $4.95, but with strong first-half performance and the impact of the Texas legislation, we expect to achieve adjusted earnings within the upper half of these ranges, or $310 million to $314 million, and $4.89 - $4.95.

Now I'll turn to regulatory activities. Oklahoma Natural Gas filed its annual Performance-Based Rate Change application in February, seeking a $28.7 million rate increase. At the hearing in June, the administrative law judge recommended approval of the application as filed. Interim rates subject to refund were implemented in late June.

Texas Gas Service made its Gas Reliability Infrastructure Program filing in March, requesting a $36.9 million revenue increase. In June, the Texas Railroad Commission approved the requested increase, and new rates became effective in July. This was our first statewide GRIP filing and the first to reflect the expanded benefits of Texas House Bill 4384.

Kansas Gas Service filed an application under the Gas Reliability Surcharge statute in July, seeking an approximately $14.3 million increase, with rates expected to take effect in October. The filing reflects the expanded recovery provisions under House Bill 2435, which broadened eligible investments to all direct capital investments in Kansas, increased the maximum residential monthly surcharge to $1.35 from $0.80, and shortened the review period to 90 days from 120 days.

We do not have any full rate cases planned until we file the Oklahoma rate case in 2027, as required by tariff.

And now, Curtis, I'll turn things to you.

Curtis Dinan - ONE Gas, Inc. – President and Chief Operating Officer

Thank you, Chris, and good morning, everyone. I'll start with an update on growth and capital deployment. We completed $188 million worth of capital projects this quarter, relatively in-line with the same period last year.

Growth across our service territory remains broad-based. Through July, we installed 11,000 new meters, led by Oklahoma City and El Paso.

Beyond this ongoing residential growth, we are advancing large-load opportunities and currently have three high-volume projects under contract. Together, they represent roughly $15 million of incremental annual revenue and $175 million of associated capital, with in-service dates spanning the second half of 2026 through 2028. One of these projects is the Western Farmers gas-fired generation project, which was announced late last year. We are preparing to bid the construction contract and expect to begin installation early in 2027. The project remains on track for a Q3 2028 in-service date. It includes the construction of a 43-mile, 24-inch pipeline in southern Oklahoma. The other two contracted projects are already in construction or commissioning. One of the projects is in El Paso to serve an advanced manufacturing facility and the other will serve a data center in Oklahoma. Both are expected to be placed in service this quarter.

On our last earnings call, we noted six additional projects in late-stage discussions that, in aggregate, could support approximately 3 gigawatts of generation and up to 1 BCF per day of demand across Kansas, Oklahoma, and Texas. One of those six projects is the Oklahoma data center that I just mentioned, which is now not only under contract but expected to be in service this quarter. This project highlights one of our strategies in pursuing large-load opportunities. By leveraging our existing pipeline network, we can respond quickly to meet customer needs and create value for all customers. The remaining five projects are in late-stage discussions and project scoping and represent our highest-conviction prospects. We have 17 additional opportunities in early stages of evaluation and will provide updates as the projects advance.

Turning to O&M, our coworkers continue to drive improvements in workforce efficiency and safety. Second quarter line locating activity increased approximately 7% year over year, while damages declined 6%. This highlights the operational benefits of bringing certain work in-house. In addition to the insourcing progress on our line locating function, we have also insourced 40% of the watch and protect function in Oklahoma and are on track to have that fully insourced by year end. This initiative further demonstrates our focus on operational excellence by enhancing safety and system integrity while driving more effective management of O&M expenses.

And now, I'll turn it back over to Sid for closing remarks.

Robert McAnnally - ONE Gas, Inc. - Chief Executive Officer

Thanks, Curtis. We operate in a region that continues to experience residential growth driven by economic development. Kansas, Oklahoma and Texas have business-friendly policies and regulatory frameworks that attract investment and support growth. Our states also enjoy abundant natural gas resources and extensive infrastructure, creating an attractive environment for large-load customers. We are well-positioned to serve this growing demand, driving sustainable growth and shareholder value, all while maintaining our commitment to safety and affordability.

Our performance over the first half of the year reflects the strength of our strategy, the quality of our execution and our ability to capitalize on the opportunities before us. The disciplined focus of our coworkers and their commitment to safety and operational excellence continues to drive our success. I want to thank each of them for their contributions and dedication to serving our customers and communities.

As we look forward, we continue to see a clear runway for growth and remain focused on serving our customers while generating attractive returns for our investors. With that, we'll open the call for questions.

QUESTIONS AND ANSWERS

Operator

Constantine Lednev, Wells Fargo.

Alexander Calvert - Wells Fargo - Analyst

It's actually Alex on for Constantine. Just in terms of the capital allocation strategy on a go-forward basis, some of the improved regulatory contracts you've highlighted, do you see maybe a CapEx shift or pull forward of capital costs with less ROE lag? And maybe just to frame that, would you provide sort of accretive opportunity within your current 5% to 7% longer term?

Curtis Dinan - ONE Gas, Inc. – President and Chief Operating Officer

Alex, this is Curtis. Let me just talk first a little bit about how we think about capital in general. So the first thing our capital focus is on is our system integrity spending, and that typically represents about 60% to 70% of our capital budget. So that is agnostic to regulatory treatment in any of our jurisdictions. That's purely driven by the needs of our system and the replacements we need to make.

In terms of allocating other capital, our growth capital is driven mostly by what customer needs are and where those growth opportunities are taking place.

We're seeing that in all three of our states and across the different types of projects that I mentioned in my comments and Sid also mentioned in his, whether that's utility scale generation, advanced manufacturing or data center opportunities, Again, that exists in all three states. We're seeing a little bit higher level of activity with customers in the state of Texas, which as your question suggest, that's beneficial to us because of the legislation that we talked about earlier. So where there is the opportunity, the greater opportunities, are in Texas. That, again, is driven a lot by what the customer needs are and being able to respond to what's in the marketplace.

Robert McAnnally - ONE Gas, Inc. - Chief Executive Officer

Alex, to your second question, you can expect us to continue to be very open handed in the reports that we offer the Street relative to the capital projects in front of us. We have a great deal of confidence in our execution going through the remainder of this year. But we don't see limitations in the years to come. Your question about our 5% to 7%. We offered that guidance in December of 2025, and we will continue to execute this plan and look forward to the opportunity to speak to the investment community about 2027 later this year.

Alexander Calvert - Wells Fargo - Analyst

Got it. That makes sense. And then just touching on the dividend policy. It's been credit supportive. So, just the current policy of 1% to 2% growth still makes sense with the cash flow metrics and, sort of, where do you want to be over the long term relative to your peers?

Christopher Sighinolfi - ONE Gas, Inc. - Chief Financial Officer, Senior Vice President

Alex, this is Chris. That is a Board decision. It's a discussion with them on a quarterly basis. But the 5-year plan that we communicated last December, the same plan Sid just referenced, did contemplate a 1% to 2% growth in the dividend annually through the duration of that plan, so through 2030.

We think about it in a cash flow modeled basis. and a 100% regulated company, as we are, where we have actual capital structure in our rate designs in all three states. We believe the best return on investment and the fastest earnings per share growth rates can be achieved as we self-fund a greater percentage of our capital investments. And so the strategy around the dividend, the deceleration in dividend growth, which we put in place three years ago was really driven to pivot our funding structure to be more self-funded from an equity perspective. You've seen the payout ratio fall from 68% a couple of years ago to an implied 57% on a GAAP basis this year.

That will continue to moderate as our plan runs through. And the point of lift off in terms of when are we satisfied that we have internally funded the growth strategy of the business and when can elevated levels of dividend growth be offered. That's going to be an active conversation as we come into the planning process this fall.

Operator

Richard Sunderland, Truist Securities.

Richard Sunderland - Truist Securities - Analyst

I wanted to go back to the start of the script and that opportunity around the large load customers. You talked about interest across a number of avenues. Is that reflective of the kind of new inbounds you are seeing across generation data centers and advanced manufacturing, or is this a continued trend that you've been speaking to for several quarters now? Just trying to get a sense of the customer side and maybe how that feeds into the 17 projects in other stages of evaluation also offered in the script?

Curtis Dinan - ONE Gas, Inc. – President and Chief Operating Officer

Richard, this is Curtis. These are normally kind of longer lead type of development. So these are customers that we've been working with for a period of time -- developing the projects, trying to understand what their needs are, and as they go through their investment decision process we're there supporting them to think about options and how to approach the different opportunities. There are other projects in that mix of 17 that have come up much more quickly, where we know that there's limited capacity in this area, and we want to secure that supply as we continue to finalize their investment decisions.

So it's a mix of those and again, that's across all three states and each of those different types of categories that I was describing earlier. We continue to make progress on them. And as I said in my comments, we'll share more once additional projects reach final investment decisions, and they're under contract with us.

Richard Sunderland - Truist Securities - Analyst

Understood. That's helpful there. And then just on the numbers themselves and I guess some of the O&M cometary in particular, you spoke to 1H versus 2H dynamics. Could you parse out a little bit more in terms of the O&M trajectory on a 2 basis that you're expecting? And is there any kind of knock-on effects in the '27 on how you're staging some of that activity this year versus next?

Robert McAnnally - ONE Gas, Inc. - Chief Executive Officer

Rich, let me offer just a little bit of context and then ask Chris to go into detail and responding to your question. We started some years ago looking at the opportunities that we had to insource certain work, and as we piloted those programs, we realized that not only could we match or beat the cost that we were experiencing externally, we saw a significant step-up in the quality of the work that was being done. So over the last few years, we've been fairly aggressive in in-sourcing and line locating, and we're coming to a point in that project where we're finding the balance that we saw a few years ago when we started.

As Curtis said, we've shifted that over now to watch and protect. That's where we send folks out to watch our system when we know that there's construction around critical areas of the system and we're seeing the same level of performance there. So as we signal both in our first quarter call and in this call, we knew that we would see escalated O&M related, in part, to increased in-sourcing, and we continue to recognize the efficiencies of that as we go through the remainder of the year.

So the shape of O&M through the year is something that we've attempted to signal all along and we continue to be committed to the fact that we're going to see a pretty significant reduction in the second half.

Chris?

Christopher Sighinolfi - ONE Gas, Inc. - Chief Financial Officer, Senior Vice President

Rich, to follow up on from Sid's comment, I mentioned in the prepared remarks that we expected, as you look at a sequential growth in O&M from the prior period to the current period, to see a meaningful step down in the back half. We were 8-plus percent in the first quarter and 6% and change in the second quarter. Your expectation should be meaningfully below that in the third and fourth quarters.

There are external factors. Curtis mentioned line-locate activity up 7% year over year. So there's a lot of economic growth going on in our territories. That's a cost that we bear that we have to respond to, to locate our assets on behalf of others who are digging. I mentioned in my prepared remarks fuel costs. We're paying close attention to what refined product inventories look like and the dynamics associated with that. We travel about 10 million miles a quarter in company-owned vehicles, so you think about the $9-ish million of additional O&M expense this quarter versus last year in the second quarter, about 15% of that was fuel -- elevated fuel year over year.

So, we've baked all of that into the expectations that I'm offering you. As you think about a cascade in the future, we talked about a 3% to 4% long-term O&M growth rate. So as you think about it, it will cascade to lower levels of annual O&M growth in future periods.

Some of that is driven by the benefits of the in-sourcing effort that Curtis has noted, primarily line locating but now watch and protect, and they continue to explore other functions that are worthwhile for in-sourcing.

Richard Sunderland - Truist Securities - Analyst

Great. Thank you for running through all of that and thank you for the time.

Operator

Julien Dumoulin-Smith, Jefferies.

Luke Fenker - Jefferies - Analyst

Hey guys. Nicely done on the quarter. This is Luke Fenker on for Julien. I just wanted to ask if you could quantify the benefits from HB 4384 this quarter and how that showed up across D&A and interest expense -- and if not, maybe color on how we should think about the cadence the rest of the year after the July Grip reset would be helpful.

Christopher Sighinolfi - ONE Gas, Inc. - Chief Financial Officer, Senior Vice President

Luke, this is Chris. I don't have it for the quarter. If you thought about it maybe in the first half of the year, across both the elements included in GAAP and then the non-GAAP adjustment, which reflects the equity return, it's about $0.28, $0.29. As you think about the back half, one thing to note is the benefits, the accrual benefits, I spoke about this in my prepared commentary, is driven by capital in service in Texas.

So a reminder, the largest project that we've completed as a company was the Austin System Reinforcement Project, which was in Austin as the name implies, and was placed into service in the third quarter of last year. So the first full quarter for which this legislative benefit was available -- our largest project took effect. We don't have projects in Texas of that caliber plan for the back half of this year.

And so as you think about sequentially back half last year to back half of this year, I would just note to you that we had a very large project take effect in the third quarter that we don't see this year. I did note a $0.42 full year impact anticipated given what we now know from first half performance.

Luke Fenker - Jefferies – Analyst

Got it. Yes, that helps. And then maybe, you previously discussed evaluating low-cost rate protection, including a SOFR collar for commercial paper, can you update us on where that valuation stands and whether you expect to put any hedge structures in place this year just given expectations with rising rates?

Christopher Sighinolfi - ONE Gas, Inc. - Chief Financial Officer, Senior Vice President

Yes. Thanks, Luke. We did explore that, you're right to raise it, and we are not of the mind to pursue it at the moment. It's something that's available to us, but as we thought about the cost of that structure and some of the complexities around it, mainly some of the volatility that it may introduce to our earnings reports on a quarterly basis, we didn't feel like it presented the value that we maybe initially thought it might.

In addition, as we thought about the voting members of the FOMC and yes, the markets focus a lot on is the next move a 25 basis point or how many hikes might we have through the balance of the year. The expectations were for three rate cuts at the beginning of the year and now the market expectation is for two rate hikes. But if you watch the dot plot and think about where each of the FOMC voting members is positioned for future expectations, they all see a lower Fed funds rate as you scroll out through '27 into '28 and '29. They all represent the current level of Fed funds rate as restrictive relative to a broadly 3% neutral rate. And so with all of those factors, it's not something that we have decided to take action on today, but it does still represent an option to us.

Operator

David Arcaro, Morgan Stanley.

Amanda Huang - Morgan Stanley - Analyst

Hi, this is Amanda on for Dave. Thanks so much for taking our question. Maybe just on the expectation raise. Anything that you could speak to in terms of specific aspects that give you confidence to land in that upper half? I know, Chris, you mentioned the Texas House bill contribution. Just wondering if there are any other specific moving pieces that you would point to for the raise?

Christopher Sighinolfi - ONE Gas, Inc. - Chief Financial Officer, Senior Vice President

Hi Amanda. Well, that's one of them. Another is some of the solidification of some of the projects that Curtis mentioned. I mean, he mentioned one that had moved from prospect to in service this quarter that will start contributing in a way that we were not totally certain about before.

And then as I talked about O&M and a real focus internally coming off the winter, we had spent some time on last quarter's call about levers we thought were available to us that could help us moderate from a cost standpoint and overcome some of the margin hit that we took in the first quarter with the weakness in the weather dynamics. As we've walked through that with teams throughout the company, we have a greater level of confidence and cost discipline through the back half of the year.

Robert McAnnally - ONE Gas, Inc. - Chief Executive Officer

And Amanda, this is Sid. I'd just add that the capacity release program has been a real success and credit to our gas supply team for the way that they've taken advantage of what was excess supply coming out of a relatively warm winter with the exception of one significant storm.

I also want to point back to a question and Chris' comment when you think about the way that the projects come into service. They come in, in a way that we have some visibility around but not perfect visibility around, but the funnel that Curtis speaks to is one that will allow us to have ongoing projects. And so we do have forward visibility into what the marketplace looks like in terms of projects and the probability of those projects. We've been very intentional in building a funnel that allows us to evaluate opportunities and to take advantage of those that we think are beneficial not only to our investors, but also to our customers in the way that they are positively impacted by some of the projects that we've already talked about and projects that we're working for the future.

So the Austin System Reinforcement project came online last year, and there are other projects of scale in addition to Western Farmers, they’re just to Curtis' point, not to the point that we want to talk about them publicly because we don't talk about projects publicly until we have contracts in place and a high level of certainty.

Amanda Huang - Morgan Stanley - Analyst

Great. Thanks so much for the color. To the extent that you can, maybe just a follow-up on that in terms of maybe like timing of those large load opportunities between generation, data centers, and manufacturing. I guess, you pulled one of the projects forward, but kind of what does that look like for the remaining five projects in late stage and the 17 in the early stage?

Curtis Dinan - ONE Gas, Inc. – President and Chief Operating Officer

I think I made the comment on the first call, Amanda, this is Curtis. -- about the ones that we put in the late stage, we thought there was a decent probability that those would move into a contracted stage here in fiscal '26, and in fact, 1 of those did. We're still working on the other projects, and we could be in a position where they're signed and announced before the end of the year. If not, it would likely be in the first part of 2027.

In terms of the other 17 that I mentioned, those are, again, a little bit earlier stages of evaluation, working with the customers to figure out exactly what their needs are and what their timing is going to be. And so that's really what will drive getting to a final point where we speak publicly about them specifically.

Operator

David Paz, Wolfe Research.

David Paz - Wolfe Research - Analyst

Good morning. Looking out to the back half of your plan, have the better results this year pushed you to the upper half of that 5% to 7%, say, like in 2029, '30 off your current 2025 base?

Robert McAnnally - ONE Gas, Inc. - Chief Executive Officer

Yes, David, thank you for the question. We, as you heard in our prepared remarks, we were confident moving into the upper half of the range given performance in the first half. And we have a fairly high degree of confidence as we go into the second half and are engaged in our planning for 2027. So we look forward to coming back to you at the appropriate time with more insight into what 2027 looks like and the forward five-year guidance. Anything you'd add, Chris?

Christopher Sighinolfi - ONE Gas, Inc. - Chief Financial Officer, Senior Vice President

No, I think that's right. David, if you think about we've had some developments this year that we did not anticipate in the plan last year -- the expansion of our GSRS mechanism in Kansas is one we've talked with you and others about, the conversion of some of the large load, and I think some of the maturation of what exists in the funnel and continues to be added to the funnel is additive in a way different than we thought about 9 months ago, 12 months ago. So those are supportive functions that I think you are wise to pay attention to.

David Paz - Wolfe Research - Analyst

Got it. And just following up, when you do give your update this fall, I believe, do you expect to rebase it off of a new year? Should we assume still '25, given '26 and '27 are, I don't know if you want to say abnormal, but they're not in that 5% to 7% range?

Christopher Sighinolfi - ONE Gas, Inc. - Chief Financial Officer, Senior Vice President

No, you should expect from us a consistency where we would use as the base, the current guidance at that time for 2026. That has been our practice since we separated from ONEOK, and 1 of the things that you kind of -- you understand if you back test, is that if we achieve what we aim to achieve, which is the upper half of this range, and you look at where we started in 2014, you will see a compound annual growth rate of adjusted EPS that's north of 7%, yet we've never really guided that level.

And so the consistent outperformance that we've generated has kind of gotten baked into the historical performance in a way that maybe doesn't get fully captured by the forward guidance. We ratchet forward every year, which means outperformance like this year or we outperformed last year, and we outperformed in '24, sometimes gets overlooked by forward guidance in a way when you compare it to the peer set. I think that I would just focus your attention on that.

Operator

That concludes the question-and-answer session. I would now like to hand it back to the ONE Gas team for closing remarks.

Erin Dailey - ONE Gas, Inc. - Director, Investor Relations and Sustainability

Thank you again to everyone for your interest in ONE Gas. Our quiet period for the third quarter starts when we close our books in early October and extends until we release earnings on November 2. We'll provide details about the conference call at a later date. Have a great day.

Operator

This concludes the ONE Gas second quarter earnings conference call and webcast. You may now disconnect.

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Statements contained in this transcript that include or refer to Company expectations, our business outlook, our future plans or predictions relating to any matters should be considered forward-looking statements that are covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, the Securities Act of 1933 and the Securities and Exchange Act of 1934, each as amended. All statements, other than statements of historical facts, included in this transcript are forward-looking statements. Words such as “anticipates,” “expects,” “projects,” “intends,” “goals,” “plans,” “potential,” “might,” “believes,” “target,” “objective,” “strategy,” “opportunity,” “pursue,” “budgets,” “outlook,” “trends,” “focus,” “on schedule,” “on track,” “poised,” “slated,” “seeks,” “estimates,” “forecasts,” “guidance,” “scheduled,” “continues,” “may,” “will,” “would,” “should,” “could,” “likely,” and variations of such words and similar expressions are intended to identify such forward-looking statements. One should not place undue reliance on forward-looking statements. In addition, statements that refer to or are based on estimates, forecasts, projections, uncertain events or assumptions, including statements relating to market opportunities, future products or processes and the expected availability and benefits of such products or processes, and anticipated trends in our businesses or the markets relevant to them, including those developments relating to regulation and litigation trends and developments, also identify forward-looking statements. Such statements are based on management's expectations as of the date of this investor transcript, unless an earlier date is indicated, and involve many risks and uncertainties, known and unknown, that could cause actual results, performance or achievements to differ materially from those expressed or implied in these forward-looking statements.

It is important to note that the actual results could differ materially from those projected in such forward-looking statements. Important risks and uncertainties that could cause actual results to differ materially from the company's expectations include, but are not limited to, our ability to recover, manage and maintain costs; regulatory or legislative changes in the jurisdictions in which we operate; the length and severity of unpredictable events, including, but not limited to, pandemics, threatened terrorism, war or cyber-attacks or breaches, or extreme weather events, including those related to climate change; the competitive implications of alternative sources of energy and efforts to conserve energy; our competitive position, including, but not limited to our ability to secure competitive sourcing and pricing and our ability to compete with respect to expansion and infrastructure; the economic climate and our comparable economic position; our access to capital and the restrictions that result from our current capital arrangements; the effectiveness of our risk mitigation and compliance efforts; the uncertainties of any estimates or assumptions we use in our projections; our strategic and transactional efforts and future plans; and costs and uncertainties relating to our workforce, and other risks and uncertainties, including those that are set forth in ONE Gas’ earnings release dated August 4, 2026, which is included as an exhibit to ONE Gas’ Form 8-K furnished to the Securities and Exchange Commission (SEC) on such date.

This transcript includes financial results and guidance for ONE Gas with respect to adjusted net income and adjusted net income per share, which are non-GAAP financial measures as defined by the Securities and Exchange Commission. Adjusted net income and adjusted net income per share are calculated as GAAP net income plus the deferral of an equity portion of a carrying cost attributable to shareholders’ investment capitalized for regulatory purposes but not for financial reporting purposes. These carrying costs relate to property, plant and equipment that has been placed in service, but not yet reflected in base rates. Adjusted net income and adjusted net income per share should not be considered in isolation or as a substitute for GAAP net income or GAAP earnings per share. Management believes these non-GAAP measures provide useful information because they offer a more complete view of our overall regulatory economics, reflect the period-specific effects of certain regulatory mechanisms designed to mitigate regulatory lag associated with property, plant and equipment placed in service prior to regulatory action, and reflect the impact of regulatory timing differences that arise under the Company’s rate-setting framework. These adjustments, net of applicable tax effects, are expected to recur as a result of the Company’s regulatory framework and are a consistent part of our earnings profile. A reconciliation of the Company’s GAAP net income and GAAP earnings per share to adjusted net income and adjusted net income per share is provided in the Company’s earnings release dated August 4, 2026, and the Company’s Form 10-Q for the quarter ended June 30, 2026, filed with the SEC on August 5, 2026.

For additional information regarding these and other factors that could cause actual results to differ materially from such forward-looking statements, refer to ONE Gas’ SEC filings., including the Company's most recent reports on Forms 10-K and 10-Q. Copies of the Company’s Form 10-K, 10-Q and 8-K reports may be obtained by visiting our “Investors” website under “Financials & Filings” at https://www.onegas.com/investors/financials-and-filings/quarterly-results/default.aspx or the SEC’s website at www.sec.gov. Other unpredictable or unknown factors not discussed in this transcript could also have material adverse effects on the Company, its operations or the outcomes described in the forward-looking statements in this transcript or in the Company’s filings with the SEC.
All future cash dividends discussed in this transcript are subject to the approval of the ONE Gas board of directors.

ONE Gas does not undertake, and expressly disclaims any duty, to update any statement made in this transcript, whether as a result of new information, new developments or otherwise, except to the extent that disclosure may be required by law.