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# ONE Gas, Inc. (OGS)

Q3 2024 Earnings Call

## CORPORATE PARTICIPANTS

**Erin Dailey**

*Director-Investor Relations and Sustainability, ONE Gas, Inc.*

**Robert Sid McAnnally**

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

**Christopher Paul Sighinolfi**

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

**Curtis L. Dinan**

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

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## OTHER PARTICIPANTS

**Paul Fremont**

*Analyst, Ladenburg Thalmann & Co., Inc.*

**Christopher Jeffrey**

*Analyst, Mizuho Securities USA LLC*

**Jamieson Ward**

*Analyst, Guggenheim Securities LLC*

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good day and welcome to the ONE Gas Third 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.

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**Erin Dailey**

*Director-Investor Relations and Sustainability, ONE Gas, Inc.*

Thank you, Elliot. Good morning, everyone, and thank you for joining us on our third quarter 2024 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.

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.

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

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

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**Robert Sid McAnnally**

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

Thanks, Erin. And good morning, everyone. Thank you for joining us and for your interest in ONE Gas. We again delivered quarterly results in-line with our expectations, thanks to company-wide efforts and constructive regulatory outcomes. Operational execution and an improved interest rate environment have given us the opportunity to both raise and narrow our financial guidance for 2024, all while preserving a strong balance sheet.

We now expect EPS to be in the range of \$3.85 to \$3.95, \$0.05 higher at the midpoint than our original guidance. We still anticipate capital expenditures of \$750 million this year.

We've also completed a year of significant regulatory activity, including the conclusion of our Kansas rate case and the settlement of our Central-Gulf rate case in Texas, which Curtis will speak to in a few moments. Both cases resulted in constructive settlements which allow us to recoup investments we've made in our system and earn a fair rate of return on the equity embedded in our capital structure.

Now I'll turn it over to Chris to discuss our financial performance for the quarter. Chris?

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### **Christopher Paul Sighinolfi**

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

Thanks, Sid, and good morning everyone. As Sid noted, we are narrowing our earnings forecast and raising the earnings per share guidance midpoint by \$0.05, with diluted EPS now expected to be in the range of \$3.85 to \$3.95. There are several key factors at play in our guidance rate. First is the Fed rate cut in September and its tethered effect on commercial paper rates. As I've noted previously, we did not assume any rate cuts this year, and the Fed's 50 basis point rate reduction in September quickly reduced our CP rates by an equivalent amount.

So, while concerns about the US election, the US deficit, and Treasury market dynamics have caused longer term rates to rise in the wake of the Fed's action, our utilization of commercial paper has yielded a benefit. Second, we captured some uplift from the constructive regulatory outcomes that Sid noted, in part due to the timing of rate implementations being earlier than we had embedded in our financial plan for this year. A major credit goes to our teams for their ability to efficiently file our cases and interim mechanisms, shepherd each smoothly through the regulatory process and to conclusions acceptable to all parties.

Third, we're benefiting from our multi-year focus on O&M expense management. In our guidance last year, we noted an expectation for annual increases in O&M expenses to average 5% over the five-year period with higher increases in the early years and moderation in the out-years.

Through some of the initiatives Sid and Curtis have spoken about on prior calls, we've been able to achieve a faster pace of cost moderation with O&M of just 5% year-to-date. Our program to in-source line locating across much of our service territory has saved dollars, helped hold down contractor costs, and produced workforce flexibility, generating efficiencies and enhancing our productivity.

Finally, bad debt expense has proven favorable to plan. When COVID-related moratoria fully lifted across our territories last year, we actively resumed traditional disconnection activities and effectively addressed past due accounts. Those efforts, combined with lower gas prices and favorable winter weather dynamics this year, have resulted in lower bad debt expense than we originally planned.

Turning to our third quarter results, net income was \$19.3 million or \$0.34 per diluted share compared with \$25.2 million or \$0.45 in the same period last year. Third quarter net income included \$17.5 million in revenue from new rates, which was partially offset by an \$11.5 million increase in interest expense, excluding KGSS-I primarily due to the impact of refinancings we experienced in the first quarter. As expected, operations and maintenance

expenses were higher as compared to the third quarter last year, primarily related to an increase in labor-related costs.

As I noted previously, our O&M expenses year-to-date have been about 5% higher compared to 2023, consistent with our long-term guidance, but slightly favorable to our 2024 plan. As I mentioned on last quarter's call, we have satisfied our 2024 equity needs through the forward settlement agreements we issued last year. Those agreements cover approximately 3.6 million shares of our common stock at an average price of approximately \$77 per share. Had all shares been settled at quarter-end, we would have received net proceeds of approximately \$275 million.

In August, the Company reopened its 5.1% senior notes of \$300 million to issue an additional \$250 million at an effective rate of 4.87%, aggregating its senior notes due April 2029 to \$550 million. The reopener met our need for long-term financing for this year. As Sid noted, our balance sheet remains strong with our adjusted CFO-to-debt ratio projected to end the year above 19%, comfortably within the guidelines for our current credit ratings. Yesterday, the ONE Gas Board of Directors declared a dividend of \$0.66 per share, unchanged from the prior quarter.

As we close out the year, we look forward to continuing to execute our financial plan in line with our updated guidance.

Curtis, I'll turn things to you.

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## Curtis L. Dinan

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

Thank you, Chris. And good morning, everyone. I'll start with an update on our regulatory activities. As Sid noted, the Kansas Corporation Commission formally approved the settlement of our rate case with a net increase of \$35 million. It is a black box settlement, meaning that the agreement does not contain a stated ROE, capital structure or rate base. New rates went into effect on November 1.

We also reached a settlement of the Central-Gulf rate case for Texas Gas Service pending final Commission approval. That settlement includes a \$19.3 million rate increase, a 9.7% rate of return on equity, and a 59.6% equity layer. Last month, the administrative law judge recommended approval of the settlement. Upon final Commission approval, we expect new rates to go into effect the first billing cycle of December.

Turning to commercial and operating activities, we expect to finish 2024 within our planned capital budget of \$750 million. Over the past several years, we have steadily increased our annual planned capital deployment and operational capabilities to meet the needs of our growing service territory and increase the reliability of our system.

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

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## Robert Sid McAnnally

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

Thank you, Chris and Curtis. We look forward to a strong finish to the year as we continue to serve our customers and prepare for the opportunities that await us in 2025. In closing, I thank each of our co-workers for their dedication as we safely deliver reliable and affordable natural gas to our 2.3 million customers. Thank you all for joining us this morning. Operator, we're now ready for questions.

## QUESTION AND ANSWER SECTION

**Operator:** Thank you. [Operator Instructions] First question comes from Julien Dumoulin-Smith with Jefferies. Your line is open, please go ahead. Julien, your line is open.

We move on to Paul Fremont with Ladenburg. Your line is open. Please go ahead.

**Paul Fremont**

*Analyst, Ladenburg Thalmann & Co., Inc.*

Q

Thank you very much and congratulations on a good quarter. I guess my first question has to do with the timing of your 2025 guidance. Should we expect that to happen in December?

**Robert Sid McAnnally**

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

A

Yeah. Good morning, Paul. We changed our guidance cadence a few years ago to allow us to issue guidance before the December utility week meetings so we could speak freely about our guidance and our plan forward. And we think that's worked well. It serves us well, and we feel like it serves the investment community well. So, we plan to follow that same cadence as we go into the year ahead.

**Paul Fremont**

*Analyst, Ladenburg Thalmann & Co., Inc.*

Q

Great. And then you've talked about sort of progress that you've made so far in O&M. And you also, I think, talked about an expectation that O&M would be higher earlier and then that as you go out in time, yeah, declining. Should we still sort of expect a declining trajectory in O&M on a go-forward basis or not?

**Christopher Paul Sighinolfi**

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

A

Hey, Paul. This is Chris. Yeah, I think that's a safe expectation again with what I was trying to convey this morning is that we've been successful on the front end, not experiencing as robust an inflationary pressure as we had anticipated. But we still see the opportunity for a moderation in the cadence as we move forward.

**Paul Fremont**

*Analyst, Ladenburg Thalmann & Co., Inc.*

Q

Great. And then maybe the last question that I would have is having to do with sort of rate base cadence. Is there any plan filing in Oklahoma and should we expect sort of Kansas to be like every two years?

**Curtis L. Dinan**

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

A

Paul, this is Curtis. And under our Oklahoma tariff, we're required to file a full rate case there by June 30 of 2027. So we remain on course to do that with the interim PBR filings each year until we get to that point. In Kansas, we just completed that rate case and haven't declared any other plans into the future except for we'll continue with our annual GSRS filing, which captures a large portion of the capital we spend each year in that state.

**Paul Fremont**

*Analyst, Ladenburg Thalmann & Co., Inc.*

Q

Got it. Thank you very much.

**Robert Sid McAnnally**

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

Thank you, Paul.

A

**Operator:** We now turn to Christopher Jeffrey with Mizuho Securities. Your line is open. Please go ahead.

**Christopher Jeffrey**

*Analyst, Mizuho Securities USA LLC*

Hi, everyone. Thanks for taking my question. Maybe just looking at the customer growth for the quarter kind of has followed this accelerating pattern and is in line with the longer term target that you guys have put out. Could you just kind of talk about what you're seeing in your jurisdictions and where you kind of expect that to trend over the next few quarters and years?

Q

**Curtis L. Dinan**

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

Yeah. Chris, this is Curtis. And you're right that we saw a little bit of a firming in that activity here at the latter part of 2024. I think we're still seeing the effects of higher mortgage rates and the impact that has not only on home buyers but also on those that are already in homes that have lower mortgages. And so you see a bit of a reluctance of folks to want to move unless they necessarily have to move and so that slowed activity a little bit.

A

And then on the builder side, the same thing, they're very cognizant of carrying cost. And so there hasn't been quite the level of inventory and thus the need for new meter sets as quickly. What we've seen in the positive front is a pickup in housing permits. And so we think that's a positive sign that we're starting to see some thawing in that market. And depending upon what happens with interest rates, we should expect to see that continuing to recover. But I don't know that it's a rapid acceleration, just a strengthening of what we've seen the past couple of years.

**Christopher Jeffrey**

*Analyst, Mizuho Securities USA LLC*

Got it. Thanks. And then just as far as interest expense, could you kind of remind us after you did the \$250 million add-on. Could you remind us kind of where you stand on the balance between commercial paper and how much you want to kind of turn that out into long-term debt and trajectory thereabouts?

Q

**Christopher Paul Sighinolfi**

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

Yeah. Sure, Chris. This is Chris. Nice to hear from you. On that, I did mention the equity forwards, that would be the next financing settlement that you could expect. If you look at our historical cadence, we do that in and around the end of the year, at least that's been the last several years' experience. So you can look for the forwards to settle at year-end that would reduce the commercial paper balance and between the reopener we did in August and the settlements at year-end that would satisfy the – and the retained earnings of the company over the course of this year, that would satisfy the long-term financing needs. As you recall, we used commercial paper to finance investments in rate base that are not yet in authorized rate base, gas and storage and other similar types of investments. So, we're always going to have some level of commercial paper balance, and then we will match long term financing needs, both debt and equity, similar to how we have done this year and in years prior.

A

**Christopher Jeffrey**

*Analyst, Mizuho Securities USA LLC*

Q

Great. Thanks, Chris. And maybe just one quick follow up. You had mentioned kind of the lifting of the moratorium on the COVID restrictions and seeing some progress on the bad debt expense. Just kind of how much more of that do you see to go? Or has that kind of those opportunities have been fully played out?

**Curtis L. Dinan**

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

A

Hey, Chris, this is Curtis again. And at this point, it's really normalized for us in our normal activity, if you will. We're caught up from the effects of the moratorium. That just really creates a little bit of a year-over-year comparison when you look at some of the numbers. But again, in terms of where we are, it's back to normal functioning and not really any big changes expected from here.

**Christopher Jeffrey**

*Analyst, Mizuho Securities USA LLC*

Q

Okay. Great. Thanks, everyone.

**Robert Sid McAnnally**

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

A

Thank you, Chris.

**Operator:** [Operator Instructions] We now turn to Jamieson Ward with Jefferies. Your line is open. Please go ahead.

**Jamieson Ward**

*Analyst, Guggenheim Securities LLC*

Q

Good morning. How are you guys?

**Robert Sid McAnnally**

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

A

Hey. Good morning, Jamieson.

**Jamieson Ward**

*Analyst, Guggenheim Securities LLC*

Q

Hi. Somewhat following on the last question there, but looking at a little bit longer term and higher level specific to your guidance. As we're looking at another potentially 25 basis point rate cut on Thursday, I don't think that's too controversial at this point after the 50-basis-point cut in September. Could you remind us of what you have baked into your guidance at the moment, whether you've included cuts this year, which I don't think you had, but just correct me if that's not the case.

And then I think 3% by 2027 was sort of the path that you were looking towards. And we're potentially looking at maybe four cuts into 2025. So a lot of hypotheticals there, but it seems like you might be getting a bit more headroom in your guidance relative to prior expectations. I would just like to hear your thoughts there as you're preparing that new guidance package. And just remind us what's baked in today. Thank you.

**Christopher Paul Sighinolfi**

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

A

Sure, Jamieson. Good to hear from you. This is Chris. So, when we had established the guidance last year, we had assumed no cuts in 2024. We had assumed 100 basis points of reduction in 2025. So, we already, as you pointed out, got 50 basis points of reduction from the Fed last month or in September, I should say. We have not changed our expectation through year-end 2025. So that would leave 50 to go. You're right. Market consensus calls for 25 basis points. Later this week, we have not assumed that.

And then in terms of the normalization down to 3%, if you look at what the Federal Reserve speaks about in terms of its neutral policy rate, what they call R-star at 2.9%. And if you look at the delta between Fed funds rate and our commercial paper rates, that's what would put us in that 3% territory. What shaped the timeline for our plan to get down to 3% was really an examination of the Federal Reserve's balance sheet and the normalization process and getting back to sort of a sub-20% of GDP level, which is where it was prior to COVID.

**Jamieson Ward**

*Analyst, Guggenheim Securities LLC*

Q

Terrific. Thank you very much, Chris. Look forward to seeing all of you in December.

**Christopher Paul Sighinolfi**

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

A

Yeah. Thank you.

**Robert Sid McAnnally**

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

A

Same here, James, and thanks.

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

**Erin Dailey**

*Director-Investor Relations and Sustainability, ONE Gas, Inc.*

Thank you all again for your interest in ONE Gas. We look forward to seeing many of you at conferences in New York the second week of December. Our quiet period for the fourth quarter starts when we close our books in early January and extends until we release earnings in late February. We'll provide details on the conference call at a later date. Have a great day.

**Operator:** This concludes the ONE Gas third quarter earnings conference call and webcast. You may now disconnect.



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