ONE Gas, Inc.
Form 10-Q
November 01, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

X Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2016.
OR
___ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from __________ to __________.

Commission file number 001-36108

ONE Gas, Inc.
(Exact name of registrant as specified in its charter)

Oklahoma	46-3561936
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
15 East Fifth Street, Tulsa, OK	74103
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (918) 947-7000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No __

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes X No __

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer X Accelerated filer __ Non-accelerated filer __ Smaller reporting company__

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes __ No X

On October 25, 2016, the Company had 52,245,273 shares of common stock outstanding.

This page intentionally left blank.

ONE Gas, Inc.
TABLE OF CONTENTS

As used in this Quarterly Report, references to "we," "our," "us" or the "company" refer to ONE Gas, Inc., an Oklahoma corporation, and its predecessors and subsidiary, unless the context indicates otherwise.

The statements in this Quarterly Report that are not historical information, including statements concerning plans and objectives of management for future operations, economic performance or related assumptions, are forward-looking statements. Forward-looking statements may include words such as "anticipate," "estimate," "expect," "project," "intend," "pl "believe," "should," "goal," "forecast," "guidance," "could," "may," "continue," "might," "potential," "scheduled" and other w of similar meaning. Although we believe that our expectations regarding future events are based on reasonable assumptions, we can give no assurance that such expectations or assumptions will be achieved. Important factors that could cause actual results to differ materially from those in the forward-looking statements are described under Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, "Forward-Looking Statements," in this Quarterly Report and under Part I, Item IA, "Risk Factors," in our Annual Report.

INFORMATION AVAILABLE ON OUR WEBSITE

We make available, free of charge, on our website (www.onegas.com) copies of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, amendments to those reports filed or furnished to the SEC pursuant to Section 13(a) or 15(d) of the Exchange Act and reports of holdings of our securities filed by our officers and directors under Section 16 of the Exchange Act as soon as reasonably practicable after filing such material electronically or otherwise furnishing it to the SEC. Copies of our Code of Business Conduct and Ethics, Corporate Governance Guidelines and Director Independence Guidelines are also available on our website, and we will provide copies of these documents upon request. Our website and any contents thereof are not incorporated by reference into this report.

We also make available on our website the Interactive Data Files required to be submitted and posted pursuant to Rule 405 of Regulation S-T.

GLOSSARY

The abbreviations, acronyms and industry terminology used in this Quarterly Report are defined as follows:

Annual Report	Annual Report on Form 10-K for the year ended December 31, 2015
ASU	Accounting Standards Update
Bcf	Billion cubic feet
CERCLA	Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended
Clean Air Act	Federal Clean Air Act, as amended
Clean Water Act	Federal Water Pollution Control Amendments of 1972, as amended
DOT	United States Department of Transportation
EPA	United States Environmental Protection Agency
EPARR	El Paso Annual Rate Review
EPS	Earnings per share
EPSA	El Paso Service Area
Exchange Act	Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
GAAP	Accounting principles generally accepted in the United States of America
GRIP	Texas Gas Reliability Infrastructure Program
GSRS	Gas System Reliability Surcharge
Heating Degree Day or HDD	A measure designed to reflect the demand for energy needed for heating based on the extent to which the daily average temperature falls below a reference temperature for which no heating is required, usually 65 degrees Fahrenheit
KCC	Kansas Corporation Commission
KDHE	Kansas Department of Health and Environment
LDCs	Local distribution companies
MMcf	Million cubic feet
Moody's	Moody's Investors Service, Inc.
NYMEX	New York Mercantile Exchange
OCC	Oklahoma Corporation Commission
ONE Gas	ONE Gas, Inc.
ONE Gas Credit Agreement	ONE Gas' $700 million revolving credit agreement, which expires January, 2019
ONEOK	ONEOK, Inc. and its subsidiaries
PHMSA	United States Department of Transportation Pipeline and Hazardous Materials Safety Administration
Pipeline Safety, Regulatory Certainty and Job Creation Act	Pipeline Safety, Regulatory Certainty and Job Creation Act of 2011, as amended
Quarterly Report(s)	Quarterly Report(s) on Form 10-Q
RRC	Railroad Commission of Texas
S&P	S&P Global Ratings
SEC	Securities and Exchange Commission
Securities Act	Securities Act of 1933, as amended
Separation and Distribution Agreement	Separation and Distribution Agreement dated January 14, 2014, between ONEOK and ONE Gas
XBRL	eXtensible Business Reporting Language

PART I - FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
ONE Gas, Inc.
STATEMENTS OF INCOME

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Unaudited)	2016	2015	2016	2015
	(Thousands of dollars, except per share amounts)			
Revenues	$232,191	$225,226	$986,479	$1,158,543
Cost of natural gas	52,253	54,724	344,439	548,226
Net margin	179,938	170,502	642,040	610,317
Operating expenses				
Operations and maintenance	99,402	98,698	302,652	304,681
Depreciation and amortization	36,241	33,956	106,490	98,592
General taxes	13,403	12,897	42,311	41,818
Total operating expenses	149,046	145,551	451,453	445,091
Operating income	30,892	24,951	190,587	165,226
Other income	911	166	1,345	1,051
Other expense	(357)	(1,884)	(1,126)	(2,840)
Interest expense, net	(10,809)	(11,233)	(32,504)	(33,592)
Income before income taxes	20,637	12,000	158,302	129,845
Income taxes	(7,900)	(4,629)	(60,521)	(50,017)
Net income	$12,737	$7,371	$97,781	$79,828
Earnings per share				
Basic	$0.24	$0.14	$1.86	$1.52
Diluted	$0.24	$0.14	$1.85	$1.50
Average shares (thousands)				
Basic	52,453	52,408	52,452	52,627
Diluted	52,942	53,072	52,962	53,315
Dividends declared per share of stock	$0.35	$0.30	$1.05	$0.90

See accompanying Notes to the Financial Statements.

ONE Gas, Inc.
STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)	Three Months Ended September 30, 2016	2015	Nine Months Ended September 30, 2016	2015
	(Thousands of dollars)			
Net income	$12,737	$7,371	$97,781	$79,828
Other comprehensive income (loss), net of tax				
Change in pension and other postemployment benefit plan liability, net of tax of $(72), $(88), $(217) and $(264), respectively	116	141	347	423
Total other comprehensive income (loss), net of tax	116	141	347	423
Comprehensive income	$12,853	$7,512	$98,128	$80,251

See accompanying Notes to the Financial Statements.

7

ONE Gas, Inc.
BALANCE SHEETS

(Unaudited)	September 30, 2016	December 31, 2015
Assets	(Thousands of dollars)	
Property, plant and equipment		
Property, plant and equipment	$5,338,591	$5,132,682
Accumulated depreciation and amortization	1,658,266	1,620,771
Net property, plant and equipment	3,680,325	3,511,911
Current assets		
Cash and cash equivalents	4,513	2,433
Accounts receivable, net	105,060	216,343
Materials and supplies	30,098	33,325
Income tax receivable	6,952	38,877
Natural gas in storage	144,230	142,153
Regulatory assets	73,863	32,925
Other current assets	12,457	16,789
Total current assets	377,173	482,845
Goodwill and other assets		
Regulatory assets	431,086	435,863
Goodwill	157,953	157,953
Other assets	47,142	46,193
Total goodwill and other assets	636,181	640,009
Total assets	$4,693,679	$4,634,765

See accompanying Notes to the Financial Statements.

ONE Gas, Inc.
BALANCE SHEETS
(Continued)

(Unaudited)	September 30, 2016	December 31, 2015
Equity and Liabilities	(Thousands of dollars)	
Equity and long-term debt		
Common stock, $0.01 par value:		
authorized 250,000,000 shares; issued 52,598,005 shares and outstanding 52,245,273 shares at	$526	$526
September 30, 2016; issued 52,598,005 and outstanding 52,259,224 shares at December 31, 2015		
Paid-in capital	1,748,965	1,764,875
Retained earnings	137,221	95,046
Accumulated other comprehensive income (loss)	(4,054)	(4,401)
Treasury stock, at cost: 352,732 shares at September 30, 2016 and 338,781 shares at December 31, 2015	(20,314)	(14,491)
Total equity	1,862,344	1,841,555
Long-term debt, excluding current maturities and net of issuance costs of $9,051 and $9,645, respectively	1,192,248	1,191,660
Total equity and long-term debt	3,054,592	3,033,215
Current liabilities		
Current maturities of long-term debt	7	7
Notes payable	41,000	12,500
Accounts payable	70,562	107,482
Accrued interest	7,691	18,873
Accrued taxes other than income	39,919	37,249
Accrued liabilities	17,812	31,470
Customer deposits	60,425	60,325
Regulatory liabilities	13,204	24,615
Other current liabilities	8,212	11,700
Total current liabilities	258,832	304,221
Deferred credits and other liabilities		
Deferred income taxes	1,011,691	951,785
Employee benefit obligations	291,230	272,309
Other deferred credits	77,334	73,235
Total deferred credits and other liabilities	1,380,255	1,297,329
Commitments and contingencies		
Total liabilities and equity	$4,693,679	$4,634,765

See accompanying Notes to the Financial Statements.

This page intentionally left blank.

ONE Gas, Inc.
STATEMENTS OF CASH FLOWS

(Unaudited)	Nine Months Ended September 30, 2016	2015
	(Thousands of dollars)	
Operating activities		
Net income	$97,781	$79,828
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	106,490	98,592
Deferred income taxes	59,771	19,384
Share-based compensation expense	9,341	3,863
Provision for doubtful accounts	3,521	2,951
Changes in assets and liabilities:		
Accounts receivable	107,762	220,392
Materials and supplies	3,227	(5,889)
Income tax receivable	31,925	20,075
Natural gas in storage	(2,077)	25,388
Asset removal costs	(40,715)	(33,744)
Accounts payable	(32,923)	(104,948)
Accrued interest	(11,182)	(11,225)
Accrued taxes other than income	2,670	(4,313)
Accrued liabilities	(13,658)	(8,019)
Customer deposits	100	(1,672)
Regulatory assets and liabilities	(18,726)	64,368
Other assets and liabilities	(21,877)	(15,493)
Cash provided by operating activities	281,430	349,538
Investing activities		
Capital expenditures	(231,336)	(199,678)
Other	492	—
Cash used in investing activities	(230,844)	(199,678)
Financing activities		
Borrowings (repayments) of notes payable, net	28,500	(42,000)
Repurchase of common stock	(24,066)	(24,122)
Issuance of common stock	1,983	4,471
Dividends paid	(54,923)	(47,178)
Cash used in financing activities	(48,506)	(108,829)
Change in cash and cash equivalents	2,080	41,031
Cash and cash equivalents at beginning of period	2,433	11,943
Cash and cash equivalents at end of period	$4,513	$52,974

See accompanying Notes to the Financial Statements.

ONE Gas, Inc.
STATEMENT OF EQUITY

(Unaudited)	Common Stock Issued	Common Stock	Paid-in Capital
	(Shares)	(Thousands of dollars)	
January 1, 2016	52,598,005	$526	$1,764,875
Net income	—	—	—
Other comprehensive income	—	—	—
Repurchase of common stock	—	—	—
Common stock issued and other	—	—	(16,593)
Common stock dividends - $1.05 per share	—	—	683
September 30, 2016	52,598,005	$526	$1,748,965

See accompanying Notes to the Financial Statements.

ONE Gas, Inc.
STATEMENT OF EQUITY
(Continued)

(Unaudited)	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Equity
	(Thousands of dollars)			
January 1, 2016	$95,046	$(14,491)	$ (4,401)	$1,841,555
Net income	97,781	—	—	97,781
Other comprehensive income	—	—	347	347
Repurchase of common stock	—	(24,066)	—	(24,066)
Common stock issued and other	—	18,243	—	1,650
Common stock dividends - $1.05 per share	(55,606)	—	—	(54,923)
September 30, 2016	$137,221	$(20,314)	$ (4,054)	$1,862,344

See accompanying Notes to the Financial Statements.

ONE Gas, Inc.
NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Our accompanying unaudited financial statements have been prepared pursuant to the rules and regulations of the SEC. These statements also have been prepared in accordance with GAAP and reflect all adjustments that, in our opinion, are necessary for a fair statement of the results for the interim periods presented. All such adjustments are of a normal recurring nature. The 2015 year-end balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. These unaudited financial statements should be read in conjunction with the audited financial statements and footnotes in our Annual Report. Due to the seasonal nature of our business, the results of operations for the three and nine months ended September 30, 2016, are not necessarily indicative of the results that may be expected for a 12-month period.

We provide natural gas distribution services to more than 2 million customers in Oklahoma, Kansas and Texas through Oklahoma Natural Gas, Kansas Gas Service and Texas Gas Service, respectively. We serve residential, commercial, industrial and transportation customers in all three states. In addition, we also provide natural gas distribution services to wholesale and public authority customers.

Use of Estimates - The preparation of our financial statements and related disclosures in accordance with GAAP requires us to make estimates and assumptions with respect to values or conditions that cannot be known with certainty that affect the reported amount of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions also affect the reported amounts of revenue and expenses during the reporting period. Items that may be estimated include, but are not limited to, the economic useful life of assets, fair value of assets and liabilities, provision for doubtful accounts, unbilled revenues for natural gas delivered but for which meters have not been read, natural gas purchased but for which no invoice has been received, provision for income taxes, including any deferred tax valuation allowances, the results of litigation and various other recorded or disclosed amounts.

We evaluate these estimates on an ongoing basis using historical experience and other methods we consider reasonable based on the particular circumstances. Nevertheless, actual results may differ significantly from the estimates. Any effects on our financial position or results of operations from revisions to these estimates are recorded in the period when the facts that give rise to the revision become known.

Segments - We operate in one reportable business segment: regulated public utilities that deliver natural gas to residential, commercial, industrial, wholesale, public authority and transportation customers. The accounting policies for our segment are the same as described in Note 1 of our Notes to the Financial Statements in our Annual Report. We evaluate our financial performance principally on operating income. For the three and nine months ended September 30, 2016, and 2015, we had no single external customer from which we received 10 percent or more of our gross revenues.

Goodwill Impairment Test - We assess our goodwill for impairment at least annually as of July 1. At July 1, 2016, we assessed qualitative factors to determine whether it was more likely than not that the fair value of our reporting unit was less than its carrying amount. After assessing qualitative factors (including macroeconomic conditions, industry and market considerations, cost factors and overall financial performance), we determined that no further testing was necessary.

Recently Issued Accounting Standards Update - In March 2016, the FASB issued ASU 2016-09, “Improvements to Employee Share-Based Payment Accounting,” which includes various new aspects to simplify how share-based payments are accounted for and presented in the financial statements. The new standard will modify several aspects of the accounting and reporting for employee share-based payments and related tax accounting impacts, including the presentation in the statements of operations and cash flows. This new guidance is required to be adopted for our interim and annual reports for periods beginning after December 15, 2016, but may be adopted early. We are evaluating the impact of this guidance and the timing of adoption.

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842),” which prescribes recognizing lease assets and liabilities on the balance sheet and includes disclosure of key information about leasing arrangements. A modified retrospective transition approach is required for leases existing at the time of adoption. We are evaluating our population of leases, analyzing lease agreements, and holding meetings with cross-divisional teams to determine the potential impact of this accounting standard on our financial position, results of operations and cash flows and the transition approach we will utilize. This new guidance is required for our interim and annual reports for periods beginning after December 15, 2018, and early adoption is permitted.

In August 2015, the FASB issued ASU 2015-15, "Interest-Imputation of Interest (Subtopic 835-30)," which addresses the presentation and subsequent measurement of debt issuance costs associated with line of credit arrangements. We adopted this guidance in the first quarter 2016, and it did not have an impact on our financial position or results of operations.

In April 2015, the FASB issued ASU 2015-03, "Interest-Imputation of Interest," which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. We adopted this guidance in the first quarter of 2016, and have applied the changes retrospectively to all periods presented. We have presented such amounts as a direct deduction from the face amount of our long-term debt, rather than in other assets as a deferred charge in our Balance Sheets. Amortization of the debt issuance costs continues to be reported as interest expense in our Statements of Income.

In April 2015, the FASB issued ASU 2015-05, "Intangibles-Goodwill and Other-Internal-Use Software," which helps entities evaluate the accounting for fees paid by a customer in a cloud computing arrangement. We adopted this guidance prospectively in the first quarter of 2016, and it did not have a material impact on our financial position or results of operations.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers," which clarifies and converges the revenue recognition principles under GAAP and International Financial Reporting Standards. In July 2015, FASB delayed the effective date for one year. We are evaluating all of our sources of revenue to determine the potential effect on our financial position, results of operations and cash flows and the transition approach we will utilize. We are monitoring the FASB for additional implementation guidance that may impact the final conclusions of our evaluation. We are required to adopt this guidance for our interim and annual reports beginning with the first quarter 2018.

2. REGULATORY ASSETS AND LIABILITIES

The tables below present a summary of regulatory assets, net of amortization, and liabilities for the periods indicated:

	September 30, 2016		
	Current	Noncurrent	Total
	(Thousands of dollars)		
Under-recovered purchased-gas costs	$29,109	$—	$29,109
Pension and postemployment benefit costs	24,706	416,327	441,033
Weather normalization	17,004	—	17,004
Reacquired debt costs	812	8,312	9,124
Other	2,232	6,447	8,679
Total regulatory assets, net of amortization	73,863	431,086	504,949
Accumulated removal costs (a)	—	(7,019)	(7,019)
Over-recovered purchased-gas costs	(11,538)	—	(11,538)
Ad valorem tax	(1,666)	—	(1,666)
Total regulatory liabilities	(13,204)	(7,019)	(20,223)
Net regulatory assets (liabilities)	$60,659	$424,067	$484,726

(a) Included in other deferred credits in our Balance Sheets.

	December 31, 2015		
	Current	Noncurrent	Total
	(Thousands of dollars)		
Under-recovered purchased-gas costs	$13,336	$—	$13,336
Pension and postemployment benefit costs	15,670	425,175	440,845
Weather normalization	2,198	—	2,198
Reacquired debt costs	812	8,919	9,731
Other	909	1,769	2,678
Total regulatory assets, net of amortization	32,925	435,863	468,788
Accumulated removal costs (a)	—	(9,032)	(9,032)
Over-recovered purchased-gas costs	(22,884)	—	(22,884)
Ad valorem tax	(1,731)	—	(1,731)
Total regulatory liabilities	(24,615)	(9,032)	(33,647)
Net regulatory assets (liabilities)	$8,310	$426,831	$435,141

(a) Included in other deferred credits in our Balance Sheets.

Regulatory assets on our Balance Sheets, as authorized by various regulatory authorities, are probable of recovery. Base rates are designed to provide a recovery of costs during the period rates are in effect, but do not generally provide for a return on investment for amounts we have deferred as regulatory assets. All of our regulatory assets are subject to review by the respective regulatory authorities during future regulatory proceedings. We are not aware of any evidence that these costs will not be recoverable through either riders or base rates, and we believe that we will be able to recover such costs, consistent with our historical recoveries.

In January 2016, as a result of the OCC's approval of our rate case in Oklahoma, we recorded a regulatory asset of $2.4 million to recover certain information technology costs incurred as a result of our separation from ONEOK in 2014, which will be recovered over four years.

3. CREDIT FACILITY AND SHORT-TERM NOTES PAYABLE

The ONE Gas Credit Agreement contains certain financial, operational and legal covenants. Among other things, these covenants include maintaining ONE Gas' debt-to-capital ratio of no more than 70 percent at the end of any calendar quarter. At September 30, 2016, our debt-to-capital ratio was 40 percent and we were in compliance with all covenants under the ONE Gas Credit Agreement.

We have a commercial paper program under which we may issue unsecured commercial paper up to a maximum amount of $700 million to fund short-term borrowing needs. The maturities of the commercial paper notes may vary but may not exceed 270 days from the date of issue. The commercial paper notes are generally sold at par less a discount representing an interest factor.

The ONE Gas Credit Agreement is available to repay the commercial paper notes, if necessary. Amounts outstanding under the commercial paper program reduce the borrowing capacity under the ONE Gas Credit Agreement. At September 30, 2016, we had $41.0 million in short-term borrowings, $1.0 million in letters of credit issued under the ONE Gas Credit Agreement and $658.0 million of remaining credit available under the ONE Gas Credit Agreement.

4. LONG-TERM DEBT

We have senior notes, consisting of $300 million of 2.07 percent senior notes due in 2019, $300 million of 3.61 percent senior notes due in 2024 and $600 million of 4.658 percent senior notes due in 2044 (collectively, our "Senior Notes"). The indenture governing our Senior Notes includes an event of default upon the acceleration of other indebtedness of $100 million or more. Such events of default would entitle the trustee or the holders of 25 percent in aggregate principal amount of the outstanding Senior Notes to declare those Senior Notes immediately due and payable in full.

5. EQUITY

In the first quarter of 2016, we repurchased approximately 407 thousand shares of our common stock for approximately $24.1 million.

In October 2016, a dividend of $0.35 per share ($1.40 per share on an annualized basis) was declared for shareholders of record on November 14, 2016, payable December 1, 2016.

6. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table sets forth the effect of reclassifications from accumulated other comprehensive income (loss) in our Statements of Income for the periods indicated:

Details about Accumulated Other Comprehensive Income (Loss) Components	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015	Affected Line Item in the Statements of Income
	(Thousands of dollars)				
Pension and other postemployment benefit plan obligations (a)					
Amortization of net loss	$10,040	$12,564	$30,113	$37,694	
Amortization of unrecognized prior service cost	(909)	(374)	(2,725)	(1,120)	
	9,131	12,190	27,388	36,574	
Regulatory adjustments (b)	(8,943)	(11,961)	(26,824)	(35,887)	
	188	229	564	687	Income before income taxes
	(72)	(88)	(217)	(264)	Income tax expense
Total reclassifications for the period	$116	$141	$347	$423	Net income

(a) These components of accumulated other comprehensive income (loss) are included in the computation of net periodic benefit cost. See Note 8 for additional detail of our net periodic benefit cost.
(b) Regulatory adjustments represent pension and other postemployment benefit costs expected to be recovered through rates and are deferred as part of our regulatory assets. See Note 2 for additional disclosures of regulatory assets and liabilities.

7. EARNINGS PER SHARE

Basic EPS is based on net income and is calculated based upon the daily weighted-average number of common shares outstanding during the periods presented. Also, this calculation includes fully vested stock awards that have not yet been issued as common stock. Diluted EPS includes basic EPS, plus unvested stock awards granted under our compensation plans, but only to the extent these instruments dilute earnings per share.

The following tables set forth the computation of basic and diluted EPS from continuing operations for the periods indicated:

	Three Months Ended September 30, 2016		
	Income	Shares	Per Share Amount
	(Thousands, except per share amounts)		
Basic EPS Calculation			
Net income available for common stock	$12,737	52,453	$ 0.24
Diluted EPS Calculation			
Effect of dilutive securities	—	489	
Net income available for common stock and common stock equivalents	$12,737	52,942	$ 0.24

	Three Months Ended September 30, 2015		
	Income	Shares	Per Share Amount
	(Thousands, except per share amounts)		
Basic EPS Calculation			
Net income available for common stock	$7,371	52,408	$ 0.14
Diluted EPS Calculation			
Effect of dilutive securities	—	664	
Net income available for common stock and common stock equivalents	$7,371	53,072	$ 0.14

	Nine Months Ended September 30, 2016		
	Income	Shares	Per Share Amount
	(Thousands, except per share amounts)		
Basic EPS Calculation			
Net income available for common stock	$97,781	52,452	$ 1.86
Diluted EPS Calculation			
Effect of dilutive securities	—	510	
Net income available for common stock and common stock equivalents	$97,781	52,962	$ 1.85

	Nine Months Ended September 30, 2015		
	Income	Shares	Per Share Amount
	(Thousands, except per share amounts)		
Basic EPS Calculation			
Net income available for common stock	$79,828	52,627	$ 1.52
Diluted EPS Calculation			
Effect of dilutive securities	—	688	
Net income available for common stock and common stock equivalents	$79,828	53,315	$ 1.50

8. EMPLOYEE BENEFIT PLANS

The following tables set forth the components of net periodic benefit cost for our pension and other postemployment benefit plans for the periods indicated:

	Pension Benefits			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(Thousands of dollars)			
Components of net periodic benefit cost				
Service cost	$3,014	$3,497	$9,042	$10,518
Interest cost	11,387	10,652	34,162	31,956
Expected return on assets	(15,296)	(15,363)	(45,888)	(46,087)
Amortization of unrecognized prior service cost	—	66	—	200
Amortization of net loss	8,886	11,054	26,657	33,164
Net periodic benefit cost	$7,991	$9,906	$23,973	$29,751

	Other Postemployment Benefits			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(Thousands of dollars)			

Components of net periodic benefit cost				
Service cost	$637	$849	$1,913	$2,547
Interest cost	2,626	2,665	7,880	7,997
Expected return on assets	(3,070)	(2,908)	(9,212)	(8,724)
Amortization of unrecognized prior service cost	(909)	(440)	(2,725)	(1,320)
Amortization of net loss	1,154	1,510	3,456	4,530
Net periodic benefit cost	$438	$1,676	$1,312	$5,030

We recover qualified pension benefit plan and other postemployment benefit plan costs through rates charged to our customers. Certain utility commissions require that the recovery of these costs be based on specific guidelines. The difference between these regulatory-based amounts and the periodic benefit cost calculated pursuant to GAAP is deferred as a regulatory asset or liability and amortized to expense over periods in which this difference will be recovered in rates, as authorized by the applicable utility commission. Regulatory deferrals related to net periodic benefit cost were not material for the three and nine months ended September 30, 2016.

In October 2015, we announced to certain pre-65 participants in our postretirement medical plans a change from a self-insured postretirement medical plan to a plan providing participants an annual benefit that would allow them to select coverage on a healthcare exchange beginning January 1, 2017. In September 2016, due to uncertain market conditions with health insurance exchange providers, we elected not to move the eligible pre-65 participants in our postemployment medical plans to a healthcare exchange. As a result, we remeasured the respective plan assets and benefit obligations, effective September 30, 2016, which resulted in an increase in benefit obligations of our postemployment benefit plan of $31.5 million. The remeasurement will increase the net periodic benefit cost of our postemployment benefit plan by $0.8 million for the three months ending December 31, 2016.

The following table sets forth the weighted-average assumptions used in the remeasurement of the benefit obligations for postemployment benefits for the periods indicated:

	September 30, 2016	December 31, 2015
Discount rate	3.75%	4.75%
Expected long-term return on plan assets	7.75%	8.00%

The following table sets forth the weighted-average assumptions used in the remeasurement to determine periodic benefit costs for the periods indicated:

	Three Months Ended December 31, 2016	Nine Months Ended September 30, 2016
Discount rate - other postemployment plans		