



# 2024 FINANCIAL GUIDANCE

November 2023

Delivering Reliable & Affordable Energy



# Investor Information

## Contact Information and forward-looking statements

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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; the concentration of our operations in Oklahoma, Kansas and Texas; 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 Oct. 30, 2023, which is included as an exhibit to ONE Gas’ Form 8-K furnished to the SEC on such date.

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# FINANCIAL OUTLOOK



# Five-Year Financial Guidance: 2024 – 2028

## Overview

**The Company's outlook remains anchored by proactive investments in system integrity, pipeline replacement, and durable customer growth rooted in regional economic development.**

**The fundamental shifts in baseline economic conditions which emerged in 2022 have persisted and will impact the front-end of our guidance range before being fully reflected in our rates:**

- While natural gas prices have softened and materials inflation has moderated, wage inflation continues, and interest rates have moved sharply beyond their year-ago forecasts and are likely to remain higher for longer.
- These temporary but impactful shifts in financial conditions accentuate the lag intrinsic to our 100% regulated business model. We will be strategic about the sequence and timing of regulatory activities so that operating and financing realities are appropriately reflected in our rates.

**Safety, reliability and affordability remain central to our long-term strategy.**





# Current Economic Backdrop

## Full employment, continued deficit spending, and a restrictive Fed

The Federal Reserve has rapidly raised interest rates and is working to shrink its balance sheet to rein in decades-high inflation. In the US, the principal economic tension has been between these Fed actions and a historically tight labor market, ongoing federal deficit spending, and a population whose mindset and priorities have been altered by the recent pandemic.

	METRIC	11/1/22	11/1/23	CHANGE	10-YR AVG	CHANGE
Interest Rates	90-Day Commercial Paper	4.45%	5.54%	109	1.46%	408
	2-Year US Treasury	4.54%	4.94%	40	1.57%	338
	10-Year US Treasury	4.04%	4.73%	69	2.30%	244
	30-Year US Treasury	4.09%	4.93%	84	2.81%	211
Commodities	US Average Retail Electricity (¢/kWh)	15.99	15.68	(1.9%)	13.36	17.4%
	NYMEX Natural Gas (\$/MMBtu)	\$5.71	\$3.49	(38.9%)	\$3.33	5.1%
	WTI Crude Oil (\$/Bbl)	\$88.37	\$80.44	(9.0%)	\$63.94	25.8%
	US Average Regular Gasoline (\$/gal)	\$3.77	\$3.45	(8.4%)	\$2.83	21.9%
	US Average Diesel Fuel (\$/gal)	\$5.31	\$4.44	(16.4%)	\$3.25	36.7%

	METRIC	11/1/22	11/1/23	CHANGE	10-YR AVG	CHANGE
Government	Federal Reserve Balance Sheet (T\$)	8.7	7.9	(9.8%)	5.7	37.8%
	US Government Debt (T\$)	31.2	33.6	7.8%	23.4	43.6%
	Fed Funds Rate	3.08%	5.33%	225	1.22%	411
Consumer	US Unemployment	3.70%	3.90%	20	4.69%	(79)
	US Wage Growth	6.40%	5.20%	(120)	3.81%	139
	Consumer Price Index	7.70%	3.20%	(450)	2.72%	48
	Producer Price Index	8.20%	1.30%	(690)	2.69%	(139)
Equity Markets	NASDAQ Composite	10,891	13,061	19.9%		
	S&P 500	3,856	4,238	9.9%		
	US Utility Sector ETF (UTY)	869	770	(11.5%)		
	US Energy Select ETF (XLE)	91	85	(6.5%)		

Source: Bloomberg

Note: "Change/Delta" denote basis point movements between periods for items listed as percentages. Red coloration signifies a changes which is negative while black coloration denotes a positive change.

# Federal Funds Rate Futures

Consensus rate expectations have moved meaningfully higher this year

11.01.2022

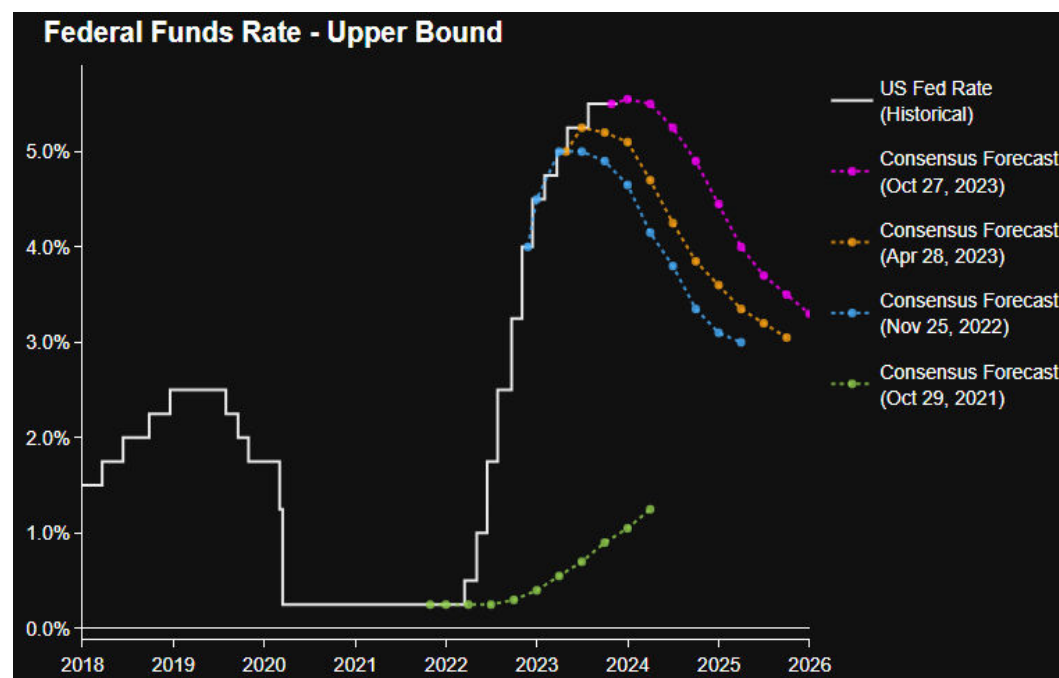
Peak Fed Funds rate of 4.70% expected in March 2023 with cuts in 2H23 producing a 1Q24 rate expectation of roughly 4.00%, declining to 3.00% by 1Q25.

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Peak Fed Funds rate of 5.25% expected in July 2023 with cuts in 2H23 producing a 1Q24 rate expectation of 4.70%, declining to 3.35% by 1Q25.

11.01.2023

Peak Fed Funds rate of 5.50% expected in 1Q24 with cuts in 2024-25 yielding a 1Q25 rate expectation of 4.00%.



~30% of our recourse debt is maturing in 1Q24

Source: Bloomberg

## Modeling Assumptions

**Given heightened market volatility and consensus rate forecasts which have shifted dramatically over the past two years, we believe there is value in sharing the following modeling assumptions:**

- A gradual contraction in the Commercial Paper ↔ 10-year rate spread over the course of 2024-2025, with parity achieved in 2026.
- A contangoed curve reemerging in 2027 as the Fed's balance sheet returns to pre-COVID levels, allowing its policy rate to be meaningfully reduced.
- The 10-year Treasury rate normalizing at 4.00% with normalized Commercial Paper rates at 3.00%, in-line with historical spreads.
- Inflation and customer growth expectations consistent with this rate projection (i.e., reduced inflation, accelerating growth over time).



# Favorable Regional Growth Dynamics

## Growing Demand for Natural Gas Provides Long-Term Growth Opportunity

### Key drivers

- Durable residential and commercial development, anchored to economic growth, is driving system expansion
- Strong support for natural gas with energy choice legislation in all jurisdictions
- Projecting five-year compound annual customer growth of 0.9%
  - Texas — 1.2%
  - Oklahoma — 1.0%
  - Kansas — 0.4%
- Moderated near-term customer growth is reflective of higher interest rates; upside potential as builder activity reignites

### I-35 Corridor



Source: Bureau of Labor & Statistics EMSI/QCEW Data

- I-35 corridor fastest growing population in the U.S.
- ONE Gas positioned in KS, OK and TX with 5 of the main metro areas in the corridor
- Largest warehouse labor force in the country - expected to grow 20% over next decade due to location along primary NAFTA transport route
- El Paso is also growing significantly but not considered in the I-35 corridor



# Constructing a Foundation for Growth and Long-term Affordability

## Building Operational Capacity

### Meaningful customer growth positively impacts affordability

- Robust backlog of future meter sets
- New customer connections have slowed compared to 2022 but are commensurate with 2021 levels
- New meter sets for October 2023 were the highest ever for that month, despite 30-year mortgage rates cresting 8% in the period, highlighting the stability of regional growth

### Operating investments support capturing long-term growth

- Increasing operating capacities and capabilities, including additional in-sourcing of work
- Addressing labor pressures through competitive market wage adjustments
- Inflationary pressures impact 3<sup>rd</sup> party contracts but have been addressed through contract riders



# Regional Focus on Economic Development

## Attracting large-scale manufacturing

### **Enel North America** (Inola, OK) – [Announced May 2023](#)

- **\$1.0 billion** solar cell and panel manufacturing plant, largest economic development project in Oklahoma history
- 1,800 construction jobs and 1,000 new permanent jobs by 2025, another 900 permanent jobs possible by 2027

### **Integra Technologies** (Wichita, KS) – [Announced February 2023](#)

- **\$1.8 billion** investment in outsourced semiconductor assembly and test (OSAT) operations
- ~2,000 direct jobs and ~3,100 additional jobs to be created by suppliers and business communities

### **EMP Shield** (Coffey County, KS) – [Announced February 2023](#)

- **\$1.9 billion** investment in new computer chip manufacturing facility
- ~1,200 direct jobs and 235,000 square feet of new facilities

### **Panasonic Energy Co., Ltd.** (De Soto, KS) – [Announced July 2022](#)

- **\$4.0 billion** investment in a new electric vehicle (EV) battery manufacturing facility
- ~4,000 direct jobs created and an expectation for 4,000 additional supplier and community jobs to be supported

### **Samsung Electronics Co., Ltd.** (Taylor, TX) – [Announced November 2021](#)

- **\$17 billion** investment in new semiconductor manufacturing facility
- ~2,000 direct jobs created; facility expected to be operational in 2H24
- Reports indicate future regional investments of up to \$200B to support 11 new semiconductor plants



# Financing Requirements

## Retaining Balance Sheet Strength

**Dividends and capital investments primarily funded by cash flow from operations of approximately \$525 - \$575 million<sup>1</sup>**

- Expected 2024 short- and long-term financing need of \$350 - \$375 million, exclusive of two first-quarter maturities: \$300 million of 3.6% notes and \$473 million of 1.1% notes

**~\$2.3 billion net long-term financing needs through 2028, of which 45 - 50% is expected to be equity issuances**

- Assumes settlement of ~\$129 million<sup>2</sup> forward equity sales by year-end 2023
- Forward sale agreements covering ~2.9 million shares have already been executed for 2024 settlement at prices averaging approximately \$76.40/share (\$222 million<sup>3</sup> in total)

<sup>1</sup> 2024 expectation, before changes in working capital. See non-GAAP information in Appendix

<sup>2</sup> Expected net proceeds of ~\$129.2M had all the shares settled as of Sept. 30, 2023

<sup>3</sup> Expected net proceeds of ~\$222.0M had all the shares settled as of Sept. 30, 2023



# Five-Year Financial Highlights

## Investing in a Growing System

### Capital Investments & Rate Base

- Capital investments of approximately \$4.25 billion
  - \$3.0 billion investment in system integrity and replacement projects
  - Growth capital of approximately \$1.1 billion
- Estimated average 2024 rate base\* of \$5.55 billion
- Average annual rate base growth of 7 – 9%

\* For definition of average rate base, see Appendix.

### Average Annual Growth Rates

- Net income growth of 7 – 9%
  - In addition to capital investment, key drivers include:
    - Regulatory outcomes
    - Annual sales customer CAGR of 0.9%, led by Texas with 1.2%
    - Operating cost increases averaging ~5% annually
- Earnings per diluted share growth of 4 – 6%
- Dividend growth of 1 – 2%\*
  - Balances shareholder returns with internal investment in growth
  - Holds payout ratio proximate to our 55 – 65% target

\* Subject to Board approval.



# 2024 Guidance Summary\*

Managing near-term impacts while preserving long-term opportunities

## Earnings and Dividends Outlook

- Net income for 2024 in a range of **\$214 - \$231 million**
- EPS range of **\$3.70 - \$4.00** per diluted share
- Anticipate **dividend growth of 1% to 2% in 2024**, subject to board approval
- Assumes **57.8 million of diluted shares** outstanding

## Capital Investments

- 2024 capital investments of **\$750 million**, with approximately \$170 million attributed to customer growth
- **Average rate base of \$5.55 billion** in 2024

## Financing Activities

- Two debt maturities totaling \$773 million in the first quarter 2024; the **next maturity not until 2030**
- **Forward sale agreements covering ~2.9M shares** are already in place for 2024 settlement at prices averaging \$76.40/share
- Increased **credit facility** and **commercial paper program to \$1.2 billion**

\*Issued Nov. 29, 2023



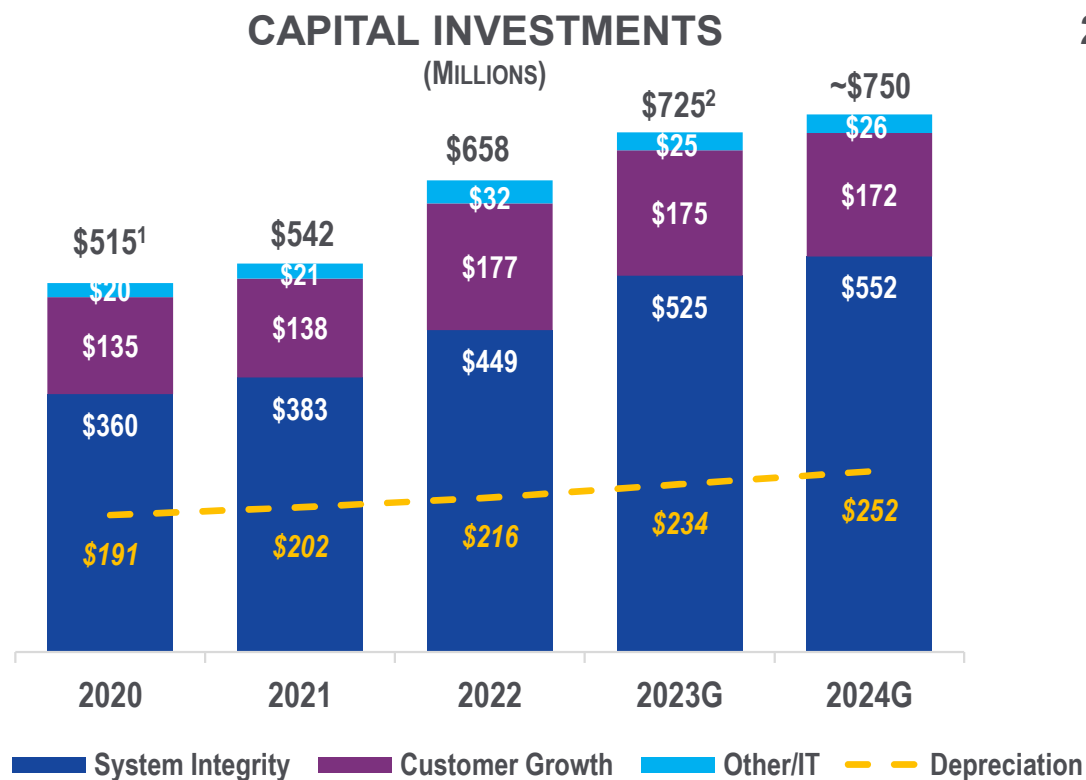


# Appendix

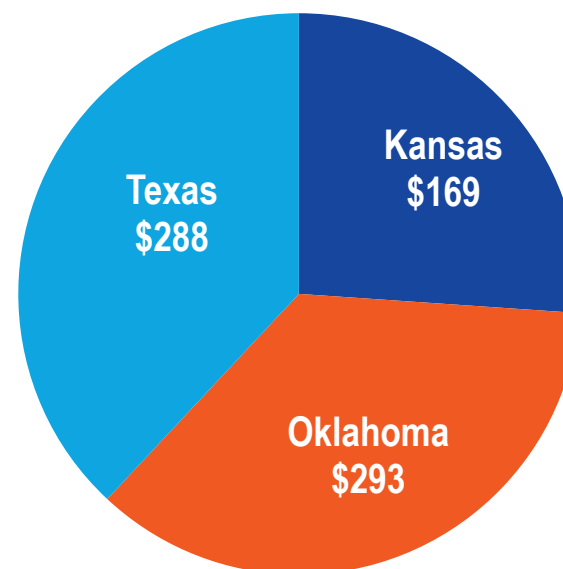


# Well-Defined Capital Investment Plan

Investments ~3x Depreciation



**2024G CAPITAL INVESTMENTS BY STATE**  
(MILLIONS)



Note: Capital investments include asset removal costs and accruals

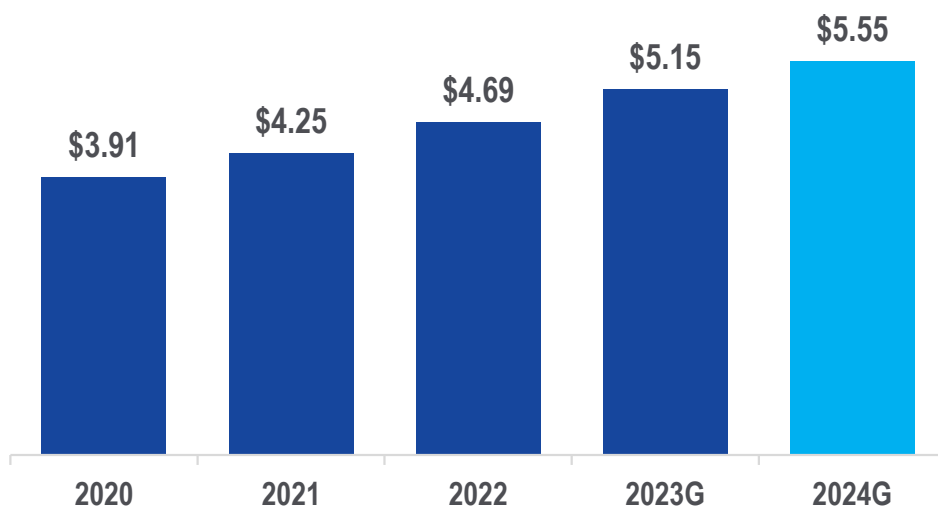
<sup>1</sup> 2020 depreciation includes \$3 million of expenses unallocated to the three divisions

<sup>2</sup> Represents updated CapEx forecast as of Sept. 30, 2023

## Rate Base

~8% Growth Expected in 2024

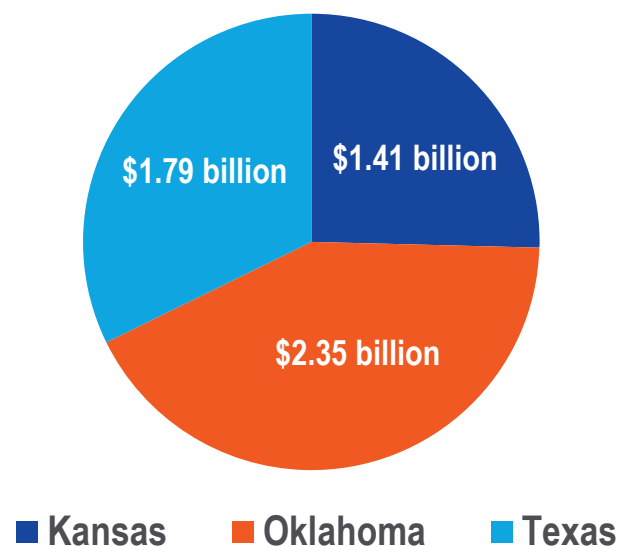
### AVERAGE RATE BASE<sup>1</sup> (BILLIONS)



<sup>1</sup> See Slide 19 for definition

### 2024G AVERAGE RATE BASE<sup>1</sup> BY STATE

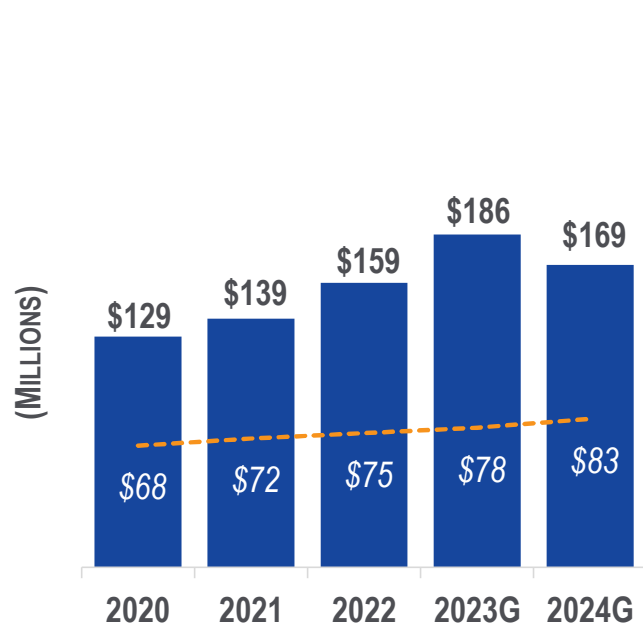
TOTAL: \$5.55 BILLION



# Capital Investments

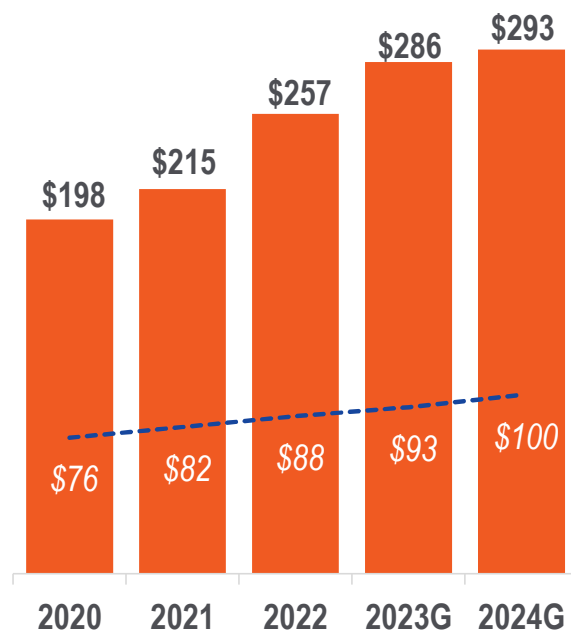
## KANSAS

2023G: 2.4x DEPRECIATION



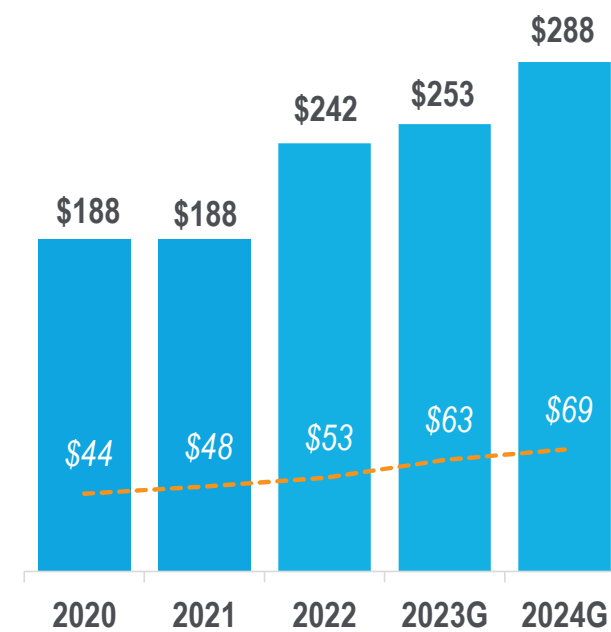
## OKLAHOMA

2023G: 3.0x DEPRECIATION



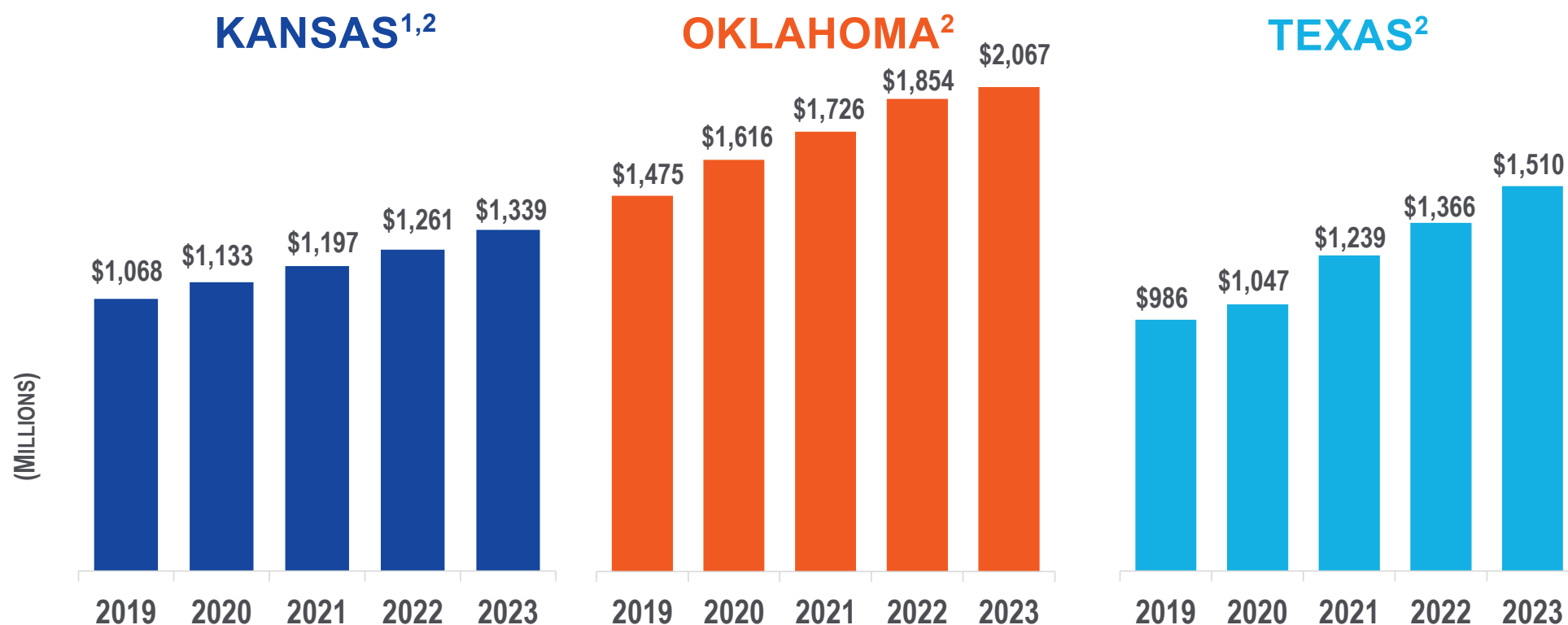
## TEXAS

2023G: 4.0x DEPRECIATION



Note: Capital investments include asset removal costs and accruals

# Authorized Rate Base



<sup>1</sup> Kansas Gas Service's most recent rate case, approved in February 2019, was settled without a determination of rate base and reflects Kansas Gas Service's estimate of rate base contained within the settlement; these amounts are not necessarily indicative of current or future rate base. GSRS filing approved and new rate base effective Dec. 1, 2023.

<sup>2</sup> Reflects authorized rate base as of Dec. 1, 2023. Amounts are not necessarily indicative of current or future rate bases.



# Rate Base Definition

## Authorized Rate Base

**\$4.92 billion** (effective Dec. 1, 2023)

- Includes capital investments authorized in most recent rate cases and interim filings
- Excludes any capital investments since last approved rate cases or filings

## 2024 Estimated Average Rate Base

**\$5.55 billion**

- Average of rate base per book at beginning and end of year
- Includes capital investments and other changes in rate base not yet approved for recovery



# Non-GAAP Reconciliation

## Cash Flow From Operations Before Changes in Working Capital

(MILLIONS)	2024 GUIDANCE*
Net income	\$ 223
Depreciation and amortization	267
Deferred taxes	32
Other	23
Cash flow from operations before changes in working capital	\$ 545

\* Amounts shown are estimated midpoints as contemplated in 2024 guidance



## Non-GAAP Information

ONE Gas has disclosed in this presentation cash flow from operations before changes in working capital, which is a non-GAAP financial measure.

Cash flow from operations before changes in working capital is used as a measure of the company's financial performance. Cash flow from operations before changes in working capital is defined as net income adjusted for depreciation and amortization, deferred income taxes, and certain other noncash items. This non-GAAP financial measure is useful to investors as an indicator of financial performance of the company to generate cash flows sufficient to support our capital expenditure programs and pay dividends to our investors.

ONE Gas cash flow from operations before changes in working capital should not be considered in isolation or as a substitute for net income or any other measure of financial performance presented in accordance with GAAP.

This non-GAAP financial measure excludes some, but not all, items that affect net income. Additionally, this calculation may not be comparable with similarly titled measures of other companies. A reconciliation of cash flow from operations before changes in working capital to the most directly comparable GAAP measure are included in this presentation.

