

ONE Gas: timing a capital plan under different rules

Internal ID: S&F-STR-424

Topic: Customer Strategy, Growth Strategy, Capital Allocation

Industry: Gas Utilities

Source: Strategy & Finance

Publication date: 5 October 2026

License: Not specified

Student strategy case

Information cutoff: August 31, 2026, close

The choice

ONE Gas plans to invest about \$4.3 billion from 2026 through 2030 in its natural-gas distribution systems. About \$2.5 billion is assigned to system integrity and replacement, and about \$1.2 billion to growth. The remaining amount covers other categories and costs described in the company's plan. Management has said system integrity generally accounts for 60-70% of its capital budget and is prioritized according to system needs.

For this classroom exercise, assume you are advising a **hypothetical capital-planning team** on how to sequence the company's 2027-2030 growth commitments and funding. This is a constructed decision: ONE Gas has not disclosed a board vote or management debate among the alternatives below. Treat engineering and compliance requirements as constraints on the decision. The question is how to pace customer-growth investment around contracts, state recovery processes, customer bills, and financing needs.

Would you execute the existing plan as projects mature, accelerate selected work with stronger customer and recovery visibility, or phase less certain growth while preserving the integrity program? What evidence would change your recommendation?

A regulated distribution business

ONE Gas operates natural-gas distribution utilities in Oklahoma, Kansas and Texas, serving approximately 2.3 million customers. Its divisions-Oklahoma Natural Gas, Kansas Gas Service and Texas Gas Service-deliver gas to residential, commercial and transportation customers. The company describes itself as a 100% regulated utility. The cost of gas is generally passed through to customers under regulatory mechanisms, so sales revenue alone does not represent the company's operating economics. [2025 Form 10-K](#)

The company's May 2026 investor presentation reports customer-count market shares of 72% for Kansas Gas Service, 89% for Oklahoma Natural Gas and 13% for Texas Gas Service. It identifies the Kansas and Oklahoma divisions as the largest natural-gas distributors in their states and Texas Gas Service as the third largest in Texas. These are company-reported market descriptions; distribution service areas and state-wide customer counts are not a direct measure of competition for any specific project. Large customers also make choices about their energy supply and facilities, but ONE Gas has not published project-level comparisons of gas and alternative supply options. [May 2026 investor presentation, slide 2](#)

The company's system-integrity plan is a separate operating requirement. Management says this work is driven by the condition and needs of the system, regardless of regulatory treatment. In 2025, ONE Gas reported replacing more than 400 miles of distribution mains, service lines and transmission lines. It also estimated a 53% reduction in leak-related Scope 1 emissions against an estimated 2005 baseline. Those company-wide measures do not show asset condition by location or identify the replacement pace required for any particular segment. [Q2 2026 earnings-call transcript, pp. 5-6](#); [2026 Sustainability Report announcement](#)

A multi-year plan with different categories

ONE Gas expected approximately \$800 million of 2026 capital investment, including about \$230 million for extensions to new customers. The \$230 million is part of the \$800 million, not an additional amount. Its 2026-2030 plan totals approximately \$4.3 billion, including about \$2.5 billion for system integrity and replacement and \$1.2 billion for growth. The plan is a management estimate, not a commitment to spend each amount on a fixed schedule. The company has not provided a state-by-state split of the five-year plan between integrity and growth. [2026 Financial Guidance, Exhibit 99.1](#); [May investor presentation, slides 13-14](#)

Exhibit 1. Capital investment plan

Company estimate	Amount	Basis and limit
2026 capital investment	~\$800 million	Includes asset-removal costs; 2026 plan
Of 2026 amount: customer extensions	~\$230 million	Included in the ~\$800 million
2026-2030 total capital investment	~\$4.3 billion	Five-year plan
Of five-year plan: system integrity and replacement	~\$2.5 billion	Management category
Of five-year plan: growth capital	~\$1.2 billion	Management category

The May presentation also estimated 2026 capital investment by state: approximately \$176 million in Kansas, \$311 million in Oklahoma and \$313 million in Texas. These state totals sum to about \$800 million and include the presentation's stated capital and asset-removal scope. They do not allocate either the integrity or growth plan by state. [May investor presentation, slides 21-22](#)

Large-load customers: contracts and prospects

On the August 5 earnings call, management reported three high-volume customer projects under contract. Together, the projects represented approximately \$175 million of associated capital and \$15 million of incremental annual revenue, with expected in-service dates from the second half of 2026 through 2028. One includes a 43-mile pipeline expected to enter service in the third quarter of 2028. The other two were already in construction or commissioning and were expected to enter service in 2026. These are management's estimates and schedules. The company did not disclose customer-specific load profiles, operating costs, depreciation, contract terms, or project-level regulatory recovery. [Q2 earnings-call transcript, p. 4](#)

The call described five additional projects in late-stage discussions and 17 more in early evaluation. They were opportunities, not contracts or expected awards. A project count does not

reveal award probability, in-service timing, expected contribution or required capital.

Exhibit 2. Large-load portfolio at the August 5 call

Stage	Number	Disclosed information
Under contract	3	~\$175 million associated capital; ~\$15 million incremental annual revenue; in-service dates span 2H 2026-2028
Late-stage discussions	5	Prospects; no project-level economics disclosed
Early-stage evaluation	17	Opportunities; no award commitment disclosed

The \$15 million annual revenue divided by \$175 million of associated capital is about 8.6%. This is only a revenue-to-capital comparison. It is not operating margin, cash flow, return on invested capital or payback: the public disclosure does not include the costs and timing needed for those calculations.

Recovery differs by state

Regulatory recovery is not uniform across the company's three states. The same project type may face different eligibility, filing, review, timing and customer-bill conditions.

Exhibit 3. Selected regulatory status as of August 31, 2026

State	Mechanism and status	What it does not establish
Kansas	House Bill 2435 took effect July 1 and expanded eligible investments under the Gas System Reliability Surcharge statute. It raised the residential monthly surcharge cap from \$0.80 to \$1.35 and allows one filing per calendar year. In July, Kansas Gas Service requested about \$14.3 million, with rates expected in October.	The KCC had not approved this application by the cutoff; the law does not make every project automatically eligible or approved. Enrolled HB 2435; Kansas 2026 Session Laws; Q2 Form 10-Q, lines 978-983
Texas	Texas Gas Service filed a March 2026 Gas Reliability Infrastructure Program (GRIP) request for \$36.9 million. The Railroad Commission approved the requested amount in June, and new rates took effect in July. Texas House Bill 4384 separately permits deferral as a regulatory asset of specified carrying costs, depreciation and property taxes for eligible unrecovered plant, subject to regulatory review and future recovery.	HB 4384 does not itself guarantee full or immediate recovery. The GRIP approval and HB 4384 deferral are separate regulatory mechanisms. Q2 Form 10-Q, lines 982-983; enrolled HB 4384, §§1-2
State	Mechanism and status	What it does not establish
Oklahoma	Oklahoma Natural Gas filed its annual Performance-Based Rate Change	The requested amounts remained in a proceeding; interim rates were

State	Mechanism and status	What it does not establish
	application in February, requesting \$28.7 million in base rates plus a \$2.6 million energy-efficiency incentive. Interim rates began in June subject to refund. The filing also included an estimated \$14.4 million in excess deferred income tax credits for customers in 2027. The company planned to file a full rate case by June 2027.	subject to refund. Estimated customer credits are not additional investment funding. Q2 earnings release, regulatory update; Q2 Form 10-Q

In its August earnings release, ONE Gas attributed lower second-quarter net interest expense partly to lower commercial-paper rates and implementation of HB 4384. The release's attribution is a company explanation; it does not quantify the law's causal effect on returns from individual projects. The company raised its 2026 adjusted-earnings expectation to the upper half of its range based on first-half results and anticipated HB 4384 benefits. Adjusted earnings are a non-GAAP measure and are not equivalent to cash available for capital investment. [Q2 earnings release](#)

Funding choices and customer affordability

ONE Gas's May presentation estimated \$650-700 million of 2026 cash flow from operations **before changes in working capital**, a non-GAAP measure. It expected \$250-300 million of short- and long-term net financing needs in 2026 and approximately \$1.3 billion of net long-term financing needs through 2030, with about 30% expected to be equity. These were management estimates. They depend on cash generation, dividends, project timing and other assumptions; they are not committed funding sources. The presentation said approximately 507,000 shares under a forward sale agreement, valued at about \$41.5 million based on April 30 prices, were expected to settle by December 31, 2026. [May investor presentation, slide 13 and appendix p. 43](#)

On August 13, ONE Gas completed a \$375 million offering of 5.45% senior notes due 2036. The company anticipated using net proceeds to repay its \$250 million unsecured term loan and commercial paper and for general corporate purposes. The filing did not earmark the offering for capital investment. It is relevant to refinancing and financing costs, but the face amount should not be treated as incremental project funding. [August 13 Form 8-K, Items 1.01 and 2.03](#)

Management also discussed approximately \$41.5 million in forward equity sales, possible opportunistic use of its at-the-market program, and the \$0.68 quarterly dividend declared on August 4. The CFO described a view that self-funding a greater share of capital could support earnings-per-share growth. That is management's stated funding perspective, not an agreed optimal policy. Equity issuance dilutes existing shareholders; debt adds interest expense and leverage. Dividend decisions remain subject to board approval. [Q2 earnings-call transcript, p. 3 and pp. 5-6](#)

Affordability is a stakeholder constraint. Management said the average customer bill was flat year over year in the first half of 2026 while the company increased its dividend. Its presentation says about 92% of customers are residential and describes average bill trends. These are company-reported, aggregate measures; the public materials do not show household energy burden or how bill effects vary by customer income and class. [Q2 earnings-call transcript, p. 2; May investor presentation, slide 19](#)

By August 20, the Kansas Corporation Commission had approved Kansas Gas Service's application for a renewable-natural-gas supply contract and interconnection tariff. The public meeting minutes do not disclose price or the related capital and operating costs, so the approval provides a supply option but not enough information to compare its economics with other investments. [KCC minutes, August 20, 2026](#)

Questions for discussion

1. Which capital categories can be rescheduled, and which should be treated as engineering or regulatory constraints? What evidence would you need to distinguish them?
2. How would you sequence the contracted high-load work, less mature prospects and other customer-growth projects across 2027-2030?
3. How should contract status, in-service timing, state recovery rules and customer-bill effects enter a project gate? Which factors would you weight most heavily?
4. What do the disclosed \$15 million of annual revenue and \$175 million of associated capital tell you-and what can't they tell you-about project economics?
5. Which funding policy would you recommend within the disclosed financing and dividend objectives? What would cause you to revise it?

Information boundary: This case uses information available by August 31, 2026, close. It excludes subsequent events and any later results. Unless a statement is explicitly attributed to the company, amounts described as plans or expectations are management estimates. The classroom role and alternatives are constructed for discussion; they are not claims about ONE Gas's internal deliberations.