ONEOK INC /NEW/
Form 10-Q
August 06, 2014
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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 June 30, 2014.
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 001-13643

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

Oklahoma (State or other jurisdiction of incorporation or organization)	73-1520922 (I.R.S. Employer Identification No.)
100 West Fifth Street, Tulsa, OK (Address of principal executive offices)	74103 (Zip Code)

Registrant's telephone number, including area code (918) 588-7000

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 July 29, 2014, the Company had 208,002,586 shares of common stock outstanding.

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ONEOK, Inc.
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As used in this Quarterly Report, references to "we," "our" or "us" refer to ONEOK, Inc., an Oklahoma corporation, and its predecessors, divisions and subsidiaries, 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.oneok.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, 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.

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GLOSSARY

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

AFUDC	Allowance for funds used during construction
Annual Report	Annual Report on Form 10-K for the year ended December 31, 2013
ASU	Accounting Standards Update
Bbl	Barrels, 1 barrel is equivalent to 42 United States gallons
Bbl/d	Barrels per day
BBtu/d	Billion British thermal units per day
Bcf	Billion cubic feet
Btu	British thermal units, a measure of the amount of heat required to raise the temperature of one pound of water one degree Fahrenheit
CFTC	Commodities Futures Trading Commission
Clean Air Act	Federal Clean Air Act, as amended
Clean Water Act	Federal Water Pollution Control Act Amendments of 1972, as amended
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
DOT	United States Department of Transportation
EBITDA	Earnings before interest expense, income taxes, depreciation and amortization
EPA	United States Environmental Protection Agency
Exchange Act	Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
GAAP	Accounting principles generally accepted in the United States of America
Intermediate Partnership	ONEOK Partners Intermediate Limited Partnership, a wholly owned subsidiary of ONEOK Partners, L.P.
LIBOR	London Interbank Offered Rate
MBbl/d	Thousand barrels per day
MDth/d	Thousand dekatherms per day
MMBbl	Million barrels
MMBtu	Million British thermal units
MMBtu/d	Million British thermal units per day
MMcf/d	Million cubic feet per day
Moody’s	Moody’s Investors Service, Inc.
Natural Gas Policy Act	Natural Gas Policy Act of 1978, as amended
NGL(s)	Natural gas liquid(s)
NGL products	Marketable natural gas liquids purity products, such as ethane, ethane/propane mix, propane, iso-butane, normal butane and natural gasoline
NYMEX	New York Mercantile Exchange
NYSE	New York Stock Exchange
ONE Gas	ONE Gas, Inc.
ONEOK	ONEOK, Inc.
ONEOK Credit Agreement	ONEOK’s $300 million Amended and Restated Revolving Credit Agreement dated January 31, 2014
ONEOK Partners	ONEOK Partners, L.P.
ONEOK Partners Credit Agreement	ONEOK Partners’ $1.7 billion Amended and Restated Revolving Credit Agreement dated January 31, 2014

ONEOK Partners GP	ONEOK Partners GP, L.L.C., a wholly owned subsidiary of ONEOK and the sole general partner of ONEOK Partners
OPIS	Oil Price Information Service
Partnership Agreement	Third Amended and Restated Agreement of Limited Partnership of ONEOK Partners, L.P., as amended
PHMSA	United States Department of Transportation Pipeline and Hazardous Materials Safety Administration
POP	Percent of Proceeds

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Quarterly Report(s)	Quarterly Report(s) on Form 10-Q
S&P	Standard & Poor’s Ratings Services
SCOOP	South Central Oklahoma Oil Province
SEC	Securities and Exchange Commission
Securities Act	Securities Act of 1933, as amended
XBRL	eXtensible Business Reporting Language

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PART I - FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
ONEOK, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended June 30,		Six Months Ended June 30,	
(Unaudited)	2014	2013	2014	2013
	(Thousands of dollars, except per share amounts)			
Revenues				
Commodity sales	$2,715,109	$2,447,411	$5,521,838	$4,646,205
Services	351,773	321,573	708,340	640,734
Total revenues	3,066,882	2,768,984	6,230,178	5,286,939
Cost of sales and fuel	2,571,402	2,356,226	5,224,071	4,503,074
Net margin	495,480	412,758	1,006,107	783,865
Operating expenses				
Operations and maintenance	153,323	108,906	280,049	230,311
Depreciation and amortization	72,127	58,883	139,541	114,166
General taxes	18,699	16,859	41,084	36,589
Total operating expenses	244,149	184,648	460,674	381,066
Gain (loss) on sale of assets	(16)	279	(1)	320
Operating income	251,315	228,389	545,432	403,119
Equity earnings from investments (Note K)	25,435	26,421	59,094	52,276
Allowance for equity funds used during construction	1,253	5,656	12,224	14,743
Other income	3,213	2,734	4,622	8,356
Other expense	(1,392)	(380)	(26,926)	(1,881)
Interest expense (net of capitalized interest of $11,375, $11,359, $27,143 and $23,964, respectively)	(88,751)	(66,120)	(183,652)	(130,606)
Income before income taxes	191,073	196,700	410,794	346,007
Income taxes	(42,313)	(42,923)	(57,297)	(81,727)
Income from continuing operations	148,760	153,777	353,497	264,280
Income (loss) from discontinued operations, net of tax (Note B)	(8,009)	(74,282)	(6,235)	(19,080)
Net income	140,751	79,495	347,262	245,200
Less: Net income attributable to noncontrolling interests	79,161	78,576	192,157	131,760
Net income attributable to ONEOK	$61,590	$919	$155,105	$113,440
Amounts attributable to ONEOK:				
Income from continuing operations	$69,599	$75,201	$161,340	$132,520
Income (loss) from discontinued operations	(8,009)	(74,282)	(6,235)	(19,080)
Net income	$61,590	$919	$155,105	$113,440
Basic earnings per share:				
Income from continuing operations (Note I)	$0.33	$0.36	$0.77	$0.64
Income (loss) from discontinued operations	(0.04)	(0.36)	(0.03)	(0.09)
Net income	$0.29	$—	$0.74	$0.55
Diluted earnings per share:				
Income from continuing operations (Note I)	$0.33	$0.36	$0.77	$0.63
Income (loss) from discontinued operations	(0.04)	(0.36)	(0.03)	(0.09)
Net income	$0.29	$—	$0.74	$0.54
Average shares (thousands)				
Basic	209,403	206,143	209,267	205,811

Diluted	210,516	208,874	210,337	209,166
Dividends declared per share of common stock	$0.56	$0.36	$0.96	$0.72

See accompanying Notes to Consolidated Financial Statements.

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ONEOK, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)	Three Months Ended June 30, 2014	2013	Six Months Ended June 30, 2014	2013
	(Thousands of dollars)			
Net income	$140,751	$79,495	$347,262	$245,200
Other comprehensive income (loss), net of tax				
Unrealized gains (losses) on energy marketing and risk-management assets/liabilities, net of tax of $3,596, $(13,840), $13,824 and $(9,882), respectively	(28,920)	53,289	(78,846)	39,637
Realized (gains) losses in net income, net of tax of $(1,202), $2,614, $(14,219) and $(2,081), respectively	7,511	(3,390)	45,038	3,905
Unrealized holding gains (losses) on available-for-sale securities, net of tax of $25, $(168), $37 and $(130), respectively	(37)	268	(113)	206
Change in pension and postretirement benefit plan liability, net of tax of $(1,356), $4,340, $(3,923) and $9,048, respectively	2,033	(6,882)	5,884	(14,344)
Total other comprehensive income (loss), net of tax	(19,413)	43,285	(28,037)	29,404
Comprehensive income	121,338	122,780	319,225	274,604
Less: Comprehensive income attributable to noncontrolling interests	62,962	110,678	158,649	156,336
Comprehensive income attributable to ONEOK	$58,376	$12,102	$160,576	$118,268

See accompanying Notes to Consolidated Financial Statements.

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ONEOK, Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS

(Unaudited)	June 30, 2014	December 31, 2013
Assets	(Thousands of dollars)	
Current assets		
Cash and cash equivalents	$358,560	$145,565
Accounts receivable, net	1,097,008	1,109,510
Natural gas and natural gas liquids in storage	335,116	188,286
Commodity imbalances	93,070	80,481
Other current assets	118,545	133,010
Assets of discontinued operations (Note B)	57,356	747,872
Total current assets	2,059,655	2,404,724
Property, plant and equipment		
Property, plant and equipment	11,737,291	10,970,256
Accumulated depreciation and amortization	1,866,627	1,738,302
Net property, plant and equipment	9,870,664	9,231,954
Investments and other assets		
Investments in unconsolidated affiliates (Note K)	1,212,408	1,229,838
Goodwill and intangible assets	1,018,679	1,024,562
Other assets	193,032	224,353
Assets of discontinued operations (Note B)	30,100	3,626,050
Total investments and other assets	2,454,219	6,104,803
Total assets	$14,384,538	$17,741,481

See accompanying Notes to Consolidated Financial Statements.

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ONEOK, Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS
(Continued)

(Unaudited)	June 30, 2014	December 31, 2013
Liabilities and equity	(Thousands of dollars)	
Current liabilities		
Current maturities of long-term debt	$10,650	$10,650
Notes payable (Note E)	—	564,462
Accounts payable	1,271,539	1,273,102
Commodity imbalances	207,456	213,577
Accrued interest	105,099	109,099
Other current liabilities	190,289	103,752
Liabilities of discontinued operations (Note B)	66,138	455,688
Total current liabilities	1,851,171	2,730,330
Long-term debt, excluding current maturities (Note F)	7,196,988	7,753,657
Deferred credits and other liabilities		
Deferred income taxes	1,253,099	1,146,562
Other deferred credits	237,468	217,522
Liabilities of discontinued operations (Note B)	52,481	1,048,230
Total deferred credits and other liabilities	1,543,048	2,412,314
Commitments and contingencies (Note M)		
Equity (Note G)		
ONEOK shareholders’ equity:		
Common stock, $0.01 par value: authorized 600,000,000 shares; issued 245,811,180 shares and outstanding 207,999,517 shares at June 30, 2014; issued 245,811,180 shares and outstanding 206,618,877 shares at December 31, 2013	2,458	2,458
Paid-in capital	1,503,582	1,433,600
Accumulated other comprehensive loss (Note H)	(113,127)	(121,987)
Retained earnings	225,423	2,020,815
Treasury stock, at cost: 37,811,663 shares at June 30, 2014, and 39,192,303 shares at December 31, 2013	(961,911)	(997,035)
Total ONEOK shareholders’ equity	656,425	2,337,851
Noncontrolling interests in consolidated subsidiaries	3,136,906	2,507,329
Total equity	3,793,331	4,845,180
Total liabilities and equity	$14,384,538	$17,741,481

See accompanying Notes to Consolidated Financial Statements.

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ONEOK, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)	Six Months Ended June 30, 2014	2013
	(Thousands of dollars)	
Operating activities		
Net income	$347,262	$245,200
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	150,895	182,076
Charges attributable to exit activities	1,739	113,780
Equity earnings from investments	(59,094)	(52,276)
Distributions received from unconsolidated affiliates	61,200	51,546
Deferred income taxes	57,191	68,468
Share-based compensation expense	17,288	19,018
Pension and postretirement benefit expense, net of contributions	12,729	5,187
Allowance for equity funds used during construction	(12,224)	(14,743)
Loss (gain) on sale of assets	1	(320)
Other	—	(3,658)
Changes in assets and liabilities:		
Accounts receivable	17,504	190,633
Natural gas and natural gas liquids in storage	(40,122)	82,018
Accounts payable	(3,426)	(63,954)
Commodity imbalances, net	(15,830)	(57,885)
Settlement of exit activities liabilities	(25,728)	—
Accrued interest	(4,129)	(1,843)
Other assets and liabilities, net	31,051	25,034
Cash provided by operating activities	536,307	788,281
Investing activities		
Capital expenditures (less allowance for equity funds used during construction)	(822,201)	(1,060,333)
Acquisition	(14,000)	—
Contributions to unconsolidated affiliates	(1,063)	(4,558)
Distributions received from unconsolidated affiliates	16,449	17,958
Proceeds from sale of assets	319	3,333
Cash used in investing activities	(820,496)	(1,043,600)
Financing activities		
Borrowing (repayment) of notes payable, net	(564,462)	16,830
Issuance of ONE Gas, Inc. debt, net of discounts	1,199,994	—
ONE Gas, Inc. long-term debt financing costs	(9,663)	—
Repayment of debt	(553,855)	(3,888)
Issuance of common stock	9,166	6,002
Issuance of common units, net of issuance costs	878,765	15,942
Dividends paid	(199,684)	(147,982)
Cash of ONE Gas, Inc. at separation	(60,000)	—
Distributions to noncontrolling interests	(206,342)	(181,522)
Cash provided by (used in) financing activities	493,919	(294,618)
Change in cash and cash equivalents	209,730	(549,937)
Change in cash and cash equivalents included in discontinued operations	3,265	247
Change in cash and cash equivalents included in continuing operations	212,995	(549,690)

Cash and cash equivalents at beginning of period	145,565	579,578
Cash and cash equivalents at end of period	$358,560	$29,888

See accompanying Notes to Consolidated Financial Statements.

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ONEOK, Inc. and Subsidiaries
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Unaudited)	ONEOK Shareholders' Equity Common Stock Issued	Common Stock	Paid-in Capital	Accumulated Other Comprehensive Income (Loss)
	(Shares)	(Thousands of dollars)		
January 1, 2014	245,811,180	$2,458	$1,433,600	$(121,987)
Net income	—	—	—	—
Other comprehensive income (loss)	—	—	—	5,471
Common stock issued	—	—	(21,220)	—
Common stock dividends - $0.96 per share	—	—	—	—
Issuance of common units of ONEOK Partners	—	—	127,125	—
Distribution of ONE Gas to shareholders (Note B)	—	—	—	3,389
Distributions to noncontrolling interests	—	—	—	—
Other	—	—	(35,923)	—
June 30, 2014	245,811,180	$2,458	$1,503,582	$(113,127)

See accompanying Notes to Consolidated Financial Statements.

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ONEOK, Inc. and Subsidiaries
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(Continued)

(Unaudited)	ONEOK Shareholders' Equity			
	Retained Earnings	Treasury Stock	Noncontrolling Interests in Consolidated Subsidiaries	Total Equity
	(Thousands of dollars)			
January 1, 2014	$2,020,815	$(997,035)	$2,507,329	$4,845,180
Net income	155,105	—	192,157	347,262
Other comprehensive income (loss)	—	—	(33,508)	(28,037)
Common stock issued	—	35,124	—	13,904
Common stock dividends - $0.96 per share	(199,684)	—	—	(199,684)
Issuance of common units of ONEOK Partners	—	—	677,270	804,395
Distribution of ONE Gas to shareholders (Note B)	(1,750,813)	—	—	(1,747,424)
Distributions to noncontrolling interests	—	—	(206,342)	(206,342)
Other	—	—	—	(35,923)
June 30, 2014	$225,423	$(961,911)	$3,136,906	$3,793,331

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ONEOK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Our accompanying unaudited consolidated financial statements have been prepared pursuant to the rules and regulations of the SEC. These statements have been prepared in accordance with GAAP and reflect all adjustments that, in our opinion, are necessary for a fair presentation of the results for the interim periods presented. All such adjustments are of a normal recurring nature. The 2013 year-end consolidated balance sheet data was derived from our audited financial statements but does not include all disclosures required by GAAP. These unaudited consolidated financial statements should be read in conjunction with our audited consolidated financial statements in our Annual Report.

Our significant accounting policies are consistent with those disclosed in Note A of the Notes to Consolidated Financial Statements in our Annual Report.

Organization and Nature of Operations - We are the sole general partner and own limited partner units of ONEOK Partners (NYSE: OKS), which together represent an aggregate 38.5 percent interest in ONEOK Partners at June 30, 2014. On January 31, 2014, we completed the separation of our natural gas distribution business into a stand-alone publicly traded company called ONE Gas. On March 31, 2014, we completed the accelerated wind down of our energy services business. The results of operations for our former natural gas distribution and energy services businesses have been classified as discontinued operations for all periods presented. Following the ONE Gas separation and wind down of our energy services business, our primary source of income and cash flow is generated from our investment in ONEOK Partners. See Note B for additional information.

Unless indicated otherwise, the information in the Notes to the Consolidated Financial Statements relates to our continuing operations.

Change in Reportable Segments - Following the separation of our natural gas distribution business into ONE Gas and wind down of our energy services business, our chief operating decision maker reviews the financial performance of each of the three businesses of ONEOK Partners on a regular basis to assess the performance of, and allocate resources to, ONEOK Partners. As a result, our reportable segments have changed to reflect the three business segments of ONEOK Partners, which include the following:

- the Natural Gas Gathering and Processing segment, which gathers, treats and processes natural gas;
- the Natural Gas Liquids segment, which gathers, treats, fractionates and transports NGLs and stores, markets and distributes NGL products; and
- the Natural Gas Pipelines segment, which operates regulated interstate and intrastate natural gas transmission pipelines and natural gas storage facilities.

We have reflected the change in reporting segments for all periods presented. See Note N for additional information.

Income Taxes - Deferred income taxes are recorded for the difference between the financial statement and income tax basis of assets and liabilities and carryforward items, based on income tax laws and rates existing at the time the temporary differences are expected to reverse. Deferred tax liabilities and deferred income tax expense were reduced by $34.6 million in the first quarter 2014 due to a reduction in our estimate of the effective state income tax rate to reflect a change in the mix of taxable income in the states in which we now operate, resulting from the separation of our former natural gas distribution business and the wind down of our energy services business. We also recorded a valuation allowance of $8.2 million in the first quarter 2014 for state tax credits as it is more likely than not that we will not be able to utilize these credits as a result of the separation of our former natural gas distribution business and the wind down of our energy services business. Together, these adjustments resulted in a net $26.4 million reduction in deferred tax liabilities and deferred income tax expense.

Recently Issued Accounting Standards Update - In April 2014, the FASB issued ASU 2014-08, “Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity,” which alters the definition of a discontinued operation to include only asset disposals that represent a strategic shift with a major effect on an entity's operations and financial results. The amendments also require more extensive disclosures about a discontinued operation’s assets, liabilities, income, expenses and cash flows. This guidance will be effective for interim and annual periods for all assets that are disposed of or classified as being held for sale in fiscal years that begin on or after December 15, 2014. We will adopt this guidance beginning in the first quarter 2015, and we are evaluating the impact on us.

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In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers,” which outlines the principles an entity must apply to measure and recognize revenue for entities that enter into contracts to provide goods or services to their customers. The core principle is that an entity should recognize revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer. The amendments also require more extensive disaggregated revenue disclosures in interim and annual financial statements. This update will be effective for interim and annual periods that begin on or after December 15, 2016, with either retrospective application for all periods presented or retrospective application with a cumulative effect adjustment. We will adopt this guidance beginning in the first quarter 2017, and we are evaluating the impact on us.

B. DISCONTINUED OPERATIONS

Separation of ONE Gas - On January 31, 2014, we completed the separation of ONE Gas. ONE Gas consists of ONEOK’s former natural gas distribution business that includes Kansas Gas Service, Oklahoma Natural Gas and Texas Gas Service. ONEOK shareholders of record at the close of business on January 21, 2014, retained their shares of ONEOK stock and received one share of ONE Gas stock for every four shares of ONEOK stock owned in a transaction that was tax-free to ONEOK and its shareholders. ONE Gas shares were distributed following the close of business on January 31, 2014. We retained no ownership interest in ONE Gas. On the date of the separation, ONE Gas consisted of approximately $4.3 billion of assets, $2.6 billion of liabilities and $1.7 billion of equity. Excluding cash of ONE Gas at separation, the separation was accounted for as a noncash activity. These balances include certain estimates expected to be finalized in 2014.

Wind Down of Energy Services Business - On March 31, 2014, we completed the accelerated wind down of our energy services business. We executed an agreement in the first quarter 2014 to release a nonaffiliated, third-party natural gas storage contract to a third party, resulting in a noncash charge of $1.7 million. All of the remaining natural gas transportation and storage contracts not previously released or assigned expired on their own terms on or before March 31, 2014. Our energy services business continued to serve its contracted premium-services until these remaining contracts expired on or before March 31, 2014. Our energy services business was classified as discontinued operations, effective at the close of business March 31, 2014, when substantially all operations ceased.

The following table summarizes the change in our liability related to released capacity contracts for the period indicated:

	Six Months Ended June 30, 2014 (Millions of dollars)
Beginning balance	$ 122.0
Noncash charges	1.7
Settlements	(25.7)
Accretion	1.1
Ending balance	$ 99.1

We expect future cash payments associated with previously released transportation and storage capacity from the wind down of our energy services business on an after-tax basis to be approximately $60 million, with approximately $15 million paid in the remainder of 2014, $23 million in 2015, $11 million in 2016 and $11 million over the period 2017 through 2023.

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Results of Operations of Discontinued Operations - The results of operations for our former natural gas distribution and energy services businesses have been reported as discontinued operations for all periods presented. The tables below provide selected financial information reported in discontinued operations in the Consolidated Statements of Income:

	Three Months Ended June 30, 2014			Six Months Ended June 30, 2014		
	Natural Gas Distribution	Energy Services	Total	Natural Gas Distribution	Energy Services	Total
	(Thousands of dollars)					
Revenues	$—	$—	$—	$287,249	$353,404	$640,653
Cost of sales and fuel	—	—	—	190,893	364,648	555,541
Net margin	—	—	—	96,356	(11,244)	85,112
Operating costs	1,416 (a)	1,395 (c)	2,811	60,847 (a)	4,522	65,369
Depreciation and amortization	—	—	—	11,035	319	11,354
Operating income (loss)	(1,416)	(1,395)	(2,811)	24,474	(16,085)	8,389
Other income (expense), net	—	—	—	(888)	(7)	(895)
Interest expense, net	—	—	—	(4,592)	(413)	(5,005)
Income taxes	(5,745) (b)	547	(5,198)	(16,415)	7,691	(8,724)
Income (loss) from discontinued operations, net	$(7,161)	$(848)	$(8,009)	$2,579	$(8,814)	$(6,235)

(a) - Includes approximately $1.3 million and $23.0 million for the three and six months ended June 30, 2014, respectively, of costs related to the ONE Gas separation.
(b) - Reflects revision of estimates for income taxes related to the ONE Gas separation.
(c) - Represents primarily accretion expense.

	Three Months Ended June 30, 2013			Six Months Ended June 30, 2013		
	Natural Gas Distribution	Energy Services	Total	Natural Gas Distribution	Energy Services	Total
	(Thousands of dollars)					
Revenues	$311,606	$359,984	$671,590	$947,537	$830,179	$1,777,716
Cost of sales and fuel	133,163	497,799	630,962	517,420	967,320	1,484,740
Net margin	178,443	(137,815)	40,628	430,117	(137,141)	292,976
Operating costs	104,382	3,479	107,861	217,785	8,367	226,152
Depreciation and amortization	32,904	68	32,972	67,771	139	67,910
Operating income (loss)	41,157	(141,362)	(100,205)	144,561	(145,647)	(1,086)
Other income (expense), net	(44)	17	(27)	575	45	620
Interest expense, net	(15,163)	(448)	(15,611)	(30,469)	(1,093)	(31,562)
Income taxes	(10,513)	52,074	41,561	(40,801)	53,749	12,948
Income (loss) from discontinued operations, net	$15,437	$(89,719)	$(74,282)	$73,866	$(92,946)	$(19,080)

Prior to the ONE Gas separation, natural gas sales and transportation and storage services provided to our former natural gas distribution business by ONEOK Partners were $14.3 million for the three months ended June 30, 2013, and $7.5 million and $28.1 million for the six months ended June 30, 2014 and 2013, respectively. Prior to February 1, 2014, these revenues and related costs were eliminated in consolidation. Beginning February 1, 2014, these revenues represent third-party transactions with ONE Gas and are not eliminated in consolidation, as such sales and services have continued subsequent to the separation and are expected to continue in future periods.

Prior to the completion of the energy services wind down, natural gas sales and transportation and storage services provided to our energy services business by ONEOK Partners were $77.0 million for the three months ended June 30, 2013, and $46.0 million and $145.9 million for the six months ended June 30, 2014 and 2013, respectively. While these transactions were eliminated in consolidation in previous periods, they are reflected now as affiliate transactions and not eliminated in consolidation as these transactions have continued with third parties.

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Statement of Financial Position of Discontinued Operations - The following table presents the carrying value of assets and liabilities of our former natural gas distribution and energy services businesses included in assets and liabilities of discontinued operations in the Consolidated Balance Sheets for the period presented:

	December 31, 2013		
	Natural Gas Distribution	Energy Services	Total
	(Thousands of dollars)		
Assets			
Cash and cash equivalents	$3,535	$213	$3,748
Accounts receivable, net	368,214	87,315	455,529
Natural gas and natural gas liquids in storage	166,128	62,663	228,791
Other current assets	30,328	29,476	59,804
Net property, plant and equipment	3,065,272	279	3,065,551
Goodwill	157,953	—	157,953
Other assets	402,161	385	402,546
Total assets	$4,193,591	$180,331	$4,373,922
Liabilities			
Current maturities of long-term debt	$6	$—	$6
Accounts payable	168,785	77,287	246,072
Other current liabilities	168,964	40,646	209,610
Long-term debt, excluding current maturities	1,318	—	1,318
Deferred income taxes	826,921	(35,221)	791,700
Other deferred credits	184,214	70,998	255,212
Total liabilities	$1,350,208	$153,710	$1,503,918

At June 30, 2014, the major classes of assets and liabilities in discontinued operations related to our former energy services business. These amounts consisted of current assets, which included income taxes receivable of $37.7 million and deferred tax assets of $14.5 million; noncurrent assets, which included deferred tax assets of $29.2 million; current liabilities, which included capacity release obligations of $46.2 million and deferred tax liabilities of $12.2 million; and noncurrent liabilities, which included $52.9 million of noncurrent capacity release obligations.

C. FAIR VALUE MEASUREMENTS

Determining Fair Value - We define fair value as the price that would be received from the sale of an asset or the transfer of a liability in an orderly transaction between market participants at the measurement date. We use market and income approaches to determine the fair value of our assets and liabilities and consider the markets in which the transactions are executed. We measure the fair value of groups of financial assets and liabilities consistent with how a market participant would price the net risk exposure at the measurement date.

In the first quarter 2014, outstanding commodity derivative positions with third parties entered into by our energy services business on ONEOK Partners' behalf were transferred to ONEOK Partners. Beginning in the second quarter 2014, ONEOK Partners enters into all commodity derivative financial contracts directly with unaffiliated third parties.

While many of the contracts in ONEOK Partners' portfolio are executed in liquid markets where price transparency exists, some contracts are executed in markets for which market prices may exist, but the market may be relatively inactive. This results in limited price transparency that requires management's judgment and assumptions to estimate fair values. For certain transactions, ONEOK Partners utilizes modeling techniques using NYMEX-settled pricing data, historical correlations of NGL product prices to crude oil prices and implied forward LIBOR curves. Inputs into

ONEOK Partners' fair value estimates include commodity-exchange prices, over-the-counter quotes, historical correlations of pricing data and LIBOR and other liquid money-market instrument rates. ONEOK Partners also utilizes internally developed basis curves that incorporate observable and unobservable market data. ONEOK Partners validates its valuation inputs with third-party information and settlement prices from other sources, where available.

In addition, as prescribed by the income approach, ONEOK Partners computes the fair value of its derivative portfolio by discounting the projected future cash flows from its derivative assets and liabilities to present value using interest-rate yields to

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calculate present-value discount factors derived from LIBOR, Eurodollar futures and interest-rate swaps. ONEOK Partners also takes into consideration the potential impact on market prices of liquidating positions in an orderly manner over a reasonable period of time under current market conditions. It considers current market data in evaluating counterparties', as well as its own, nonperformance risk, net of collateral, by using specific and sector bond yields and monitoring the credit default swap markets. Although ONEOK Partners uses its best estimates to determine the fair value of the derivative contracts it has executed, the ultimate market prices realized could differ from its estimates, and the differences could be material.

The fair value of ONEOK Partners' forward-starting interest-rate swaps is determined using financial models that incorporate the implied forward LIBOR yield curve for the same period as the future interest-rate swap settlements.

Fair Value Hierarchy - At each balance sheet date, we and ONEOK Partners utilize a fair value hierarchy to classify fair value amounts recognized or disclosed in the financial statements based on the observability of inputs used to estimate such fair value. The levels of the hierarchy are described below:

- Level 1 - fair value measurements are based on unadjusted quoted prices in active markets, including NYMEX-settled prices and actively quoted prices for equity securities. These balances are comprised predominantly of exchange-traded derivative contracts for natural gas and crude oil. Also included in Level 1 are equity securities.
- Level 2 - fair value measurements are based on significant observable pricing inputs, such as NYMEX-settled prices for natural gas and crude oil, and financial models that utilize implied forward LIBOR yield curves for interest-rate swaps.
- Level 3 - fair value measurements are based on inputs that may include one or more unobservable inputs, including internally developed basis curves that incorporate observable and unobservable market data, NGL price curves from broker quotes, market volatilities derived from the most recent NYMEX close spot prices and forward LIBOR curves, and adjustments for the credit risk of ONEOK Partners' counterparties. ONEOK Partners corroborates the data on which its fair value estimates are based using its market knowledge of recent transactions, analysis of historical correlations and validation with independent broker quotes. These balances categorized as Level 3 are comprised of derivatives for natural gas and NGLs. ONEOK Partners does not believe that its Level 3 fair value estimates have a material impact on its results of operations, as the majority of its derivatives are accounted for as hedges for which ineffectiveness is not material.

Recurring Fair Value Measurements - The following tables set forth our recurring fair value measurements for our continuing operations for the periods indicated:

	June 30, 2014					
	Level 1	Level 2	Level 3	Total - Gross	Netting (a)	Total - Net (b)
	(Thousands of dollars)					
Assets						
Derivatives						
Commodity contracts						
Financial contracts	$945	$—	$506	$1,451	$(1,451)	$—
Physical contracts	—	—	1,526	1,526	(933)	593
Interest-rate contracts	—	26,649	—	26,649	—	26,649
Total derivatives	945	26,649	2,032	29,626	(2,384)	27,242
Available-for-sale investment securities (c)	1,419	—	—	1,419	—	1,419
Total assets	$2,364	$26,649	$2,032	$31,045	$(2,384)	$28,661
Liabilities						
Derivatives						
Commodity contracts						

Financial contracts	$(3,814)	$(2,865)	$(1,120)	$(7,799)	$4,934	$(2,865)
Physical contracts	—	—	(2,225)	(2,225)	933	(1,292)
Interest-rate contracts	—	(19,240)	—	(19,240)	—	(19,240)
Total liabilities	$(3,814)	$(22,105)	$(3,345)	$(29,264)	$5,867	$(23,397)

(a) - Derivative assets and liabilities are presented in our Consolidated Balance Sheets on a net basis. ONEOK Partners nets derivative assets and liabilities when a legally enforceable master-netting arrangement exists between the counterparty to a derivative contract and ONEOK Partners. At June 30, 2014, ONEOK Partners held no cash collateral and posted $3.5 million cash collateral with various counterparties.

(b) - Included in other current assets, other assets or other current liabilities in our Consolidated Balance Sheets.

(c) - Available-for-sale investment securities represent assets of ONEOK.

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	December 31, 2013					
	Level 1	Level 2	Level 3	Total - Gross	Netting (a)	Total - Net (b)
	(Thousands of dollars)					
Assets						
Derivatives						
Commodity contracts						
Financial contracts	$—	$3,657	$2,812	$6,469	$(1,746)	$4,723
Physical contracts	—	—	2,023	2,023	(946)	1,077
Interest-rate contracts	—	54,503	—	54,503	—	54,503
Total derivatives	—	58,160	4,835	62,995	(2,692)	60,303
Available-for-sale investment securities (c)	1,569	—	—	1,569	—	1,569
Total assets	$1,569	$58,160	$4,835	$64,564	$(2,692)	$61,872
Liabilities						
Derivatives						
Commodity contracts						
Financial contracts	$—	$(2,953)	$(2,154)	$(5,107)	$1,746	$(3,361)
Physical contracts	—	—	(3,463)	(3,463)	946	(2,517)
Total derivative liabilities	$—	$(2,953)	$(5,617)	$(8,570)	$2,692	$(5,878)

(a) - Derivative assets and liabilities are presented in our Consolidated Balance Sheets on a net basis. ONEOK Partners nets derivative assets and liabilities when a legally enforceable master-netting arrangement exists between the counterparty to a derivative contract and ONEOK Partners. At December 31, 2013, we and ONEOK Partners had no cash collateral held or posted.
(b) - Included in other current assets, other assets or other current liabilities in our Consolidated Balance Sheets.
(c) - Available-for-sale investment securities represent assets of ONEOK.

The following table sets forth the reconciliation of our Level 3 fair value measurements for our continuing operations for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
Derivative Assets (Liabilities)	2014	2013	2014	2013
	(Thousands of dollars)			
Net assets (liabilities) at beginning of period	$1,972	$(4,855)	$(782)	$(2,423)
Total realized/unrealized gains (losses):				
Included in earnings (a)	33	—	(895)	—
Included in other comprehensive income (loss)	(3,318)	12,537	(3,370)	10,105
Purchases, issuances and settlements	—	—	3,734	—
Net assets (liabilities) at end of period	$(1,313)	$7,682	$(1,313)	$7,682

(a) - Reported in commodity sales revenues in our Consolidated Statements of Income.

Realized/unrealized gains (losses) include the realization of ONEOK Partners' derivative contracts through maturity. During the three and six months ended June 30, 2014 and 2013, gains or losses included in earnings attributable to the change in unrealized gains or losses relating to assets and liabilities still held at the end of the period were not material.

ONEOK Partners recognizes transfers into and out of the levels in the fair value hierarchy as of the end of each reporting period. During the three and six months ended June 30, 2014 and 2013, there were no transfers between levels.

Other Financial Instruments - The approximate fair value of cash and cash equivalents, accounts receivable, accounts payable and notes payable is equal to book value, due to the short-term nature of these items. Our cash and cash equivalents are comprised of bank and money market accounts and are classified as Level 1. Our notes payable are classified as Level 2 since the estimated fair value of the notes payable can be determined using information available in the commercial paper market.

The estimated fair value of our consolidated long-term debt, including current maturities, was $8.0 billion, and $8.2 billion at June 30, 2014, and December 31, 2013, respectively. The book value of long-term debt, including current maturities, was $7.2

billion and $7.8 billion at June 30, 2014, and December 31, 2013, respectively. The estimated fair value of the aggregate of ONEOK's and ONEOK Partners' senior notes outstanding was determined using quoted market prices for similar issues with similar terms and maturities. The estimated fair value of our consolidated long-term debt is classified as Level 2.

D. RISK-MANAGEMENT AND HEDGING ACTIVITIES USING DERIVATIVES

Risk-Management Activities - ONEOK Partners is sensitive to changes in natural gas, crude oil and NGL prices, principally as a result of contractual terms under which these commodities are processed, purchased and sold. ONEOK Partners uses physical-forward sales and financial derivatives to secure a certain price for a portion of its natural gas, condensate and NGL products. ONEOK Partners follows established policies and procedures to assess risk and approve, monitor and report its risk-management activities. ONEOK Partners has not used these instruments for trading purposes. We and ONEOK Partners are also subject to the risk of interest-rate fluctuation in the normal course of business.

Commodity-price risk - ONEOK Partners is exposed to the risk of loss in cash flows and future earnings arising from adverse changes in the price of natural gas, NGLs and condensate. ONEOK Partners uses the following commodity derivatives instruments to mitigate the commodity-price risk associated with a portion of the forecasted sales of these commodities:

- Futures contracts - Standardized contracts to purchase or sell natural gas and crude oil for future delivery or settlement under the provisions of exchange regulations;
- Forward contracts - Nonstandardized commitments between two parties to purchase or sell natural gas, crude oil or NGLs for future physical delivery. These contracts typically are nontransferable and only can be canceled with the consent of both parties; and
- Swaps - Exchange of one or more payments based on the value of one or more commodities. These instruments transfer the financial risk associated with a future change in value between the counterparties of the transaction, without also conveying ownership interest in the asset or liability.

The Natural Gas Gathering and Processing segment is exposed to commodity-price risk as a result of receiving commodities in exchange for services associated with its POP contracts. ONEOK Partners is also exposed to basis risk between the various production and market locations where it receives and sells commodities. As part of its hedging strategy, ONEOK Partners uses the previously described commodity derivative financial instruments and physical-forward contracts to minimize the impact of price fluctuations related to natural gas, NGLs and condensate.

The Natural Gas Liquids segment is exposed to basis risk primarily as a result of the relative value of NGL purchases at one location and sales at another location. To a lesser extent, ONEOK Partners is exposed to commodity-price risk resulting from the relative values of the various NGL products to each other, NGLs in storage and the relative value of NGLs to natural gas. ONEOK Partners utilizes physical-forward contracts to reduce the impact of price fluctuations related to NGLs. At June 30, 2014, and December 31, 2013, there were no financial derivative instruments used in ONEOK Partners' natural gas liquids operations.

The Natural Gas Pipelines segment is exposed to commodity-price risk because its intrastate and interstate natural gas pipelines retain natural gas from its customers for operations or as part of its fee for services provided. When the amount of natural gas consumed as fuel in operations by these pipelines differs from the amount provided by its customers, ONEOK Partners' pipelines must buy or sell natural gas, or store or use natural gas from inventory, which can expose it to commodity-price risk depending on the regulatory treatment for this activity. To the extent that commodity-price risk in its Natural Gas Pipelines segment is not mitigated by fuel cost-recovery mechanisms, ONEOK Partners uses physical-forward sales or purchases to reduce the impact of price fluctuations related to natural gas. At June 30, 2014, and December 31, 2013, there were no financial derivative instruments used in ONEOK

Partners' natural gas pipeline operations.

Interest-rate risk - We and ONEOK Partners manage interest-rate risk through the use of fixed-rate debt, floating-rate debt and interest-rate swaps. Interest-rate swaps are agreements to exchange interest payments at some future point based on specified notional amounts. ONEOK Partners has forward-starting interest-rate swaps designated as cash flow hedges of the variability of interest payments on a portion of forecasted debt issuances that may result from changes in the benchmark interest rate before the debt is issued. At June 30, 2014, ONEOK Partners had forward-starting interest-rate swaps with notional amounts totaling $400 million with settlement dates greater than 12 months and $500 million with settlement dates less than 12 months.

Accounting Treatment - We and ONEOK Partners record all derivative instruments at fair value, with the exception of normal purchases and normal sales that are expected to result in physical delivery. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, if so, the reason for holding it.

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The table below summarizes the various ways in which we and ONEOK Partners account for derivative instruments and the impact on our consolidated financial statements:

		Recognition and Measurement		
Accounting Treatment		Balance Sheet		Income Statement
Normal purchases and normal sales	-	Fair value not recorded	-	Change in fair value not recognized in earnings
Mark-to-market	-	Recorded at fair value	-	Change in fair value recognized in earnings
Cash flow hedge	-	Recorded at fair value	-	Ineffective portion of the gain or loss on the derivative instrument is recognized in earnings
	-	Effective portion of the gain or loss on the derivative instrument is reported initially as a component of accumulated other comprehensive income (loss)	-	Effective portion of the gain or loss on the derivative instrument is reclassified out of accumulated other comprehensive income (loss) into earnings when the forecasted transaction affects earnings
Fair value hedge	-	Recorded at fair value	-	The gain or loss on the derivative instrument is recognized in earnings
	-	Change in fair value of the hedged item is recorded as an adjustment to book value	-	Change in fair value of the hedged item is recognized in earnings

Under certain conditions, we and ONEOK Partners designate derivative instruments as a hedge of exposure to changes in fair values or cash flows. We and ONEOK Partners formally document all relationships between hedging instruments and hedged items, as well as risk-management objectives, strategies for undertaking various hedge transactions and methods for assessing and testing correlation and hedge ineffectiveness. We and ONEOK Partners specifically identify the forecasted transaction that has been designated as the hedged item in a cash flow hedge relationship. We and ONEOK Partners assess the effectiveness of hedging relationships quarterly by performing an effectiveness analysis on fair value and cash flow hedging relationships to determine whether the hedge relationships are highly effective on a retrospective and prospective basis. ONEOK Partners also documents normal purchases and normal sales transactions expected to result in physical delivery and that are exempted from derivative accounting treatment.

The realized revenues and purchase costs of derivative instruments that are not considered held for trading purposes and derivatives that qualify as normal purchases or normal sales that are expected to result in physical delivery are reported on a gross basis.

Cash flows from futures, forwards and swaps that are accounted for as hedges are included in the same category as the cash flows from the related hedged items in our Consolidated Statements of Cash Flows.

Fair Values of Derivative Instruments - See Note C for a discussion of the inputs associated with our fair value measurements. The following table sets forth the fair values of derivative instruments for our continuing operations for the periods indicated:

	June 30, 2014		December 31, 2013	
	Assets (a)	(Liabilities) (a)	Assets (a)	(Liabilities) (a)
	(Thousands of dollars)			
Derivatives designated as hedging instruments				
Commodity contracts				
Financial contracts	$1,451	$(7,799)	$6,469	$(5,107)
Physical contracts	1,462	(2,225)	1,064	(3,463)
Interest-rate contracts	26,649	(19,240)	54,503	—
Total derivatives designated as hedging instruments	29,562	(29,264)	62,036	(8,570)
Derivatives not designated as hedging instruments				
Commodity contracts				
Physical contracts	64	—	959	—
Total derivatives not designated as hedging instruments	64	—	959	—
Total derivatives	$29,626	$(29,264)	$62,995	$(8,570)

(a) - Included on a net basis in other current assets, other assets or other current liabilities on our Consolidated Balance Sheets.

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Notional Quantities for Derivative Instruments - The following table sets forth the notional quantities for derivative instruments for our continuing operations for the periods indicated:

	Contract Type	June 30, 2014 Purchased/ Payor	June 30, 2014 Sold/ Receiver	December 31, 2013 Purchased/ Payor	December 31, 2013 Sold/ Receiver
Derivatives designated as hedging instruments:					
Cash flow hedges					
Fixed price					
- Natural gas (Bcf)	Futures and swaps	—	(38.8)	—	(48.1)
- Crude oil and NGLs (MMbbl)	Futures, forwards and swaps	0.1	(3.0)	—	(4.0)
Basis					
- Natural gas (Bcf)	Futures and swaps	—	(38.8)	—	(48.1)
Interest-rate contracts (Millions of dollars)	Forward-starting swaps	$900.0	$—	$400.0	$—

These notional quantities are used to summarize the volume of financial instruments; however, they do not reflect the extent to which the positions offset one another and consequently do not reflect ONEOK Partners' actual exposure to market or credit risk.

Cash Flow Hedges - Accumulated other comprehensive income (loss) at June 30, 2014, includes losses of approximately $2.9 million, net of tax, related to ONEOK Partners' commodity derivative instruments that will be recognized within the next 18 months as the forecasted transactions affect earnings. If prices remain at current levels, we will recognize $3.3 million in net losses over the next 12 months and net gains of $0.4 million thereafter. The amount deferred in accumulated other comprehensive income (loss) attributable to our settled interest-rate swaps is a loss of $39.9 million, net of tax, which will be recognized over the life of the long-term, fixed-rate debt. We expect that losses of $4.7 million will be reclassified into earnings during the next 12 months as the hedged items affect earnings. The remaining amounts in accumulated other comprehensive income (loss) are attributable primarily to ONEOK Partners' forward-starting interest-rate swaps with future settlement dates, which will be amortized to interest expense over the life of long-term, fixed-rate debt upon issuance of ONEOK Partners' debt.

The following table sets forth the effects of cash flow hedges recognized in other comprehensive income (loss) for our continuing operations for the periods indicated:

Derivatives in Cash Flow Hedging Relationships	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
	(Thousands of dollars)			
Commodity contracts	$(6,114)	$33,145	$(41,876)	$13,377
Interest-rate contracts	(26,401)	22,217	(47,094)	29,005
Total unrealized gain (loss) recognized in other comprehensive income (loss) on derivatives (effective portion)	$(32,515)	$55,362	$(88,970)	$42,382

The following table sets forth the effect of cash flow hedges on our Consolidated Statements of Income for our continuing operations for the periods indicated:

Derivatives in Cash Flow Hedging Relationships	Location of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013

	(Loss) into Net Income (Effective Portion)				
		(Thousands of dollars)			
Commodity contracts	Commodity sales revenues	$(5,187)	$1,245	$(31,606)	$3,811
Interest-rate contracts	Interest expense	(3,526)	(3,707)	(14,847)	(7,144)
Total gain (loss) reclassified from accumulated other comprehensive income (loss) into net income on derivatives (effective portion)		$(8,713)	$(2,462)	$(46,453)	$(3,333)

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Ineffectiveness related to our and ONEOK Partners' cash flow hedges was not material for the three and six months ended June 30, 2014 and 2013. In the event that it becomes probable that a forecasted transaction will not occur, ONEOK Partners will discontinue cash flow hedge treatment, which will affect earnings.

For the six months ended June 30, 2014, we reclassified losses of $4.6 million, net of taxes of $3.1 million, to interest expense from accumulated other comprehensive income (loss) due to the discontinuance of cash flow hedge treatment from the de-designation of interest-rate swaps related to the early retirement of long-term debt. See Note F for additional information. There were no gains or losses due to the discontinuance of cash flow hedge treatment during the three months ended June 30, 2014 and the three and six months ended June 30, 2013.

Credit Risk - In the first quarter 2014, outstanding commodity derivative positions with third parties entered into by our energy services business on ONEOK Partners' behalf were transferred to ONEOK Partners. Beginning in the second quarter 2014, ONEOK Partners enters into all commodity derivative financial contracts directly with unaffiliated third parties.

We and ONEOK Partners monitor the creditworthiness of counterparties and compliance with policies and limits established by our Risk Oversight and Strategy Committee. We and ONEOK Partners maintain credit policies on counterparties that we and ONEOK Partners believe minimize overall credit risk. These policies include an evaluation of potential counterparties' financial condition (including credit ratings, bond yields and credit default swap rates), collateral requirements under certain circumstances and the use of standardized master-netting agreements that allow us to net the positive and negative exposures associated with a single counterparty. ONEOK Partners has counterparties whose credit is not rated, and for those customers it uses internally developed credit ratings.

Some of ONEOK Partners' financial derivative instruments contain provisions that require it to maintain an investment-grade credit rating from S&P and/or Moody's. If ONEOK Partners' credit ratings on senior unsecured long-term debt were to decline below investment grade, the counterparties to the derivative instruments could request collateralization on derivative instruments in net liability positions. There were no financial derivative instruments with contingent features related to credit risk in a net liability position at June 30, 2014.

The counterparties to ONEOK Partners' derivative contracts consist primarily of major energy companies, financial institutions and commercial and industrial end-users. This concentration of counterparties may affect ONEOK Partners' overall exposure to credit risk, either positively or negatively, in that the counterparties may be affected similarly by changes in economic, regulatory or other conditions. Based on ONEOK Partners' policies, exposures, credit and other reserves, it does not anticipate a material adverse effect on its financial position or results of operations as a result of counterparty nonperformance.

E. CREDIT FACILITIES AND SHORT-TERM NOTES PAYABLE

ONEOK Credit Agreement - The ONEOK Credit Agreement, which was amended and restated effective on January 31, 2014, and expires in January 2019, is a $300 million revolving credit facility and contains certain financial, operational and legal covenants. Among other things, these covenants include maintaining a ratio of indebtedness to Consolidated EBITDA (EBITDA, as defined in our ONEOK Credit Agreement) of no more than 4.0 to 1. Upon breach of certain covenants by us in the ONEOK Credit Agreement, amounts outstanding under the ONEOK Credit Agreement, if any, may become due and payable immediately. At June 30, 2014, ONEOK's ratio of indebtedness to Consolidated EBITDA was 1.7 to 1, and ONEOK was in compliance with all covenants under the ONEOK Credit Agreement. As a result of a reduction in the borrowing capacity of the ONEOK Credit Agreement, we wrote off approximately $2.9 million in interest expense of previously deferred credit agreement issuance costs in the first quarter 2014.

The ONEOK Credit Agreement also includes a $50 million sublimit for the issuance of standby letters of credit and a $50 million sublimit for swingline loans. Under the terms of the ONEOK Credit Agreement, ONEOK may request an increase in the size of the facility to an aggregate of $500 million from $300 million by either commitments from new lenders or increased commitments from existing lenders. The ONEOK Credit Agreement contains provisions for an applicable margin rate and an annual facility fee, both of which adjust with changes in our credit rating. Based on our current credit rating, borrowings, if any, will accrue at LIBOR plus 125 basis points, and the annual facility fee is 25 basis points.

In February 2014, we repaid all amounts outstanding under our commercial paper program with a portion of the proceeds received from ONE Gas in connection with the separation and terminated the program. See Note F for additional information. At June 30, 2014, ONEOK had $2.1 million in letters of credit issued.

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ONEOK Partners Credit Agreement - The amount of short-term borrowings authorized by ONEOK Partners GP’s Board of Directors is $2.5 billion. At June 30, 2014, ONEOK Partners had no commercial paper outstanding, $14.0 million in letters of credit issued and no borrowings under the ONEOK Partners Credit Agreement.

The ONEOK Partners Credit Agreement, which was amended and restated effective on January 31, 2014, and expires in January 2019, is a $1.7 billion revolving credit facility and includes a $100 million sublimit for the issuance of standby letters of credit, a $150 million swingline sublimit and an option to request an increase in the size of the facility to an aggregate of $2.4 billion by either commitments from new lenders or increased commitments from existing lenders. The ONEOK Partners Credit Agreement is available for general partnership purposes. During the second quarter 2014, ONEOK Partners increased the size of its commercial paper program to $1.7 billion from $1.2 billion. Amounts outstanding under ONEOK Partners’ commercial paper program reduce the borrowing capacity under the ONEOK Partners Credit Agreement.

The ONEOK Partners Credit Agreement contains provisions for an applicable margin rate and an annual facility fee, both of which adjust with changes in its credit rating. Under the terms of the ONEOK Partners Credit Agreement, based on ONEOK Partners’ current credit ratings, borrowings, if any, will accrue at LIBOR plus 117.5 basis points, and the annual facility fee is 20 basis points. The ONEOK Partners Credit Agreement is guaranteed fully and unconditionally by the Intermediate Partnership.

The ONEOK Partners Credit Agreement contains certain financial, operational and legal covenants. Among other things, these covenants include maintaining a ratio of indebtedness to adjusted EBITDA (EBITDA, as defined in the ONEOK Partners Credit Agreement, adjusted for all noncash charges and increased for projected EBITDA from certain lender-approved capital expansion projects) of no more than 5.0 to 1. If ONEOK Partners consummates one or more acquisitions in which the aggregate purchase price is $25 million or more, the allowable ratio of indebtedness to adjusted EBITDA will increase to 5.5 to 1 for the quarter in which the acquisition was completed and the two following quarters. As a result of a pipeline acquisition ONEOK Partners completed in the first quarter 2014, the allowable ratio of indebtedness to adjusted EBITDA increased to 5.5 to 1 through the third quarter 2014. Upon breach of certain covenants by ONEOK Partners in the ONEOK Partners Credit Agreement, amounts outstanding under the ONEOK Partners Credit Agreement, if any, may become due and payable immediately. At June 30, 2014, its ratio of indebtedness to adjusted EBITDA was 3.4 to 1, and ONEOK Partners was in compliance with all covenants under the ONEOK Partners Credit Agreement.

Neither ONEOK nor ONEOK Partners guarantees the debt or other similar commitments of unaffiliated parties. ONEOK does not guarantee the debt, commercial paper or other similar commitments of ONEOK Partners, and ONEOK Partners does not guarantee the debt or other similar commitments of ONEOK.

F. LONG-TERM DEBT

In January 2014, ONE Gas, which at the time was our wholly owned subsidiary, completed a private placement of three series of Senior Notes totaling $1.2 billion. The following table details information about each of the three series of Senior Notes:

	(In millions)
2.07% notes due February 1, 2019	$300
3.61% notes due February 1, 2024	300
4.658% notes due February 1, 2044	600
Total	$1,200

Our obligations related to the ONE Gas Senior Notes terminated when we completed the separation of ONE Gas on January 31, 2014.

ONE Gas made a cash payment to us of approximately $1.13 billion from the proceeds of this offering. In February 2014, we retired approximately $152.5 million of the 4.25 percent senior notes due 2022 through a tender offer. The total amount paid was approximately $150 million. In February 2014, we called our $400 million, 5.2 percent senior notes due in 2015. The full repayment occurred in March 2014 and totaled $430.1 million, including accrued but unpaid interest to the redemption date. We recorded a loss on extinguishment of $24.8 million related to the debt retirements, which is included in other expense in our Consolidated Statements of Income.

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G. EQUITY

The following table sets forth the changes in equity attributable to us and our noncontrolling interests, including other comprehensive income, net of tax, for the periods indicated:

	Three Months Ended June 30, 2014			Three Months Ended June 30, 2013		
	ONEOK Shareholders' Equity	Noncontrolling Interests in Consolidated Subsidiaries	Total Equity	ONEOK Shareholders' Equity	Noncontrolling Interests in Consolidated Subsidiaries	Total Equity
	(Thousands of dollars)					
Beginning balance	$584,500	$2,543,207	$3,127,707	$2,134,354	$2,069,779	$4,204,133
Net income	61,590	79,161	140,751	919	78,576	79,495
Other comprehensive income (loss)	(3,214)	(16,199)	(19,413)	11,183	32,102	43,285
Common stock issued	6,325	—	6,325	4,919	—	4,919
Common stock dividends	(116,409)	—	(116,409)	(74,201)	—	(74,201)
Issuance of common units of ONEOK Partners	116,129	635,424	751,553	—	(264)	(264)
Distributions to noncontrolling interests	—	(104,687)	(104,687)	—	(91,186)	(91,186)
Other	7,504	—	7,504	8,175	—	8,175
Ending balance	$656,425	$3,136,906	$3,793,331	$2,085,349	$2,089,007	$4,174,356

	Six Months Ended June 30, 2014			Six Months Ended June 30, 2013		
	ONEOK Shareholders' Equity	Noncontrolling Interests in Consolidated Subsidiaries	Total Equity	ONEOK Shareholders' Equity	Noncontrolling Interests in Consolidated Subsidiaries	Total Equity
	(Thousands of dollars)					
Beginning balance	$2,337,851	$2,507,329	$4,845,180	$2,129,609	$2,102,841	$4,232,450
Net income	155,105	192,157	347,262	113,440	131,760	245,200
Other comprehensive income (loss)	5,471	(33,508)	(28,037)	4,828	24,576	29,404
Common stock issued	13,904	—	13,904	7,750	—	7,750
Common stock dividends	(199,684)	—	(199,684)	(147,982)	—	(147,982)
Issuance of common units of ONEOK Partners	127,125	677,270	804,395	2,956	11,352	14,308
Distribution of ONE Gas to shareholders	(1,747,424)	—	(1,747,424)	—	—	—
Distributions to noncontrolling interests	—	(206,342)	(206,342)	—	(181,522)	(181,522)

Other	(35,923)	—	(35,923)	(25,252)	—	(25,252)
Ending balance	$656,425	$3,136,906	$3,793,331	$2,085,349	$2,089,007	$4,174,356

Dividends - Dividends paid on our common stock to shareholders of record at the close of business on February 10, 2014 and April 30, 2014, were $0.40 per share and $0.56 per share, respectively. A dividend of $0.575 per share was declared for shareholders of record at the close of business on August 4, 2014, payable August 14, 2014.

See Note L for a discussion of ONEOK Partners' issuance of common units and distributions to noncontrolling interests.

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H. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table sets forth the balance in accumulated other comprehensive income (loss) for the period indicated:

	Unrealized Gains (Losses) on Energy Marketing and Risk-Management Assets/Liabilities (a)	Unrealized Holding Gains (Losses) on Investment Securities (a)	Pension and Postretirement Benefit Plan Obligations (a)	Accumulated Other Comprehensive Income (Loss) (a)
	(Thousands of dollars)			
January 1, 2014	$(43,168)	$857	$(79,676)	$(121,987)
Other comprehensive income (loss) before reclassifications	(22,691)	(113)	(80)	(22,884)
Amounts reclassified from accumulated other comprehensive income (loss)	22,391	—	5,964	28,355
Other comprehensive income (loss) attributable to ONEOK	(300)	(113)	5,884	5,471
Transfer to ONE Gas	—	—	3,389	3,389
June 30, 2014	$(43,468)	$744	$(70,403)	$(113,127)

(a) All amounts are presented net of tax.

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

Details about Accumulated Other Comprehensive Income (Loss) Components	Three Months Ended June 30, 2014	2013	Six Months Ended June 30, 2014	2013	Affected Line Item in the Consolidated Statements of Income
	(Thousands of dollars)				
Unrealized (gains) losses on energy marketing and risk-management assets/liabilities					
Commodity contracts	$5,187	$(1,245)	$31,606	$(3,811)	Commodity sales revenues
Interest-rate contracts	3,526	3,707	14,847	7,144	Interest expense
	8,713	2,462	46,453	3,333	Income before income taxes
	(1,202)	(661)	(9,098)	(1,055)	Income tax expense
	7,511	1,801	37,355	2,278	Income from continuing operations
	—	(5,191)	7,683	1,627	Income from discontinued operations
	7,511	(3,390)	45,038	3,905	Net income
Noncontrolling interest	5,538	754	22,647	606	Less: Net income attributable to noncontrolling interest
	$1,973	$(4,144)	$22,391	$3,299	Net income attributable to ONEOK

Pension and postretirement benefit plan obligations (a)					
Amortization of net loss	$3,964	$5,078	$7,927	$10,156	
Amortization of unrecognized prior service cost	(367)	(113)	(734)	(226)	
Amortization of unrecognized net asset at adoption	—	7	—	14	
	3,597	4,972	7,193	9,944	Income before income taxes
	(1,439)	(1,923)	(2,877)	(3,846)	Income tax expense
	2,158	3,049	4,316	6,098	Income from continuing operations
	—	8,793	1,648	17,002	Income from discontinued operations
	$2,158	$11,842	$5,964	$23,100	Net income attributable to ONEOK
Total reclassifications for the period attributable to ONEOK	$4,131	$7,698	$28,355	$26,399	Net income attributable to ONEOK

(a) These components of accumulated other comprehensive income (loss) are included in the computation of net periodic benefit cost. See Note J for additional detail of our net periodic benefit cost.

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I. 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 June 30, 2014		
	Income	Shares	Per Share Amount
	(Thousands, except per share amounts)		
Basic EPS from continuing operations			
Income from continuing operations attributable to ONEOK available for common stock	$69,599	209,403	$0.33
Diluted EPS from continuing operations			
Effect of dilutive securities	—	1,113	
Income from continuing operations attributable to ONEOK available for common stock and common stock equivalents	$69,599	210,516	$0.33

	Three Months Ended June 30, 2013		
	Income	Shares	Per Share Amount
	(Thousands, except per share amounts)		
Basic EPS from continuing operations			
Income from continuing operations attributable to ONEOK available for common stock	$75,201	206,143	$0.36
Diluted EPS from continuing operations			
Effect of dilutive securities	—	2,731	
Income from continuing operations attributable to ONEOK available for common stock and common stock equivalents	$75,201	208,874	$0.36

	Six Months Ended June 30, 2014		
	Income	Shares	Per Share Amount
	(Thousands, except per share amounts)		
Basic EPS from continuing operations			
Income from continuing operations attributable to ONEOK available for common stock	$161,340	209,267	$0.77
Diluted EPS from continuing operations			
Effect of dilutive securities	—	1,070	
Income from continuing operations attributable to ONEOK available for common stock and common stock equivalents	$161,340	210,337	$0.77

	Six Months Ended June 30, 2013		
	Income	Shares	Per Share

			Amount
	(Thousands, except per share amounts)		
Basic EPS from continuing operations			
Income from continuing operations attributable to ONEOK available for common stock	$132,520	205,811	$0.64
Diluted EPS from continuing operations			
Effect of dilutive securities	—	3,355	
Income from continuing operations attributable to ONEOK available for common stock and common stock equivalents	$132,520	209,166	$0.63

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J. EMPLOYEE BENEFIT PLANS

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

	Pension Benefits Three Months Ended June 30,		Pension Benefits Six Months Ended June 30,	
	2014	2013	2014	2013
	(Thousands of dollars)			
Components of net periodic benefit cost				
Service cost	$1,823	$1,532	$3,645	$3,064
Interest cost	4,628	3,906	9,256	7,812
Expected return on assets	(4,934)	(4,969)	(9,869)	(9,938)
Amortization of unrecognized prior service cost	48	58	96	116
Amortization of net loss	3,756	4,755	7,511	9,510
Other	120	—	120	—
Net periodic benefit cost	$5,441	$5,282	$10,759	$10,564

	Postretirement Benefits Three Months Ended June 30,		Postretirement Benefits Six Months Ended June 30,	
	2014	2013	2014	2013
	(Thousands of dollars)			
Components of net periodic benefit cost				
Service cost	$179	$118	$358	$236
Interest cost	611	298	1,222	596
Expected return on assets	(555)	(314)	(1,110)	(628)
Amortization of unrecognized net asset at adoption	—	7	—	14
Amortization of unrecognized prior service cost	(415)	(171)	(830)	(342)
Amortization of net loss	208	323	416	646
Other	(2)	—	(2)	—
Net periodic benefit cost	$26	$261	$54	$522

K. UNCONSOLIDATED AFFILIATES

Equity Earnings from Investments - The following table sets forth ONEOK Partners’ equity earnings (losses) from investments for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(Thousands of dollars)			
Northern Border Pipeline	$15,877	$15,279	$39,286	$31,669
Overland Pass Pipeline Company	4,121	5,528	8,852	8,427
Fort Union Gas Gathering	4,280	3,080	8,409	6,949
Bighorn Gas Gathering	(873)	626	(1,273)	1,338
Other	2,030	1,908	3,820	3,893
Equity earnings from investments	$25,435	$26,421	$59,094	$52,276

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Unconsolidated Affiliates Financial Information - The following table sets forth summarized combined financial information of ONEOK Partners' unconsolidated affiliates for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(Thousands of dollars)			
Income Statement				
Operating revenues	$121,509	$132,152	$276,788	$259,953
Operating expenses	$51,870	$61,124	$123,549	$125,395
Net income	$60,878	$65,746	$139,551	$123,950
Distributions paid to ONEOK Partners	$42,579	$39,311	$77,649	$69,504

ONEOK Partners incurred expenses in transactions with unconsolidated affiliates of $14.3 million and $12.6 million for the three months ended June 30, 2014 and 2013, respectively, and $28.4 million and $20.4 million for the six months ended June 30, 2014 and 2013, respectively, primarily related to Overland Pass Pipeline Company, which are included in cost of sales and fuel in our Consolidated Statements of Income. Accounts payable to ONEOK Partners' equity method investees at June 30, 2014, and December 31, 2013, were not material.

Low natural gas prices and the relatively higher crude oil and NGL prices, compared with natural gas on a heating-value basis, have caused producers primarily to focus development efforts on crude oil and NGL-rich supply basins rather than areas with dry natural gas production, such as the coal-bed methane areas in the Powder River Basin. The reduced coal-bed methane development activities and natural production declines in the dry natural gas formations of the Powder River Basin have resulted in lower natural gas volumes available to be gathered. While the reserve potential in the dry natural gas formations of the Powder River Basin still exists, future drilling and development will be affected by commodity prices and producers' alternative prospects.

Due to recent reductions in producer activity and declines in natural gas volumes gathered in the dry natural gas area of the Powder River Basin on the Bighorn Gas Gathering system in which ONEOK Partners owns a 49 percent interest, ONEOK Partners tested its investment for impairment at December 31, 2013. The estimated fair value exceeded the carrying value; however, a decline of 10 percent or more in the fair value of ONEOK Partners' investment in Bighorn Gas Gathering would result in a noncash impairment charge. ONEOK Partners is not able to reasonably estimate a range of potential future impairment charges, as many of the assumptions that would be used in its estimate of fair value are dependent upon events beyond its control. The carrying amount of ONEOK Partners' investment at June 30, 2014 was $85.7 million, which includes $53.4 million in equity method goodwill.

L. ONEOK PARTNERS

Equity Issuances - In May 2014, ONEOK Partners completed an underwritten public offering of approximately 13.9 million common units at a public offering price of $52.94 per common unit, generating net proceeds of approximately $714.5 million. In conjunction with this issuance, we contributed approximately $15.0 million in order to maintain our 2 percent general partner interest in ONEOK Partners. ONEOK Partners used the proceeds to repay commercial paper, fund capital expenditures and for general partnership purposes.

ONEOK Partners has an "at-the-market" equity program for the offer and sale from time to time of its common units up to an aggregate amount of $300 million. The program allows ONEOK Partners to offer and sell its common units at prices ONEOK Partners deems appropriate through a sales agent. Sales of common units are made by means of ordinary brokers' transactions on the NYSE, in block transactions, or as otherwise agreed to between ONEOK Partners and the sales agent. ONEOK Partners is under no obligation to offer and sell common units under the program.

During the six months ended June 30, 2014, ONEOK Partners sold approximately 3.0 million common units through this program. The net proceeds, including ONEOK Partners GP's contribution to maintain our 2 percent general partner interest in ONEOK Partners, were approximately $164.1 million, which were used for general partnership purposes. During the three months ended March 31, 2013, ONEOK Partners sold 300,000 common units through this program that resulted in net proceeds, including ONEOK Partners GP's contribution to maintain our 2 percent general partner interest in ONEOK Partners, of approximately $16.3 million and used the proceeds for general partnership purposes. There were no common units sold through this program in the second quarter 2013.

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As a result of these transactions, our aggregate ownership interest in ONEOK Partners decreased to 38.5 percent at June 30, 2014, from 41.2 percent at December 31, 2013.

We account for the difference between the carrying amount of our investment in ONEOK Partners and the underlying book value arising from issuance of common units by ONEOK Partners as an equity transaction. If ONEOK Partners issues common units at a price different than our carrying value per unit, we account for the premium or deficiency as an adjustment to paid-in capital. As a result of ONEOK Partners' issuance of common units, we recognized an increase to paid-in capital of approximately $127.1 million, net of taxes, for the six months ended June 30, 2014.

Ownership Interest in ONEOK Partners - Our ownership interest in ONEOK Partners is shown in the table below at June 30, 2014:

General partner interest	2.0	%
Limited partner interest (a)	36.5	%
Total ownership interest	38.5	%

(a) - Represents 19.8 million common units and approximately 73.0 million Class B units, which are convertible, at our option, into common units.

Cash Distributions - We receive distributions from ONEOK Partners on the common and Class B units we own and the 2 percent general partner interest, which includes our incentive distribution rights. Under the Partnership Agreement, distributions are made to the partners with respect to each calendar quarter in an amount equal to 100 percent of available cash as defined in the Partnership Agreement. Available cash generally will be distributed 98 percent to limited partners and 2 percent to the general partner. The general partner's percentage interest in quarterly distributions is increased after certain specified target levels are met during the quarter. Under the incentive distribution provisions, as set forth in the Partnership Agreement, the general partner receives:

- 15 percent of amounts distributed in excess of $0.3025 per unit;
- 25 percent of amounts distributed in excess of $0.3575 per unit; and
- 50 percent of amounts distributed in excess of $0.4675 per unit.

In July 2014, a cash distribution of $0.76 per unit ($3.04 per unit on an annualized basis), an increase of 1.5 cents from the previous quarter, was declared for the second quarter 2014 and will be paid on August 14, 2014, to unitholders of record at the close of business on August 4, 2014.

The following table shows ONEOK Partners' distributions paid in the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(Thousands, except per unit amounts)			
Distribution per unit	$0.745	$0.715	$1.475	$1.425
General partner distributions	$5,011	$4,469	$9,860	$8,887
Incentive distributions	71,911	61,576	140,166	122,013
Distributions to general partner	76,922	66,045	150,026	130,900
Limited partner distributions to ONEOK	69,125	66,344	136,862	132,224
Limited partner distributions to noncontrolling interest	104,506	91,039	206,161	181,228
Total distributions paid	$250,553	$223,428	$493,049	$444,352

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The following table shows ONEOK Partners' distributions declared for the periods indicated and paid within 45 days of the end of the period:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(Thousands, except per unit amounts)			
Distribution per unit	$0.760	$0.720	$1.505	$1.435
General partner distributions	$5,501	$4,512	$10,512	$8,981
Incentive distributions	80,381	62,633	152,292	124,209
Distributions to general partner	85,882	67,145	162,804	133,190
Limited partner distributions to ONEOK	70,519	66,807	139,646	133,151
Limited partner distributions to noncontrolling interest	118,644	91,676	223,150	182,715
Total distributions declared	$275,045	$225,628	$525,600	$449,056

Relationship - We consolidate ONEOK Partners in our consolidated financial statements; however, we are restricted from the assets and cash flows of ONEOK Partners except for the distributions we receive. Distributions are declared quarterly by ONEOK Partners' general partner based on the terms of the Partnership Agreement. See Note N for more information on ONEOK Partners' results.

Affiliate Transactions - We have certain transactions with ONEOK Partners and its subsidiaries.

Prior to the wind down of our energy services business, ONEOK Partners sold natural gas from its natural gas gathering and processing operations to our energy services business. In addition, a portion of ONEOK Partners' revenues from its natural gas pipelines business were from our former energy services and natural gas distribution businesses, which contracted with ONEOK Partners for natural gas transportation and storage services. ONEOK Partners also purchased natural gas from our former energy services business for its natural gas liquids and its natural gas gathering and processing operations.

As a result of the wind down discussed in Note B, our energy services business no longer executes affiliate transactions with ONEOK Partners. Beginning in the second quarter, ONEOK Partners enters into all commodity derivative financial contracts with unaffiliated third parties. ONEOK Partners continues to provide natural gas transportation and storage services to ONE Gas after the separation.

We provide a variety of services to our affiliates, including cash management and financial services, legal and administrative services by our employees and management, insurance and office space leased in our headquarters building and other field locations. Where costs are incurred specifically on behalf of an affiliate, the costs are billed directly to the affiliate by us. In other situations, the costs may be allocated to the affiliates through a variety of methods, depending upon the nature of the expenses and the activities of the affiliates. Beginning in the second quarter 2014, we allocate substantially all of our general overhead costs to ONEOK Partners as a result of the separation of our natural gas distribution business and the wind down of our energy services business in the first quarter 2014. For the first quarter 2014 and the three and six months ended June 30, 2013, it is not practicable to determine what these general overhead costs would have been on a stand-alone basis.

The following table shows ONEOK Partners' transactions with us for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(Thousands of dollars)			

Revenues	$—	$91,340	$53,526	$173,974
Expenses				
Cost of sales and fuel	$—	$8,742	$10,835	$18,293
Administrative and general expenses	78,705	61,861	155,951	134,357
Total expenses	$78,705	$70,603	$166,786	$152,650

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Prior to the ONE Gas separation, natural gas sales and transportation and storage services provided to our former natural gas distribution business by ONEOK Partners were $14.3 million for the three months ended June 30, 2013, and $7.5 million and $28.1 million for the six months ended June 30, 2014 and 2013, respectively. Prior to February 1, 2014, these revenues and related costs were eliminated in consolidation. Beginning February 1, 2014, these revenues represent third-party transactions with ONE Gas and are not eliminated in consolidation, as such sales and services have continued subsequent to the separation and are expected to continue in future periods. Prior to the completion of the energy services wind down, natural gas and natural gas liquids sales and transportation and storage services provided to our energy services business by ONEOK Partners were $77.0 million for the three months ended June 30, 2013, and $46.0 million and $145.9 million for the six months ended June 30, 2014 and 2013, respectively. While these transactions were eliminated in consolidation in previous periods, they are now reflected as affiliate transactions and not eliminated in consolidation as these transactions have continued with third parties.

M. COMMITMENTS AND CONTINGENCIES

Environmental Matters - ONEOK Partners is subject to multiple historical preservation, wildlife preservation and environmental laws and/or regulations that affect many aspects of its present and future operations. Regulated activities include, but are not limited to, those involving air emissions, storm water and wastewater discharges, handling and disposal of solid and hazardous wastes, wetland preservation, hazardous materials transportation and pipeline and facility construction. These laws and regulations require ONEOK Partners to obtain and/or comply with a wide variety of environmental clearances, registrations, licenses, permits and other approvals. Failure to comply with these laws, regulations, licenses and permits may expose ONEOK Partners to fines, penalties and/or interruptions in its operations that could be material to its results of operations. For example, if a leak or spill of hazardous substances or petroleum products occurs from pipelines or facilities that ONEOK Partners owns, operates or otherwise uses, ONEOK Partners could be held jointly and severally liable for all resulting liabilities, including response, investigation and cleanup costs, which could affect materially its results of operations and cash flows. In addition, emissions controls and/or other regulatory or permitting mandates under the Clean Air Act and other similar federal and state laws could require unexpected capital expenditures at its facilities. ONEOK Partners cannot assure that existing environmental statutes and regulations will not be revised or that new regulations will not be adopted or become applicable to it.

In June 2013, the Executive Office of the President of the United States (the President) issued the President’s Climate Action Plan, which includes, among other things, plans for further regulatory actions to reduce carbon emissions from various sources. On March 28, 2014, the President released the Climate Action Plan - Strategy to Reduce Methane Emissions (Methane Strategy) that lists a number of actions that the federal agencies will undertake to continue to reduce above-ground methane emissions from several industries, including the oil and natural gas sectors. The proposed measures outlined in the Methane Strategy include, without limitation, the following: collaboration with the states to encourage emission reductions; standards to minimize natural gas venting and flaring on public lands; policy recommendations for reducing emissions from energy infrastructure to increase the performance of the nation’s energy transmission, storage and distribution systems; and continued efforts by PHMSA to require pipeline operators to take steps to eliminate leaks and prevent accidental methane releases and evaluate the progress of states in replacing cast iron pipelines. The impact of any such proposed regulatory actions on ONEOK Partners’ facilities and operations is unknown. ONEOK Partners continues to monitor these proposed regulations and the impact they may have on its business. Revised or additional statutes or regulations that result in increased compliance costs or additional operating restrictions could have a significant impact on its business, financial position, results of operations and cash flows.

The legal responsibility for the environmental conditions at former manufactured natural gas sites in Kansas was transferred from us to ONE Gas on January 31, 2014 upon the completion of the separation. Our expenditures for environmental assessment, mitigation, remediation and compliance prior to the separation were not significant in relation to our financial position, results of operations or cash flows, and our expenditures related to environmental matters have had no material effects on earnings or cash flows during the three and six months ended June 30, 2014 and 2013.

The EPA's "Tailoring Rule" regulates greenhouse gas emissions at new or modified facilities that meet certain criteria. Affected facilities are required to review best available control technology (BACT), conduct air-quality and conduct impact analysis and public reviews with respect to such emissions. At current emissions threshold levels, this rule has had a minimal impact on ONEOK Partners' existing facilities. The EPA has stated it will consider lowering the threshold levels over the next five years, which could increase the impact on its existing facilities; however, potential costs, fees or expenses associated with the potential adjustments are unknown. In addition, on June 23, 2014, the Supreme Court of the United States, in a case styled, Utility Air Regulatory Group v. EPA, 530 U.S. (2014), held that an industrial facility's potential to emit greenhouse gas (GHG) emissions alone cannot subject a facility to the permitting requirements for major stationary source provisions of the Clean Air Act. The decision invalidated the EPA's current Triggering and Tailoring Rule for GHG Prevention of Significant Deterioration

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(PSD) and Title V requirements. However, the Court also ruled that to the extent a source pursues a capital project (new construction or expansion of existing facility), which otherwise subjects the source to major source PSD permitting for conventional criteria pollutants, the permitting authorities may impose BACT analysis and emission limits for GHGs from those sources. We are in the process of evaluating the effects the decision may have on ONEOK Partners' existing operations, and the opportunities it creates for design decisions for new project applications.

The EPA's rule on air-quality standards, National Emission Standards for Hazardous Air Pollutants for Stationary Reciprocating Internal Combustion Engines (RICE NESHAP), initially included a compliance date in 2013, and has since become effective. While the rule could require capital expenditures for the purchase and installation of new emissions-control equipment, ONEOK Partners does not expect these expenditures will have a material impact on its results of operations, financial position or cash flows.

In July 2011, the EPA issued a proposed rule that would change the air emissions New Source Performance Standards, also known as NSPS, and Maximum Achievable Control Technology requirements applicable to the oil and natural gas industry, including natural gas production, processing, transmission and underground storage sectors. In April 2012, the EPA released the final rule, which includes new NSPS and air toxic standards for a variety of sources within natural gas processing plants, oil and natural gas production facilities and natural gas transmission stations. The rule also regulates emissions from the hydraulic fracturing of wells for the first time. The EPA's final rule reflects significant changes from the proposal issued in 2011 and allows for more manageable compliance options. The NSPS final rule became effective in October 2012, but the dates for compliance vary and depend in part upon the type of affected facility and the date of construction, reconstruction or modification.

The rule was most recently amended in September 2013, and a further proposed rulemaking was published in July 2014. The EPA has indicated that further amendments may be issued in 2014. Based on the amendments, ONEOK Partners' understanding of pending stakeholder responses to the NSPS rule and the proposed rulemaking, ONEOK Partners does not anticipate a material impact to its anticipated capital, operations and maintenance costs resulting from compliance with the regulation. However, the EPA may issue additional responses, amendments and/or policy guidance on the final rule, which could alter its present expectations. Generally, the NSPS rule will require expenditures for updated emissions controls, monitoring and record-keeping at affected facilities in the crude oil and natural gas industry. ONEOK Partners does not expect these expenditures will have a material impact on its results of operations, financial position or cash flows.

Pipeline Safety - ONEOK Partners is subject to PHMSA regulations, including asset integrity-management regulations. The Pipeline Safety Improvement Act of 2002 requires pipeline companies operating high-pressure pipelines to perform integrity assessments on pipeline segments that pass through densely populated areas or near specifically designated high-consequence areas. In January 2012, The Pipeline Safety, Regulatory Certainty and Job Creation Act of 2011 was signed into law. The law increased maximum penalties for violating federal pipeline safety regulations and directs the DOT and Secretary of Transportation to conduct further review or studies on issues that may or may not be material to ONEOK Partners. These issues include but are not limited to the following:

- an evaluation on whether hazardous natural gas liquids and natural gas pipeline integrity-management requirements should be expanded beyond current high-consequence areas;
- a review of all natural gas and hazardous natural gas liquids gathering pipeline exemptions;
- a verification of records for pipelines in Class 3 and 4 locations and high-consequence areas to confirm maximum allowable operating pressures; and
- a requirement to test previously untested pipelines operating above 30 percent yield strength in high-consequence areas.

The potential capital and operating expenditures related to this legislation, the associated regulations or other new pipeline safety regulations are unknown.

Financial Markets Legislation - The Dodd-Frank Act represents a far-reaching overhaul of the framework for regulation of United States financial markets. The CFTC has issued final regulations for most of the provisions of the Dodd-Frank Act, and we have implemented measures to comply with the regulations that are applicable to our businesses. ONEOK Partners continues to participate in financial markets for hedging certain risks inherent in its business, including commodity-price and interest-rate risks. Although the impact to date has not been material, we continue to monitor proposed regulations and the impact these regulations may have on our business and risk-management strategies in the future.

Legal Proceedings - Gas Index Pricing Litigation - As previously reported, ONEOK and its subsidiary, ONEOK Energy Services Company L.P. (OESC), along with several other energy companies, are defending multiple lawsuits arising from alleged market manipulation or false reporting of natural gas prices to natural gas-index publications. On April 10, 2013, the

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United States Court of Appeals for the Ninth Circuit reversed the summary judgments that had been granted in favor of ONEOK, OESC and other unaffiliated defendants in the following cases: Reorganized FLI, Learjet, Arandell, Heartland and NewPage. The Ninth Circuit also reversed the summary judgment that had been granted in favor of OESC on all state law claims asserted in the Sinclair case. ONEOK, OESC and the other unaffiliated defendants filed a Petition for Writ of Certiorari with the United States Supreme Court on August 26, 2013, seeking review of the Ninth Circuit decision. On July 1, 2014, the United States Supreme Court granted the the Petition for Writ of Certiorari. Oral argument has not yet been scheduled.

Because of the uncertainty surrounding the Gas Index Pricing Litigation, including an insufficient description of the purported classes and other related matters, we cannot reasonably estimate a range of potential exposures at this time. However, it is reasonably possible that the ultimate resolution of these matters could result in future charges that may be material to our results of operations.

Other Legal Proceedings - We are a party to various other litigation matters and claims that have arisen in the normal course of our operations. While the results of these various other litigation matters and claims cannot be predicted with certainty, we believe the reasonably possible losses on such matters, individually and in the aggregate, are not material. Additionally, we believe the probable final outcome of such matters will not have a material adverse effect on our consolidated results of operations, financial position or cash flows.

ONE Gas Separation - In connection with the separation of ONE Gas, we entered into a Separation and Distribution Agreement with ONE Gas, which sets forth the agreements between us and ONE Gas regarding the principal transactions necessary to effect the separation, including cross-indemnities between us and ONE Gas. In general, we agreed to indemnify ONE Gas for any liabilities relating to our business following the separation, including ONEOK Partners and our energy services business, and ONE Gas agreed to indemnify us for liabilities relating to the natural gas distribution business. If a liability does not relate to either our remaining business or to ONE Gas, then we and ONE Gas will each be responsible for a portion of such liability.

In addition, we entered into a Transition Services Agreement with ONE Gas. Under this agreement, ONEOK and ONE Gas agreed to provide each other with various services, including services relating to treasury and risk management, accounting, human resources and payroll management, tax compliance, telecommunications services and information technology services.

N. SEGMENTS

Segment Descriptions - Our reportable business segments are based upon the segments of ONEOK Partners, which include the following:

- the Natural Gas Gathering and Processing segment gathers and processes natural gas;
- the Natural Gas Liquids segment gathers, treats, fractionates and transports NGLs and stores, markets and distributes NGL products; and
- the Natural Gas Pipelines segment operates regulated interstate and intrastate natural gas transmission pipelines and natural gas storage facilities.

Change in Reportable Segments - On January 31, 2014, we completed the separation of our former natural gas distribution business into a stand-alone publicly traded company called ONE Gas. ONE Gas consists of our former Natural Gas Distribution segment. On March 31, 2014, we completed the accelerated wind down of our Energy Services segment. These former segments are included in discontinued operations for all periods presented. See Notes A and B for additional information.

Following the separation of our natural gas distribution business into ONE Gas and wind down of our energy services business, our chief operating decision maker reviews the financial performance of each of the three businesses of ONEOK Partners on a regular basis to assess the performance of, and allocate resources to, ONEOK Partners. As a result, our reportable segments have changed to reflect the three business segments of ONEOK Partners. Prior periods presented have been recast to conform to the current presentation.

Accounting Policies - We evaluate performance based principally on each segment's operating income and equity earnings. The accounting policies of the segments are described in Note A of the Notes to Consolidated Financial Statements in our Annual Report. Affiliate and intersegment sales are recorded on the same basis as sales to unaffiliated customers. Net margin is comprised of total revenues less cost of sales and fuel. Cost of sales and fuel includes commodity purchases, fuel, storage and transportation costs. Revenues from sales and services provided by ONEOK Partners to our former Natural Gas Distribution segment, which were previously eliminated in consolidation, are now reported as third-party revenues.

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Customers - The primary customers of the Natural Gas Gathering and Processing segment are major and independent crude oil and natural gas production companies. The Natural Gas Liquids segment's customers are primarily NGL and natural gas gathering and processing companies, major and independent crude oil and natural gas production companies, propane distributors, ethanol producers and petrochemical, refining and NGL marketing companies. The Natural Gas Pipelines segment's customers include natural gas distribution, electric-generation, natural gas marketing, industrial and major and independent crude oil and natural gas production companies.

For the three and six months ended June 30, 2014 and 2013, ONEOK Partners had no single customer from which it received 10 percent or more of consolidated revenues.

Operating Segment Information - The following tables set forth certain selected financial information for our and ONEOK Partners' operating segments for the periods indicated:

Three Months Ended June 30, 2014	Natural Gas Gathering and Processing	Natural Gas Liquids (a)	Natural Gas Pipelines (b)	Other and Eliminations	Total
	(Thousands of dollars)				
Sales to unaffiliated customers	$374,112	$2,612,336	$79,287	$1,147	$3,066,882
Intersegment revenues	349,253	52,974	2,698	(404,925)	—
Total revenues	$723,365	$			