



Texas Gas Service™

A Division of ONE Gas

1301 S. Mopac Expressway
Suite 400
Austin, TX 78746
stacey.mcTaggart@onegas.com

November 7, 2024

Railroad Commission of Texas
Attn: Kari French, Asst. Exec. Director
1701 N. Congress
P.O. Box 12967
Austin, Texas 78711-2967

and,

Municipal Regulators
Attn: City Managers and/or City Clerks

Ms. French and Municipal Representatives:

Texas Gas Service Company, a division of ONE Gas, Inc. ("TGS" or "the Company") is providing this letter for informational purposes only, to inform you, as our regulator, of the adoption of a new tax method made by the Company. TGS will analyze the potential impact on rates and will reflect any changes in TGS's next general rate case filed in your jurisdiction.

In 2023, the United States Internal Revenue Service ("IRS") provided guidance in Revenue Procedure 2023-15 regarding a new accounting method, Natural Gas Safe Harbor Method ("NGSH" Method), utilities are to consider when determining whether certain natural gas transmission and distribution property expenditures can be deducted or must be capitalized for federal tax purposes. The Company has elected to adopt the NGSH Method of accounting and notified the IRS of this election on October 15, 2024, with the filing of IRS Form 3115, *Application for Change in Accounting Method*. As required by the IRS, TGS is providing a copy of the Form 3115 as filed by ONE Gas, Inc., on a corporate basis (as opposed to a division basis) to each regulator within thirty days of the Company's 2023 federal income tax return filing.

Further, the Company consents to a normalization method of accounting (as defined in IRC Sec 168(i)(9)), which will be used for its public utility property subject to the application. At the beginning of the year of change, the Company will adjust its deferred tax reserve account (or similar account), to reflect the deferred federal income tax liability from the Section 481(a) adjustment applicable to the public utility property as reported on IRS Form 3115.

TGS will reflect any impacts of this election on rates in its next general rate case filed in your jurisdiction. If you have any questions, please feel free to contact me via email at stacey.mctaggart@onegas.com to schedule a time to discuss.

November 7, 2024
Notice of IRS Form 3115 Filing

Respectfully,



Stacey L. McTaggart
Director of Rates and Regulatory

Enclosures

Certificate of Service

On this the 7th day of November, 2024, I certify that the foregoing notice and the attached copy of ONE Gas' IRS Form 3115, filed on October 15, 2024, has been mailed via overnight mail to the regulators of Texas Gas Service Company as listed below.


Judy Jenkins Hitchye

Railroad Commission of Texas, Gas Services Division

Cities of Central Gulf-Service Area

City of Bastrop
City of Bayou Vista
City of Beaumont
City of Bee Cave
City of Buda
City of Cedar Park
City of Dripping Springs
City of Galveston
City of Georgetown
City of Groves
City of Hutto
City of Jamaica Beach
City of Kyle
City of Lakeway
City of Marble Falls
City of Mustang Ridge
City of Nederland
City of Pflugerville
City of Rollingwood
City of Sunset Valley
City of West Lake Hills
City of Austin
City of Cuero
City of Gonzales
City of Lockhart
City of Luling

Cities of West North Service Area

City of Andrews
City of Aledo
Town of Anthony
City of Barstow, c/o Ward Co.
City of Breckenridge
City of Borger
City of Bryson
Town of Clint
City of Crane
City of Dell City
City of El Paso
City of Graford
City of Graham
Horizon City
City of Hudson Oaks
City of Jacksboro
City of McCamey
City of Millsap
City of Mineral Wells
City of Monahans
Town of Thorntonville
City of Pecos
City of Pyote
City of San Elizario
Skellytown
City of Socorro

Cities of Rio Grande Service Area

City of Alamo
City of Alton
City of Brownsville
Town of Combes
City of Donna
City of Edcouch
City of Edinburg
City of Elsa
City of Harlingen
City of Hidalgo
City of La Feria
City of La Joya
City of La Villa
City of Laguna Vista
City of Los Fresnos
City of Lyford
City of McAllen
City of Mercedes
City of Mission
City of Palm Valley
City of Palmhurst
City of Palmview
City of Penitas
City of Pharr
City of Port Isabel
City of Primera

November 7, 2024
Notice of IRS Form 3115 Filing

City of Nixon
City of Port Arthur
City of Port Neches
City of Shiner
City of Yoakum

Village of Vinton
City of Weatherford
City of Wickett
City of Willow Park
City of Wink

City of Progreso
Town of Rancho Viejo
City of Raymondville
City of Rio Hondo
City of San Benito
City of San Juan
City of Santa Rosa
City of Weslaco



Application for Change in Accounting Method

OMB No. 1545-2070

Go to www.irs.gov/Form3115 for instructions and the latest information.

Attachment
 Sequence No. **315**

Name of filer (name of parent corporation if a consolidated group) (see instructions) ONE Gas, Inc.	Identification number (see instructions) 46-3561936
	Principal business activity code number (see instructions) 221210
Number, street, and room or suite no. If a P.O. box, see the instructions.	Tax year of change begins (MM/DD/YYYY) 01/01/2023
15 E. 5th Street	Tax year of change ends (MM/DD/YYYY) 12/31/2023
City or town, state, and ZIP code	Name of contact person (see instructions) Brian F. Brumfield
Tulsa, OK 74103	Contact person's telephone number (918) 947-7383
Name of applicant(s) (if different than filer) and identification number(s) (see instructions) See Attachment	

Does the filer want to receive a copy of the change in method of accounting letter ruling or other correspondence related to this Form 3115 by fax or encrypted email attachment? If "Yes," see instructions **Yes** **No**

If the applicant is a member of a consolidated group, check this box

If Form 2848, Power of Attorney and Declaration of Representative, is attached (see instructions for when Form 2848 is required), check this box

Check the box to indicate the type of applicant.

Individual Cooperative (Sec. 1381)
 Corporation Partnership
 Controlled foreign corporation (Sec. 957) S corporation
 10/50 corporation (Sec. 904(d)(2)(E)) Insurance co. (Sec. 816(a))
 Qualified personal service corporation (Sec. 448(d)(2)) Insurance co. (Sec. 831)
 Exempt organization. Enter Code section: _____ Other (specify): _____

Check the appropriate box to indicate the type of accounting method change being requested.
 See instructions.
 Depreciation or Amortization
 Financial Products and/or Financial Activities of Financial Institutions
 Other (specify): **Routine Repairs (2023-15)**
Safe Harbor for Gas T&D

Caution: To be eligible for approval of the requested change in method of accounting, the taxpayer must provide all information that is relevant to the taxpayer or to the taxpayer's requested change in method of accounting. This includes (1) all relevant information requested on this Form 3115 (including its instructions), and (2) any other relevant information, even if not specifically requested on Form 3115.

The taxpayer must attach all applicable statements requested throughout this form.

Part I Information for Automatic Change Request

	Yes	No
1 Enter the applicable designated automatic accounting method change number ("DCN") for the requested automatic change. Enter only one DCN, except as provided for in guidance published by the IRS. If the requested change has no DCN, check "Other," and provide both a description of the change and a citation of the IRS guidance providing the automatic change. See instructions. a (1) DCN: <u>269</u> (2) DCN: _____ (3) DCN: _____ (4) DCN: _____ (5) DCN: _____ (6) DCN: _____ (7) DCN: _____ (8) DCN: _____ (9) DCN: _____ (10) DCN: _____ (11) DCN: _____ (12) DCN: _____ b Other <input type="checkbox"/> Description: _____		
2 Do any of the eligibility rules restrict the applicant from filing the requested change using the automatic change procedures (see instructions)? If "Yes," attach an explanation		<input checked="" type="checkbox"/>
3 Has the filer provided all the information and statements required (a) on this form and (b) by the List of Automatic Changes under which the applicant is requesting a change? See instructions	<input checked="" type="checkbox"/>	

Note: Complete Part II and Part IV of this form, and, Schedules A through E, if applicable.

Part II Information for All Requests

	Yes	No
4 During the tax year of change, did or will the applicant (a) cease to engage in the trade or business to which the requested change relates, or (b) terminate its existence? See instructions		<input checked="" type="checkbox"/>
5 Is the applicant requesting to change to the principal method in the tax year of change under Regulations section 1.381(c)(4)-1(d)(1) or 1.381(c)(5)-1(d)(1)? If "No," go to line 6a. If "Yes," the applicant cannot file a Form 3115 for this change. See instructions.		<input checked="" type="checkbox"/>

Sign Here
 Under penalties of perjury, I declare that I have examined this application, including accompanying schedules and statements, and to the best of my knowledge and belief, the application contains all the relevant facts relating to the application, and it is true, correct, and complete. Declaration of preparer (other than applicant) is based on all information of which preparer has any knowledge.

Signature of filer (and spouse if joint return) _____ Date _____ Name and title (print or type)
Brian F. Brumfield, Vice President and CAO

Preparer (other than filer/applicant)	Print/Type preparer's name	Preparer's signature	Date
	Firm's name		

Part II Information for All Requests (continued)		Yes	No
6a	Does the applicant (or any present or former consolidated group in which the applicant was a member during the applicable tax year(s)) have any federal income tax return(s) under examination (see instructions)? If "No," go to line 7a.		✓
b	Is the method of accounting the applicant is requesting to change an issue under consideration (with respect to either the applicant or any present or former consolidated group in which the applicant was a member during the applicable tax year(s))? See instructions	N/A	
c	Enter the name and telephone number of the examining agent and the tax year(s) under examination. Name <u>N/A</u> Telephone number <u>N/A</u> Tax year(s) <u>N/A</u>	N/A	
d	Has a copy of this Form 3115 been provided to the examining agent identified on line 6c?	N/A	
7a	Does audit protection apply to the applicant's requested change in method of accounting? See instructions . . . If "No," attach an explanation.	✓	
b	If "Yes," check the applicable box and attach the required statement. <input checked="" type="checkbox"/> Not under exam <input type="checkbox"/> 3-month window <input type="checkbox"/> 120 day: Date examination ended _____ <input type="checkbox"/> Method not before director <input type="checkbox"/> Negative adjustment <input type="checkbox"/> CAP: Date member joined group _____ <input type="checkbox"/> Audit protection at end of exam <input type="checkbox"/> Other		
8a	Does the applicant (or any present or former consolidated group in which the applicant was a member during the applicable tax year(s)) have any federal income tax return(s) before Appeals and/or a federal court? If "No," go to line 9.		✓
b	Is the method of accounting the applicant is requesting to change an issue under consideration by Appeals and/or a federal court (for either the applicant or any present or former consolidated group in which the applicant was a member for the tax year(s) the applicant was a member)? See instructions If "Yes," attach an explanation.	N/A	
c	If "Yes," enter the name of the (check the box) <input type="checkbox"/> Appeals officer and/or <input type="checkbox"/> counsel for the government, telephone number, and the tax year(s) before Appeals and/or a federal court. Name _____ Telephone number _____ Tax year(s) _____		
d	Has a copy of this Form 3115 been provided to the Appeals officer and/or counsel for the government identified on line 8c?	N/A	
9	If the applicant answered "Yes" to line 6a and/or 8a with respect to any present or former consolidated group, attach a statement that provides each parent corporation's (a) name, (b) identification number, (c) address, and (d) tax year(s) during which the applicant was a member that is under examination, before an Appeals office, and/or before a federal court.		
10	If for federal income tax purposes, the applicant is either an entity (including a limited liability company) treated as a partnership or an S corporation, is it requesting a change from a method of accounting that is an issue under consideration in an examination, before Appeals, or before a federal court, with respect to a federal income tax return of a partner, member, or shareholder of that entity?	N/A	
11a	Has the applicant, its predecessor, or a related party requested or made (under either an automatic or non-automatic change procedure) a change in method of accounting within any of the 5 tax years ending with the tax year of change? If "No," go to line 12.		✓
b	If "Yes," for each trade or business, attach a description of each requested change in method of accounting (including the tax year of change) and state whether the applicant received consent.		
c	If any application was withdrawn, not perfected, or denied, or if a Consent Agreement granting a change was not signed and returned to the IRS, or the change was not made or not made in the requested year of change, attach an explanation.		
12	Does the applicant, its predecessor, or a related party currently have pending any request (including any concurrently filed request) for a private letter ruling, change in method of accounting, or technical advice? If "Yes," for each request attach a statement providing (a) the name(s) of the taxpayer, (b) identification number(s), (c) the type of request (private letter ruling, change in method of accounting, or technical advice), and (d) the specific issue(s) in the request(s).		✓
13	Is the applicant requesting to change its overall method of accounting? If "Yes," complete Schedule A on page 4 of the form.		✓

Part II Information for All Requests <i>(continued)</i>	Yes	No						
<p>14 If the applicant is either (i) not changing its overall method of accounting, or (ii) changing its overall method of accounting and changing to a special method of accounting for one or more items, attach a detailed and complete description for each of the following (see instructions):</p> <p style="margin-left: 20px;"> a The item(s) being changed. b The applicant's present method for the item(s) being changed. c The applicant's proposed method for the item(s) being changed. d The applicant's present overall method of accounting (cash, accrual, or hybrid). </p> <p>15a Attach a detailed and complete description of the applicant's trade(s) or business(es). See section 446(d).</p> <p style="margin-left: 20px;">b If the applicant has more than one trade or business, as defined in Regulations section 1.446-1(d), describe (i) whether each trade or business is accounted for separately; (ii) the goods and services provided by each trade or business and any other types of activities engaged in that generate gross income; (iii) the overall method of accounting for each trade or business; and (iv) which trade or business is requesting to change its accounting method as part of this application or a separate application.</p> <p style="margin-left: 20px;">Note: If you are requesting an automatic method change, see the instructions to see if you are required to complete lines 16a-16c.</p> <p>16a Attach a full explanation of the legal basis supporting the proposed method for the item being changed. Include a detailed and complete description of the facts that explains how the law specifically applies to the applicant's situation and that demonstrates that the applicant is authorized to use the proposed method.</p> <p style="margin-left: 20px;"> b Include all authority (statutes, regulations, published rulings, court cases, etc.) supporting the proposed method. c Include either a discussion of the contrary authorities or a statement that no contrary authority exists. </p> <p>17 Will the proposed method of accounting be used for the applicant's books and records and financial statements? For insurance companies, see the instructions</p> <p style="margin-left: 20px;">If "No," attach an explanation.</p> <p>18 Does the applicant request a conference with the IRS National Office if the IRS National Office proposes an adverse response?</p> <p>19a If the applicant is changing to either the overall cash method, an overall accrual method, or is changing its method of accounting for any property subject to section 263A, any long-term contract subject to section 460 (see 19b), or inventories subject to section 471 or 474, enter the applicant's gross receipts for the 3 tax years preceding the tax year of change.</p> <table style="width:100%; border-collapse: collapse; margin-left: 20px;"> <tr> <td style="border-right: 1px solid black; padding: 2px;">1st preceding year ended: mo. yr.</td> <td style="border-right: 1px solid black; padding: 2px;">2nd preceding year ended: mo. yr.</td> <td style="padding: 2px;">3rd preceding year ended: mo. yr.</td> </tr> <tr> <td style="border-right: 1px solid black; text-align: center;">\$ N/A</td> <td style="border-right: 1px solid black; text-align: center;">\$ N/A</td> <td style="text-align: center;">\$ N/A</td> </tr> </table> <p style="margin-left: 20px;">b If the applicant is changing its method of accounting for any long-term contract subject to section 460, in addition to completing 19a, enter the applicant's gross receipts for the 4th tax year preceding the tax year of change: 4th preceding year ended: mo. yr. \$ _____</p>	1st preceding year ended: mo. yr.	2nd preceding year ended: mo. yr.	3rd preceding year ended: mo. yr.	\$ N/A	\$ N/A	\$ N/A	<div style="margin-top: 100px;">✓</div>	<div style="margin-top: 100px;">✓</div>
1st preceding year ended: mo. yr.	2nd preceding year ended: mo. yr.	3rd preceding year ended: mo. yr.						
\$ N/A	\$ N/A	\$ N/A						
Part III Information for Non-Automatic Change Request	Yes	No						
<p>20 Is the applicant's requested change described in any revenue procedure, revenue ruling, notice, regulation, or other published guidance as an automatic change request?</p> <p style="margin-left: 20px;">If "Yes," attach an explanation describing why the applicant is submitting its request under the non-automatic change procedures.</p> <p>21 Attach a copy of all documents related to the proposed change (see instructions).</p> <p>22 Attach a statement of the applicant's reasons for the proposed change.</p> <p>23 If the applicant is a member of a consolidated group for the year of change, do all other members of the consolidated group use the proposed method of accounting for the item being changed?</p> <p style="margin-left: 20px;">If "No," attach an explanation.</p> <p>24a Enter the amount of user fee attached to this application (see instructions) \$ _____</p> <p style="margin-left: 20px;">b If the applicant qualifies for a reduced user fee, attach the required information or certification (see instructions).</p>	<div style="margin-top: 100px;">N/A</div>	<div style="margin-top: 100px;">N/A</div>						

Part IV Section 481(a) Adjustment		Yes	No
25	Does published guidance require the applicant (or permit the applicant and the applicant is electing) to implement the requested change in method of accounting on a cut-off basis? If "Yes," attach an explanation and do not complete lines 26, 27, 28, and 29 below.		✓
26	Enter the section 481(a) adjustment. Indicate whether the adjustment is an increase (+) or a decrease (-) in income. \$ _____ See Attachment Attach a summary of the computation and an explanation of the methodology used to determine the section 481(a) adjustment. If it is based on more than one component, show the computation for each component. If the applicant waived any deductions with respect to the method of accounting pursuant to Regulations section 1.59A-3(c)(6)(i), include a summary of the waived deductions. If more than one applicant is applying for the method change on the application, attach a list of the (a) name, (b) identification number, and (c) the amount of the section 481(a) adjustment attributable to each applicant.		
27	Is the applicant required to take into account in the year of change any remaining portion of a section 481(a) adjustment from a prior change (see instructions)? If "Yes," enter the amount. \$ _____		✓
28	Is the applicant making an election to take the entire amount of the adjustment into account in the tax year of change? If "Yes," check the box for the applicable elective provision used to make the election (see instructions). <input type="checkbox"/> \$50,000 de minimis election <input type="checkbox"/> Eligible acquisition transaction election	N/A	
29	Is any part of the section 481(a) adjustment attributable to transactions between members of an affiliated group, a consolidated group, a controlled group, or other related parties? If "Yes," attach an explanation.		✓

Schedule A—Change in Overall Method of Accounting (If Schedule A applies, Part I below must be completed.)

Part I Change in Overall Method (see instructions)

- Check the appropriate boxes below to indicate the applicant's present and proposed methods of accounting.
Present method: Cash Accrual Hybrid (attach description)
Proposed method: Cash Accrual Hybrid (attach description)
- Enter the following amounts as of the close of the tax year preceding the year of change. If none, state "None." Also, attach a statement providing a breakdown of the amounts entered on lines 2a through 2g.

	Amount
a	\$ _____
b	_____
c	_____
d	_____
e	_____
f	_____
g	_____
h	\$ _____

 - Income accrued but not received (such as accounts receivable)
 - Income received or reported before it was earned (such as advanced payments). Attach a description of the income and the legal basis for the proposed method
 - Expenses accrued but not paid (such as accounts payable)
 - Prepaid expenses previously deducted
 - Supplies on hand previously deducted and/or not previously reported
 - Inventory on hand previously deducted and/or not previously reported. Complete Schedule D, Part II
 - Other amounts (specify). Attach a description of the item and the legal basis for its inclusion in the calculation of the section 481(a) adjustment. _____
 - Net section 481(a) adjustment** (Combine lines 2a–2g.) Indicate whether the adjustment is an increase (+) or decrease (-) in income. Also enter the net amount of this section 481(a) adjustment amount on Part IV, line 26
- Is the applicant also requesting the recurring item exception under section 461(h)(3)? Yes No
- Attach copies of the profit and loss statement (Schedule F (Form 1040) for farmers) and the balance sheet, if applicable, as of the close of the tax year preceding the year of change. Also attach a statement specifying the accounting method used when preparing the balance sheet. If books of account are not kept, attach a copy of the business schedules submitted with the federal income tax return or other return (such as tax-exempt organization returns) for that period. If the amounts in Part I, lines 2a through 2g, do not agree with the amounts shown on the balance sheet, attach a statement explaining the differences.
- Is the applicant making a change to the overall cash method or to a method in which a taxpayer uses an accrual method for purchases and sales of inventory and uses the cash method for computing all other items of income and expense (see instructions)? Yes No

Part II Change to the Cash Method for Non-Automatic Change Request (see instructions)

- Applicants requesting a change to the cash method must attach the following information:
- A description of inventory items (items whose production, purchase, or sale is an income-producing factor) and materials and supplies used in carrying out the business.
 - An explanation as to whether the applicant is required to use an accrual method under any section of the Code or regulations.

Schedule B—Changes Related to the Deferral Method for Advance Payments, Cost Offset Methods, and/or the Applicable Financial Statement Income Inclusion Rule (see instructions)

- 1 If the applicant is requesting to change to the deferral method for advance payments under Regulations section 1.451-8(c) or (d), as described in the instructions, attach the information specified in the instructions.
- 2 If the applicant is requesting to change to or within a cost offset method under Regulations section 1.451-3(c) and/or Regulations section 1.451-8(e), as described in the instructions, attach the information specified in the instructions.
- 3 If the applicant is requesting to change to or within a method to conform to the applicable financial statement (AFS) income inclusion rule under section 451(b) and Regulations section 1.451-3, as described in the instructions, attach a detailed description of the proposed method including the information specified in the instructions.

Schedule C—Changes Within the LIFO Inventory Method (see instructions)**Part I General LIFO Information**

Complete this section if the requested change involves changes within the LIFO inventory method. Also, attach a copy of all **Forms 970**, Application To Use LIFO Inventory Method, filed to adopt or expand the use of the LIFO method.

- 1 Attach a description of the applicant's present and proposed LIFO methods and submethods for each of the following items:
 - a Valuing inventory (for example, unit method or dollar-value method).
 - b Pooling (for example, by line or type or class of goods, natural business unit, multiple pools, raw material content, simplified dollar-value method, inventory price index computation (IPIC) pools, vehicle-pool method, etc.).
 - c Pricing dollar-value pools (for example, double-extension, index, link-chain, link-chain index, IPIC method, etc.).
 - d Determining the current-year cost of goods in the ending inventory (such as, most recent acquisitions, earliest acquisitions during the current year, average cost of current-year acquisitions, rolling-average cost, or other permitted method).
- 2 If any present method or submethod used by the applicant is not the same as indicated on Form(s) 970 filed to adopt or expand the use of the method, attach an explanation.
- 3 If the proposed change is not requested for all the LIFO inventory, attach a statement specifying the inventory to which the change is and is not applicable.
- 4 If the proposed change is not requested for all of the LIFO pools, attach a statement specifying the LIFO pool(s) to which the change is applicable.
- 5 Attach a statement addressing whether the applicant values any of its LIFO inventory on a method other than cost. For example, if the applicant values some of its LIFO inventory at retail and the remainder at cost, identify which inventory items are valued under each method.
- 6 If changing to the IPIC method, attach a completed Form 970.

Part II Change in Pooling Inventories

- 1 If the applicant is proposing to change its pooling method or the number of pools, attach a description of the contents of, and state the base year for, each dollar-value pool the applicant presently uses and proposes to use.
- 2 If the applicant is proposing to use natural business unit (NBU) pools or requesting to change the number of NBU pools, attach the following information (to the extent not already provided) in sufficient detail to show that each proposed NBU was determined under Regulations sections 1.472-8(b)(1) and (2):
 - a A description of the types of products produced by the applicant. If possible, attach a brochure.
 - b A description of the types of processes and raw materials used to produce the products in each proposed pool.
 - c If all of the products to be included in the proposed NBU pool(s) are not produced at one facility, state the reasons for the separate facilities, the location of each facility, and a description of the products each facility produces.
 - d A description of the natural business divisions adopted by the taxpayer. State whether separate cost centers are maintained and if separate profit and loss statements are prepared.
 - e A statement addressing whether the applicant has inventories of items purchased and held for resale that are not further processed by the applicant, including whether such items, if any, will be included in any proposed NBU pool.
 - f A statement addressing whether all items including raw materials, goods-in-process, and finished goods entering into the entire inventory investment for each proposed NBU pool are presently valued under the LIFO method. Describe any items that are not presently valued under the LIFO method that are to be included in each proposed pool.
 - g A statement addressing whether, within the proposed NBU pool(s), there are items both sold to unrelated parties and transferred to a different unit of the applicant to be used as a component part of another product prior to final processing.
- 3 If the applicant is engaged in manufacturing and is proposing to use the multiple pooling method or raw material content pools, attach information to show that each proposed pool will consist of a group of items that are substantially similar. See Regulations section 1.472-8(b)(3).
- 4 If the applicant is engaged in the wholesaling or retailing of goods and is requesting to change the number of pools used, attach information to show that each of the proposed pools is based on customary business classifications of the applicant's trade or business. See Regulations section 1.472-8(c).

Schedule D—Change in the Treatment of Long-Term Contracts Under Section 460, Inventories, or Other Section 263A Assets (see instructions)

Part I Change in Reporting Income From Long-Term Contracts (Also complete Part III on pages 7 and 8.)

- 1 To the extent not already provided, attach a description of the applicant's present and proposed methods for reporting income and expenses from long-term contracts. Also, attach a representative actual contract (without any deletions) for the requested change. If the applicant is a construction contractor, attach a detailed description of its construction activities.
2a Are the applicant's contracts long-term contracts as defined in section 460(f)(1) (see instructions)?
b If "Yes," do all the contracts qualify for the exception under section 460(e) (see instructions)?
c Is the applicant requesting to use the percentage-of-completion method using cost-to-cost under Regulations section 1.460-4(b)?
d If line 2c is "Yes," in computing the completion factor of a contract, will the applicant use the simplified cost-to-cost method described in Regulations section 1.460-5(c)?
e If line 2c is "No," is the applicant requesting to use the exempt-contract percentage-of-completion method under Regulations section 1.460-4(c)(2)?
3a Does the applicant have long-term manufacturing contracts as defined in section 460(f)(2)?
b If "Yes," attach a description of the applicant's manufacturing activities, including any required installation of manufactured goods.
4a Does the applicant enter into cost-plus long-term contracts?
b Does the applicant enter into federal long-term contracts?

Part II Change in Valuing Inventories Including Cost Allocation Changes (Also complete Part III on pages 7 and 8.)

- 1 Attach a description of the inventory goods being changed.
2 Attach a description of the inventory goods (if any) NOT being changed.
3a Is the applicant subject to section 263A? If "No," go to line 4a
b Is the applicant's present inventory valuation method in compliance with section 263A (see instructions)? If "No," attach a detailed explanation

4a Check the appropriate boxes in the chart.

Identification methods:

- Specific identification
FIFO
LIFO
Other (attach explanation)

Valuation methods:

- Cost
Cost or market, whichever is lower
Retail cost
Retail, lower of cost or market
Other (attach explanation)

Table with 3 columns: Inventory Method Being Changed (Present method, Proposed method), Inventory Method Not Being Changed (Present method). Rows correspond to identification and valuation methods.

- b Enter the value at the end of the tax year preceding the year of change.
5 If the applicant is changing from the LIFO inventory method to a non-LIFO method, attach the following information (see instructions).
a Copies of Form(s) 970 filed to adopt or expand the use of the method.
b Only for applicants requesting a non-automatic change. A statement describing whether the applicant is changing to the method required by Regulations section 1.472-6(a) or (b), or whether the applicant is proposing a different method.
c Only for applicants requesting an automatic change. The statement required by section 23.01(5) of Rev. Proc. 2022-14 (or its successor).
6 Is the applicant presently using the AFS cost offset method as described in Regulations section 1.451-3(c) and/or the advance payment cost offset method described in Regulations section 1.451-8(e), or is the applicant changing to such methods for the same year of change as the requested change in inventory method? If "Yes," see the instructions for rules regarding concurrent changes

Part III Method of Cost Allocation (Complete this part if the requested change involves either property subject to section 263A or long-term contracts as described in section 460.) See instructions.

Section A—Allocation and Capitalization Methods

Attach a description (including sample computations) of the present and proposed method(s) the applicant uses to capitalize direct and indirect costs properly allocable to real or tangible personal property produced and property acquired for resale, or to allocate direct and indirect costs required to be allocated to long-term contracts. Include a description of the method(s) used for allocating indirect costs to intermediate cost objectives such as departments or activities prior to the allocation of such costs to long-term contracts, real or tangible personal property produced, and property acquired for resale. The description must include the following:

- 1 The method of allocating direct and indirect costs (for example, specific identification, burden rate, standard cost, or other reasonable allocation method).
- 2 The method of allocating mixed service costs (for example, direct reallocation, step-allocation, simplified service cost using the labor-based allocation ratio, simplified service cost using the production cost allocation ratio, or other reasonable allocation method).
- 3 Except for long-term contract accounting methods, the method of capitalizing additional section 263A costs (for example, simplified production with or without the historic absorption ratio election, modified simplified production with or without the historic absorption ratio election, simplified resale with or without the historic absorption ratio election including permissible variations, the U.S. ratio, or other reasonable allocation method).

Section B—Direct and Indirect Costs Required To Be Allocated

Check the appropriate boxes showing the costs that are or will be fully included, to the extent required, in the cost of real or tangible personal property produced or property acquired for resale under section 263A or allocated to long-term contracts under section 460. Mark "N/A" in a box if those costs are not incurred by the applicant. If a box is not checked, it is assumed that those costs are not fully included to the extent required. Attach an explanation for boxes that are not checked.

	Present method	Proposed method
1 Direct material		
2 Direct labor		
3 Indirect labor		
4 Officers' compensation (not including selling activities)		
5 Pension and other related costs		
6 Employee benefits		
7 Indirect materials and supplies		
8 Purchasing costs		
9 Handling, processing, assembly, and repackaging costs		
10 Offsite storage and warehousing costs		
11 Depreciation, amortization, and cost recovery allowance for equipment and facilities placed in service and not temporarily idle		
12 Depletion		
13 Rent		
14 Taxes other than state, local, and foreign income taxes		
15 Insurance		
16 Utilities		
17 Maintenance and repairs that relate to a production, resale, or long-term contract activity		
18 Engineering and design costs (not including section 174 research and experimental expenses)		
19 Rework labor, scrap, and spoilage		
20 Tools and equipment		
21 Quality control and inspection		
22 Bidding expenses incurred in the solicitation of contracts awarded to the applicant		
23 Licensing and franchise costs		
24 Capitalizable service costs (including mixed service costs)		
25 Administrative costs (not including any costs of selling or any return on capital)		
26 Research and experimental expenses attributable to long-term contracts		
27 Interest		
28 Other costs (Attach a list of these costs.)		

Part III Method of Cost Allocation (continued) See instructions.

Section C—Other Costs Not Required To Be Allocated (Complete Section C only if the applicant is requesting to change its method for these costs.)

	Present method	Proposed method
1 Marketing, selling, advertising, and distribution expenses		
2 Research and experimental expenses not included in Section B, line 26		
3 Bidding expenses not included in Section B, line 22		
4 General and administrative costs not included in Section B		
5 Income taxes		
6 Cost of strikes		
7 Warranty and product liability costs		
8 Section 179 costs		
9 On-site storage		
10 Depreciation, amortization, and cost recovery allowance not included in Section B, line 11		
11 Other costs (Attach a list of these costs.)		

Schedule E—Change in Depreciation or Amortization (see instructions)

Applicants requesting approval to change their method of accounting for depreciation or amortization complete this section. Applicants **must** provide this information for each item or class of property for which a change is requested.

Note: See the **Summary of the List of Automatic Accounting Method Changes** in the instructions for information regarding automatic changes under sections 56, 167, 168, or 197, or former sections 168, 1400I, or 1400L. **Do not** file Form 3115 with respect to certain late elections and election revocations. See instructions.

1 Is depreciation for the property determined under Regulations section 1.167(a)-11 (CLADR)? **Yes** **No**
 If "Yes," the only changes permitted are under Regulations section 1.167(a)-11(c)(1)(iii).

2 Is any of the depreciation or amortization required to be capitalized under any Code section, such as section 263A? **Yes** **No**
 If "Yes," enter the applicable section _____

3 Has a depreciation, amortization, expense, or disposition election been made for the property, such as the election under sections 168(f)(1), 168(i)(4), 179, 179C, or Regulations section 1.168(f)-8(d)? **Yes** **No**
 If "Yes," state the election made _____

4a Attach a statement describing the property subject to the change. Include the property's description, type, placed-in-service year, and use in the applicant's trade or business or income-producing activity. Also include the type and amount of any federal tax credit claimed or grant received, along with any necessary adjustments to basis required under the Internal Revenue Code, with respect to the property.

b If the property is residential rental property, did the applicant live in the property before renting it? . . . **Yes** **No**

c Is the property public utility property? **Yes** **No**

5 To the extent not already provided in the applicant's description of its present method, attach a statement explaining how the property is treated under the applicant's present method (for example, depreciable property, inventory property, supplies under Regulations section 1.162-3, nondepreciable section 263(a) property, property deductible as a current expense, etc.).

6 If the property is not currently treated as depreciable or amortizable property, attach a statement of the facts supporting the proposed change to depreciate or amortize the property.

7 If the property is currently treated and/or will be treated as depreciable or amortizable property, provide the following information for both the present (if applicable) and proposed methods:

- a The Code section under which the property is or will be depreciated or amortized (for example, section 168(g)).
- b The applicable asset class from Rev. Proc. 87-56, 1987-2 C.B. 674, for each asset depreciated under section 168 (MACRS) or under former section 1400L; the applicable asset class from Rev. Proc. 83-35, 1983-1 C.B. 745, for each asset depreciated under former section 168 (ACRS); an explanation why no asset class is identified for each asset for which an asset class has not been identified by the applicant.
- c The facts to support the asset class for the proposed method.
- d The depreciation or amortization method of the property, including the applicable Code section (for example, 200% declining balance method under section 168(b)(1)).
- e The useful life, recovery period, or amortization period of the property.
- f The applicable convention of the property.
- g Whether the additional first-year special depreciation allowance (for example, as provided by section 168(k), 168(l), 168(m), or former section 168(n), 1400L(b), or 1400N(d)) was or will be claimed for the property. If not, also provide an explanation as to why no special depreciation allowance was or will be claimed.
- h Whether the property was or will be in a single asset account, a multiple asset account, or a general asset account.

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Form 3115
Application for Change in Accounting Method
Automatic Change #269
December 31, 2023**

**ONE Gas, Inc.
FEIN: 46-3561936**

Page 1, Name of Applicant(s)

This Application is being filed by ONE Gas, Inc. FEIN: 46-3561936 (hereinafter "Applicant" or "Taxpayer").

Statement Required by Section 6.02(5) of Rev. Proc. 2015-13

The Taxpayer represents that the above referenced applicant is the only member of the consolidated group that has this item that is the matter of this method change request.

Request for Faxed Documents

In accordance with the procedures set forth in section 9.04(3) of Rev. Proc. 2024-1, the Taxpayer requests that a copy of any document related to this request (e.g., a request for additional information) be provided to the Taxpayer and the Taxpayer's authorized representatives via fax at the number(s) below.

Taxpayer's Fax Number: Brian F. Brumfield (918-606-8551)

Part II, Question 11b – Previous Requests

There are no other pending requests before the IRS. Changes/Requests for Change within the past five years are as follows:

Entity Making Change	Description of Change	Type of Change	Status of Change	Year or Change
ONE Gas, Inc.(EIN: 46-3561936)	Change under Rev. Proc. 2000-50 in method of accounting for the costs of computer software.	Automatic	Deemed Consent	12/31/2021

Part II, Question 11c – Applications Withdrawn

None.

Part II, Question 14a – Item Being Changed

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**ONE Gas, Inc.
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The Taxpayer is filing change 269 to change its treatment of natural gas transmission and distribution property to adopt the transmission and distribution property safe harbor method of accounting provided in Rev. Proc. 2023-15. Specifically, the Taxpayer wants to change to “the safe harbor method for linear property” and “the safe harbor method for non-linear property” in accordance with Rev. Proc. 2023-15. In conjunction with this change, the Taxpayer will make a late general asset account election as required under section 5.08(2) of Rev. Proc. 2023-15. The Taxpayer has a depreciable interest in natural gas transmission and distribution property and incurs costs (other than excluded costs) to maintain, repair, replace or improve such property.

Part II, Question 14b – Present Method

The Taxpayer is a natural gas utility regulated by the Kansas Corporation Commission (“KCC”), Oklahoma Corporation Commission (“OCC”) and the Public Utility Commission of Texas (“RCC”). The Taxpayer presently utilizes units of property (“UOPs”) as determined and used in its books of account for regulatory reporting purposes and does not define the UOP in a manner that is consistent with the safe harbor.

The Taxpayer has not claimed a federal income tax credit with respect to any of the costs or assets subject to this accounting method change.

Part II, Question 14c – Proposed Method

Under the Taxpayer's proposed method of accounting, the Taxpayer will follow the natural gas safe harbor method of accounting for its linear transmission, linear distribution and non-linear property as described below.

With respect to its linear transmission property, the Taxpayer will utilize the safe harbor method for linear property described in Section 5.02 of Rev. Proc. 2023-15 to determine its repairs and maintenance deductions, including

- Determining its UOPs for such property in accordance with Section 5.02(1) of the revenue procedure;
- Applying the simplified rule for replacements of such property in accordance with Section 5.02(2) of the revenue procedure;

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- Following the treatment outlined for blanket work orders in Section 5.02(3) of the revenue procedure; and
- Applying the aggregation requirements of Section 5.06 of the revenue procedure.

With respect to its linear distribution property, the Taxpayer will utilize the safe harbor method for linear property described in Section 5.03 of Rev. Proc. 2023-15 to determine its repairs and maintenance deductions, including

- Applying the simplified rule for replacements of distribution mains in accordance with Section 5.03(2) of the revenue procedure;
- Following the treatment outlined for blanket work orders in Section 5.03(3) of the revenue procedure;
- Applying the aggregation requirements of Section 5.06 of the revenue procedure;
- Following the rules for identified distribution service line costs provided in Section 5.07(2) of the revenue procedure and the simplified rules for unidentified distribution service line costs provided in Section 5.07(3) of the revenue procedure.

With respect to its non-linear transmission and distribution property, the Taxpayer will utilize the safe harbor method for non-linear property described in Section 5.04 of Rev. Proc. 2023-15 to determine its repairs and maintenance deductions, including

- Using the UOPs and major components provided in Appendix A of the revenue procedure in making its repairs and maintenance determinations;
- Applying the simplified rule for replacements of such property in accordance with Section 5.04(3) of the revenue procedure;
- Applying the aggregation requirements of Section 5.06 of the revenue procedure; and

In applying the natural gas safe harbor method to both its linear and its non-linear transmission and distribution property, the Taxpayer will capitalize all costs designated as “per se capital expenditures” in Section 5.05(1) of Rev. Proc. 2015-13.

In addition, the Taxpayer will make late general asset account (GAA) elections under IRC Section 168(i)(4) and Treas. Reg. Sec. 1.168(i)-1(l) to include in GAAs its natural gas transmission and distribution property placed in service prior to the tax year of change and owned by the Taxpayer at the beginning of the tax year of change.

The Taxpayer’s proposed change in method of accounting for federal income tax purposes is not related to the adoption of the International Financial Reporting Standards (IFRS) for financial statement purposes.

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Special rules for blanket work orders.

- (1) Blanket work order de minimis rule. A taxpayer that adheres to a policy that limits per-event charges under a blanket work order procedure to replacements of property costing \$50,000 or less is not required to capitalize the costs of linear property replacements charged to the blanket work order. Replacements of property qualifying under this de minimis rule are not taken into account in determining whether more than 10 percent of the length of the unit of linear transmission property is replaced under section 5.02(2) of Rev. Proc. 2023-15 or in applying the aggregation requirement in section 5.06 of Rev. Proc. 2023-15.

Part II, Question 14d – Present Overall Method of Accounting

The Taxpayer's overall method of accounting is the accrual method.

Part II, Question 15 – Description of Trade or Business

The applicant, for purposes of this Form 3115, is a publicly traded company, ONE Gas, Inc. The applicant is a 100% regulated utility company engaged in the transmission, distribution and sale of natural gas. It provides natural gas to over 2.3 million residential, commercial and industrial customers in the states of Kansas, Oklahoma and Texas. The Applicant's business activity code is 221210. The Applicant does not have more than one trade or business as defined in Regulations Section 1.446-1(d).

Part II, Question 17 – Proposed Method Will Not be Used for Book

The proposed method of accounting will not be used for the Taxpayer's books and records and financial statement purposes because the method is not an acceptable method under the FERC accounting rules and the method does not likely follow the same rules as the generally accepted accounting principles ("GAAP"). The proposed method will be used in the Applicant's tax books and records.

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**ONE Gas, Inc.
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Part II, Question 18 – Conference of Right**

If it is tentatively determined that the Taxpayer has changed its method of accounting without complying with all the applicable provisions of Rev. Proc. 2015-13, as modified, clarified and amplified (for example, the Taxpayer changed to a method of accounting that varies from the applicable accounting method described in Rev. Proc. 2015-13, as modified, clarified and amplified, or the Taxpayer is outside the scope of Rev. Proc. 2015-13, as modified, clarified and amplified), the Taxpayer requests a conference of right. To arrange the time and place of such a conference, please contact the Taxpayer’s representative:

Brian F. Brumfield (918) 947-7383
ONE Gas, Inc.
15 E. 5th Street.
Tulsa, OK 74103

Part IV, Question 26 – Net Section 481(a) Adjustment

Net Section 481(a) Adjustment
(Decrease in Computing Taxable Income) (\$239,267,385)

<u>Applicant</u>	<u>EIN</u>	<u>481(a) Adjustment</u>
ONE Gas, Inc.	46-3561936	(\$239,267,385)
Total		<u>(\$239,267,385)</u>

Taxpayer incurred expenses for repairs and maintenance that were previously capitalized and depreciated over 20 years, depending on the asset repaired, but deducted under Sec. 162 based on the Taxpayer’s present method of accounting which utilizes units of property generally consistent with the 300-399 Plant Chart of Accounts for regulatory reporting purposes under the FERC Electric Uniform System of Accounts mandated for Public Utilities. Under the proposed method, the amounts would have been expensed during the tax year as incurred based on units of property as defined by Rev. Proc. 2023-15. The net §481(a) adjustment is a net decrease in taxable income of \$239,267, 385. This adjustment is the difference between the current method and the proposed method, and it is the remaining basis in the capitalized repairs and maintenance costs affected by the method change. Thus, the net §481(a) adjustment will be (1) the difference

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between the repair expenditures claimed under the proposed and current methods plus (2) the difference between the depreciation expense on repair expenditures required to be capitalized under the proposed and current methods. This net §481(a) adjustment will be recognized in full in the year of change pursuant to Section 3.12(4) of Rev. Proc. 2023-43.

The Taxpayer represents that it intends to comply with Section 263A and will treat the repairs or depreciation on the components as indirect costs, if properly allocable, in accordance with Treas. Reg. § 1.263A-1(e)(3)(ii). The effect of Section 263A, if any, is reflected in the Taxpayer's Section 481(a) adjustment.

Computation of net §481(a) adjustment – Rev. Proc. 2023-15

Taxpayer followed the procedures contained in Section 2 of Appendix B of Rev. Proc. 2023-15 to calculate the net §481(a) adjustment.

Step 1:

Taxpayer used data from a minimum of three of the most recent taxable years as required under Section 2.02(1) to calculate the gross repairs deduction. 2023 is the year of change and the taxpayer used actual data from a testing period of taxable years 2020-2022. These are consecutive years as required under Section 2.02(1)(a) of Appendix B and are representative years as required and defined under Section 2.02(1)(b) of Appendix B. For each of the taxable years in the testing period, taxable years 2020-2022, the deductible repair expenses were calculated under the safe harbor method using the actual data from those years.

Steps 2-3:

The repairs deduction percentage for each year in the extrapolation period 2010-2019 is calculated in accordance with Section 2.02(2) of Appendix B. The extrapolation year tentative repair deduction amount is calculated under Section 2.02(3) of Appendix B.

Step 4:

N/A. Taxpayer did not elect to apply the § 1.167(a)-11(d)(2) repair allowance.

Step 5:

The repair amounts calculated using Steps 1-3 were reduced by the sum of the repair expenses the taxpayer had taken under its method of accounting prior to application of the safe harbor. This

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resulted in an adjusted gross repair deduction in the amount of \$470,147,165 as shown in Table 1 below.

Step 6:

Taxpayer accounted for its decreased depreciation deductions resulting from the additional repair expenditures allowable under the proposed method of accounting and calculated the amount of decreased depreciation deductions (as a result of taking a repairs deduction) as required under Section 2.02(6) of Appendix B. The repairs deduction was assigned to the various 'tax classes' (combination of tax asset class with the same tax depreciation method, life and convention) by year by applying the ratio of corresponding book additions to total book additions and multiplying it by the repairs deduction amount for the year. The difference in depreciation under the proposed method versus the depreciation under the current method was then calculated. The decreased depreciation deductions totaled \$230,879,780 as shown in Table 1 below.

Step 7:

Taxpayer's total 481(a) adjustment is determined by combining the results of Steps 5 and 6. The total 481(a) adjustment of \$239,267,865 is shown in Table 1 below:

Table 1	Total
Deductible Repair Expenses [2.02(2)(a)]	\$ (470,147,165)
Tax Adjustments before Depreciation [2.02(2)]	\$ 230,879,780
Net \$481(a) adjustment	\$ (239,267,385)

Statement required by Section 3.12(3)(a)(ii) of Rev. Proc. 2024-23:

Pursuant to the requirements of section 5.08(2) of Rev. Proc. 2023-15 and section 3.12(3)(a) of Rev. Proc. 2024-23, the Taxpayer hereby agrees to the following additional terms and conditions:

- (1) The taxpayer consents to, and agrees to apply, all the provisions of Treas. Reg. § 1.168(i)-1 to the assets that are subject to the election specified in section 5.08(2) of Rev. Proc. 2023-15; and

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- (2) Except as provided in section 1.168(i)-1(c)(1)(ii)(A), (e)(3), (g), or (h), the election made by the taxpayer under section 5.08(2) of Rev. Proc. 2023-15 is irrevocable and will be binding on the taxpayer for computing taxable income for the year of change and for all subsequent taxable years with respect to the assets that are subject to this election.

Statement required by Section 3.12(3)(c) of Rev. Proc. 2024-23:

Pursuant to section 3.12(3)(c) of Rev. Proc. 2024-23, whereby the assets subject to this change in method of accounting are public utility property within the meaning of section 168(i)(10), the Taxpayer agrees to the following additional terms and conditions:

- 1) A normalization method of accounting (within the meaning of section 168(i)(9)) will be used for the public utility property subject to the Form 3115;
- 2) As of the beginning of the year of change, the taxpayer will adjust its deferred tax reserve account or similar account in the taxpayer's regulatory books of account by the amount of the deferral of federal income tax liability associated with the section 481(a) adjustment applicable to the public utility property subject to the Form 3115; and
- 3) Within 30 calendar days of filing the federal income tax return for the year of change, the taxpayer will provide a copy of the completed Form 3115 to any regulatory body having jurisdiction over the public utility property subject to the Form 3115.