ONEOK INC /NEW/
Form 10-Q
May 03, 2017
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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 March 31, 2017.
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	73-1520922
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
100 West Fifth Street, Tulsa, OK	74103
(Address of principal executive offices)	(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, smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer X Accelerated filer __ Non-accelerated filer __

Smaller reporting company__ Emerging growth company__

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.__

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 April 24, 2017, the Company had 210,909,327 shares of common stock outstanding.

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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," "pla "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.

GLOSSARY

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

2017 Credit Agreement	ONEOK's $2.5 billion revolving credit agreement effective upon the closing of the Merger Transaction and the terminations of the ONEOK Credit Agreement and ONEOK Partners Credit Agreement
AFUDC	Allowance for funds used during construction
Annual Report	Annual Report on Form 10-K for the year ended December 31, 2016
ASU	Accounting Standards Update
Bbl	Barrels, 1 barrel is equivalent to 42 United States gallons
BBtu/d	Billion British thermal units per day
Bcf	Billion cubic feet
Bcf/d	Billion cubic feet per day
CFTC	U.S. Commodity Futures Trading Commission
Clean Air Act	Federal Clean Air Act, as amended
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
FERC	Federal Energy Regulatory Commission
GAAP	Accounting principles generally accepted in the United States of America
GHG	Greenhouse gas
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
Merger Agreement	Agreement and Plan of Merger, dated as of January 31, 2017, by and among ONEOK, Merger Sub, ONEOK Partners and ONEOK Partners GP
Merger Sub	New Holdings Subsidiary, LLC, a wholly owned subsidiary of ONEOK
Merger Transaction	The transaction contemplated by the Merger Agreement pursuant to which ONEOK will acquire all of ONEOK Partners' outstanding common units representing limited partner interests in ONEOK Partners not already directly or indirectly owned by ONEOK
MMBbl	Million barrels
MMBtu	Million British thermal units
MMcf/d	Million cubic feet per day
Moody's	Moody's Investors Service, Inc.
NGL(s)	Natural gas liquid(s)
NGL products	Marketable natural gas liquid 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
ONEOK	ONEOK, Inc.
ONEOK Credit Agreement	ONEOK's $300 million amended and restated revolving credit agreement effective as of January 31, 2014
ONEOK Partners	ONEOK Partners, L.P.
ONEOK Partners Credit Agreement	ONEOK Partners' $2.4 billion amended and restated revolving credit agreement effective as of January 31, 2014, as amended
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

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PHMSA	United States Department of Transportation Pipeline and Hazardous Materials Safety Administration
POP	Percent of Proceeds
Quarterly Report(s)	Quarterly Report(s) on Form 10-Q
Roadrunner	Roadrunner Gas Transmission, LLC, a ONEOK Partners 50 percent owned joint venture
S&P	S&P Global Ratings
SCOOP	South Central Oklahoma Oil Province, an area in the Anadarko Basin in Oklahoma
SEC	Securities and Exchange Commission
STACK	Sooner Trend Anadarko Canadian Kingfisher, an area in the Anadarko Basin in Oklahoma
Term Loan Agreement	ONEOK Partners' senior unsecured delayed-draw three-year $1.0 billion term loan agreement dated January 8, 2016, as amended
West Texas LPG	West Texas LPG Pipeline Limited Partnership and Mesquite Pipeline
WTI	West Texas Intermediate
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 March 31,	
(Unaudited)	2017	2016
	(Thousands of dollars, except per share amounts)	
Revenues		
Commodity sales	$2,216,717	$1,283,511
Services	532,894	490,948
Total revenues	2,749,611	1,774,459
Cost of sales and fuel (exclusive of items shown separately below)	2,143,843	1,195,738
Operations and maintenance	164,769	155,145
Depreciation and amortization	99,419	94,478
General taxes	27,153	21,870
(Gain) loss on sale of assets	7	(4,206)
Operating income	314,420	311,434
Equity in net earnings from investments (Note J)	39,564	32,914
Allowance for equity funds used during construction	13	208
Other income	4,341	305
Other expense	(750)	(637)
Interest expense (net of capitalized interest of $1,441 and 2,887, respectively)	(116,462)	(118,247)
Income before income taxes	241,126	225,977
Income taxes	(54,941)	(50,066)
Income from continuing operations	186,185	175,911
Income (loss) from discontinued operations, net of tax	—	(952)
Net income	186,185	174,959
Less: Net income attributable to noncontrolling interests	98,824	91,513
Net income attributable to ONEOK	$87,361	$83,446
Amounts attributable to ONEOK:		
Income from continuing operations	$87,361	$84,398
Income (loss) from discontinued operations	—	(952)
Net income	$87,361	$83,446
Basic earnings per share:		
Income from continuing operations (Note H)	$0.41	$0.40
Income (loss) from discontinued operations	—	—
Net income	$0.41	$0.40
Diluted earnings per share:		
Income from continuing operations (Note H)	$0.41	$0.40
Income (loss) from discontinued operations	—	—
Net income	$0.41	$0.40
Average shares (thousands)		
Basic	211,619	210,781
Diluted	213,602	211,071
Dividends declared per share of common stock	$0.615	$0.615

See accompanying Notes to Consolidated Financial Statements.

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ONEOK, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)	Three Months Ended March 31, 2017	2016
	(Thousands of dollars)	
Net income	$186,185	$174,959
Other comprehensive income (loss), net of tax		
Unrealized gains (losses) on derivatives, net of tax of $(4,401) and $3,039, respectively	24,456	(16,894)
Realized (gains) losses on derivatives in net income, net of tax of $(3,365) and $1,276, respectively	17,283	(8,525)
Change in pension and postretirement benefit plan liability, net of tax of $(1,360) and $(1,035), respectively	2,041	1,553
Other comprehensive income (loss) on investments in unconsolidated affiliates, net of tax of $(58) and $884, respectively	325	(4,917)
Total other comprehensive income (loss), net of tax	44,105	(28,783)
Comprehensive income	230,290	146,176
Less: Comprehensive income attributable to noncontrolling interests	127,641	70,102
Comprehensive income attributable to ONEOK	$102,649	$76,074

See accompanying Notes to Consolidated Financial Statements.

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ONEOK, Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS

	March 31,	December 31,
(Unaudited)	2017	2016
Assets	(Thousands of dollars)	
Current assets		
Cash and cash equivalents	$310,808	$248,875
Accounts receivable, net	734,844	872,430
Natural gas and natural gas liquids in storage	193,339	140,034
Commodity imbalances	30,904	60,896
Other current assets	108,552	106,898
Assets of discontinued operations	—	551
Total current assets	1,378,447	1,429,684
Property, plant and equipment		
Property, plant and equipment	15,154,360	15,078,497
Accumulated depreciation and amortization	2,600,776	2,507,094
Net property, plant and equipment	12,553,584	12,571,403
Investments and other assets		
Investments in unconsolidated affiliates	956,388	958,807
Goodwill and intangible assets	1,002,384	1,005,359
Other assets	176,755	162,998
Assets of discontinued operations	—	10,500
Total investments and other assets	2,135,527	2,137,664
Total assets	$16,067,558	$16,138,751

See accompanying Notes to Consolidated Financial Statements.

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

(Unaudited)	March 31, 2017	December 31, 2016
Liabilities and equity	(Thousands of dollars)	
Current liabilities		
Current maturities of long-term debt (Note E)	$410,650	$410,650
Short-term borrowings (Note E)	1,290,729	1,110,277
Accounts payable	703,278	874,731
Commodity imbalances	114,542	142,646
Accrued interest	90,151	112,514
Other current liabilities	122,624	166,042
Liabilities of discontinued operations	—	19,841
Total current liabilities	2,731,974	2,836,701
Long-term debt, excluding current maturities (Note E)	7,919,826	7,919,996
Deferred credits and other liabilities		
Deferred income taxes	1,612,039	1,623,822
Other deferred credits	334,206	321,846
Liabilities of discontinued operations	—	7,471
Total deferred credits and other liabilities	1,946,245	1,953,139
Commitments and contingencies (Note L)		
Equity (Note F)		
ONEOK shareholders' equity:		
Common stock, $0.01 par value:		
authorized 600,000,000 shares; issued 245,811,180 shares and outstanding 210,906,018 shares at March 31, 2017; issued 245,811,180 shares and outstanding 210,681,661 shares at December 31, 2016	2,458	2,458
Paid-in capital	1,232,069	1,234,314
Accumulated other comprehensive loss (Note G)	(139,062)	(154,350)
Retained earnings	30,887	—
Treasury stock, at cost: 34,905,162 shares at March 31, 2017, and 35,129,519 shares at December 31, 2016	(887,970)	(893,677)
Total ONEOK shareholders' equity	238,382	188,745
Noncontrolling interests in consolidated subsidiaries	3,231,131	3,240,170
Total equity	3,469,513	3,428,915
Total liabilities and equity	$16,067,558	$16,138,751

See accompanying Notes to Consolidated Financial Statements.

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ONEOK, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)	Three Months Ended March 31, 2017	2016
	(Thousands of dollars)	
Operating activities		
Net income	$186,185	$174,959
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	99,419	94,478
Equity in net earnings from investments	(39,564)	(32,914)
Distributions received from unconsolidated affiliates	39,520	34,789
Deferred income taxes	53,397	53,725
Share-based compensation expense	5,907	8,232
Pension and postretirement benefit expense, net of contributions	(5,018)	3,039
Allowance for equity funds used during construction	(13)	(208)
(Gain) loss on sale of assets	7	(4,206)
Changes in assets and liabilities:		
Accounts receivable	137,586	68,326
Natural gas and natural gas liquids in storage	(53,305)	(27,991)
Accounts payable	(122,843)	(64,088)
Commodity imbalances, net	1,888	2,968
Settlement of exit activities liabilities	(4,119)	(6,186)
Accrued interest	(22,363)	(24,413)
Risk-management assets and liabilities	45,977	(23,813)
Other assets and liabilities, net	(53,571)	(26,030)
Cash provided by operating activities	269,090	230,667
Investing activities		
Capital expenditures (less allowance for equity funds used during construction)	(112,737)	(196,411)
Contributions to unconsolidated affiliates	(4,422)	(158)
Distributions received from unconsolidated affiliates in excess of cumulative earnings	7,400	11,764
Proceeds from sale of assets	296	14,858
Cash used in investing activities	(109,463)	(169,947)
Financing activities		
Dividends paid	(129,842)	(129,235)
Distributions to noncontrolling interests	(136,680)	(137,980)
Borrowing (repayment) of short-term borrowings, net	180,452	(101,773)
Issuance of long-term debt, net of discounts	—	1,000,000
Debt financing costs	—	(2,770)
Repayment of long-term debt	(1,951)	(652,148)
Issuance of common stock	3,722	3,964
Other	(13,395)	(1,189)
Cash used in financing activities	(97,694)	(21,131)
Change in cash and cash equivalents	61,933	39,589
Change in cash and cash equivalents included in discontinued operations	—	11
Change in cash and cash equivalents from continuing operations	61,933	39,600
Cash and cash equivalents at beginning of period	248,875	97,619
Cash and cash equivalents at end of period	$310,808	$137,219

See accompanying Notes to Consolidated Financial Statements.

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

	ONEOK Shareholders' Equity			
(Unaudited)	Common Stock Issued	Common Stock	Paid-in Capital	Accumulated Other Comprehensive Loss
	(Shares)	(Thousands of dollars)		
January 1, 2017	245,811,180	$2,458	$1,234,314	$ (154,350)
Cumulative effect adjustment for adoption of ASU 2016-09	—	—	—	—
Net income	—	—	—	—
Other comprehensive income (loss) (Note G)	—	—	—	15,288
Common stock issued	—	—	(2,506)	—
Common stock dividends - $0.615 per share (Note F)	—	—	—	—
Distributions to noncontrolling interests	—	—	—	—
Other	—	—	261	—
March 31, 2017	245,811,180	$2,458	$1,232,069	$ (139,062)

	ONEOK Shareholders' Equity			
(Unaudited)	Common Stock Issued	Common Stock	Paid-in Capital	Accumulated Other Comprehensive Loss
	(Shares)	(Thousands of dollars)		
January 1, 2016	245,811,180	$2,458	$1,378,444	$ (127,242)
Net income	—	—	—	—
Other comprehensive income (loss)	—	—	—	(7,372)
Common stock issued	—	—	(3,679)	—
Common stock dividends - $0.615 per share (Note F)	—	—	(45,789)	—
Distributions to noncontrolling interests	—	—	—	—
Other	—	—	(1,425)	—
March 31, 2016	245,811,180	$2,458	$1,327,551	$ (134,614)

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ONEOK, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS 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, 2017	$—	$(893,677)	$ 3,240,170	$3,428,915
Cumulative effect adjustment for adoption of ASU 2016-09	73,368	—	—	73,368
Net income	87,361	—	98,824	186,185
Other comprehensive income (loss) (Note G)	—	—	28,817	44,105
Common stock issued	—	5,707	—	3,201
Common stock dividends - $0.615 per share (Note F)	(129,842)	—	—	(129,842)
Distributions to noncontrolling interests	—	—	(136,680)	(136,680)
Other	—	—	—	261
March 31, 2017	$30,887	$(887,970)	$ 3,231,131	$3,469,513

(Unaudited)	ONEOK Shareholders' Equity			
	Retained Earnings	Treasury Stock	Noncontrolling Interests in Consolidated Subsidiaries	Total Equity
	(Thousands of dollars)			
January 1, 2016	$—	$(917,862)	$ 3,430,538	$3,766,336
Net income	83,446		91,513	174,959
Other comprehensive income (loss)	—	—	(21,411)	(28,783)
Common stock issued	—	9,355	—	5,676
Common stock dividends - $0.615 per share (Note F)	(83,446)		—	(129,235)
Distributions to noncontrolling interests	—	—	(137,980)	(137,980)
Other	—	—	(4,041)	(5,466)
March 31, 2016	$—	$(908,507)	$ 3,358,619	$3,645,507

See accompanying Notes to Consolidated Financial Statements.

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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 statement of the results for the interim periods presented. All such adjustments are of a normal recurring nature. The 2016 year-end consolidated balance sheet data was derived from our audited financial statements but does not include all disclosures required by GAAP. Certain reclassifications have been made in the prior-year financial statements to conform to the current-year presentation. 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, except as described below.

Discontinued Operations - Beginning in 2017, the results of operations and financial position of our former energy services business are no longer reflected as discontinued operations in our Consolidated Financial Statements and Notes to the Consolidated Financial Statements, as they are not material.

Recently Issued Accounting Standards Update - Changes to GAAP are established by the Financial Accounting Standards Board (FASB) in the form of ASUs to the FASB Accounting Standards Codification. We consider the applicability and impact of all ASUs. ASUs not listed below were assessed and determined to be either not applicable or clarifications of ASUs listed below. The following tables provide a brief description of recent accounting pronouncements and our analysis of the effects on our financial statements:

Standard	Description	Date of Adoption	Effect on the Financial Statements or Other Significant Matters
Standards that were adopted			
ASU 2015-11, “Inventory (Topic 330): Simplifying the Measurement of Inventory”	The standard requires that inventory, excluding inventory measured using last-in, first-out (LIFO) or the retail inventory method, be measured at the lower of cost or net realizable value.	First quarter 2017	As a result of adopting this guidance, we updated our accounting policy for inventory valuation accordingly. The financial impact of adopting this guidance was not material.
ASU 2016-05, “Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships”	The standard clarifies that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument under Topic 815 does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met.	First quarter 2017	The impact of adopting this standard was not material.
ASU 2016-06, “Derivatives and Hedging (Topic 815): Contingent	The standard clarifies the requirements for assessing whether a contingent call (put) option that can	First quarter 2017	The impact of adopting this standard was not material.

Put and Call Options in Debt Instruments”	accelerate the payment of principal on a debt instrument is clearly and closely related to its debt host.		
ASU 2016-09, “Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting”	The standard provides simplified accounting for share-based payment transactions in relation to income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows.	First quarter 2017	As a result of adopting this guidance, we recorded an adjustment increasing beginning retained earnings and deferred tax assets in the first quarter 2017 of approximately $73 million to recognize previously unrecognized cumulative excess tax benefits related to share-based payments on a modified retrospective basis. Prospectively, all share-based payment tax effects will be recorded in earnings. The other effects of adopting this standard were not material.

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Standard	Description	Date of Adoption	Effect on the Financial Statements or Other Significant Matters
Standards that are not yet adopted			
ASU 2014-09, “Revenue from Contracts with Customers (Topic 606)”	The standard 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 amendment also requires more extensive disaggregated revenue disclosures in interim and annual financial statements.	First quarter 2018	We are evaluating the impact of this standard on us. Our evaluation process includes a review of our and ONEOK Partners’ contracts and transaction types across all of the business segments. In addition, we are currently evaluating the methods of adoption and analyzing the impact of the standard on our internal controls, accounting policies and financial statements and disclosures. We expect to determine our method of adoption when we complete our evaluation of the impact of the standard and the implications of each adoption method.
ASU 2016-01, “Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities”	The standard requires all equity investments, other than those accounted for using the equity method of accounting or those that result in consolidation of the investee, to be measured at fair value with changes in fair value recognized in net income, eliminates the available-for-sale classification for equity securities with readily determinable fair values and eliminates the cost method for equity investments without readily determinable fair values.	First quarter 2018	We are evaluating the impact of this standard on us.
ASU 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments”	The standard clarifies the classification of certain cash receipts and cash payments on the statement of cash flows where diversity in practice has been identified.	First quarter 2018	We are evaluating the impact of this standard on us.
ASU 2017-07, “Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost”	The standard requires the service cost component of net benefit cost to be reported in the same line item or items as other compensation costs from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations.	First quarter 2018	We are evaluating the impact of this standard on us.

ASU 2016-02, "Leases (Topic 842)"	The standard requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. It also requires qualitative disclosures along with specific quantitative disclosures by lessees and lessors to meet the objective of enabling users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases.	First quarter 2019	We are evaluating our current leases and the impact of the standard on our internal controls, accounting policies and financial statements and disclosures.
ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments"	The standard requires a financial asset (or a group of financial assets) measured at amortized cost basis to be presented net of the allowance for credit losses to reflect the net carrying value at the amount expected to be collected on the financial asset; and the initial allowance for credit losses for purchased financial assets, including available-for-sale debt securities, to be added to the purchase price rather than being reported as a credit loss expense.	First quarter 2020	We are evaluating the impact of this standard on us.
ASU 2017-04, "Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment"	The standard simplifies the subsequent measurement of goodwill by eliminating the requirement to calculate the implied fair value of goodwill under step 2. Instead, an entity will recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. The standard does not change step zero or step 1 assessments.	First quarter 2020	We are evaluating the impact of this standard on us.

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B. ACQUISITION OF ONEOK PARTNERS

On January 31, 2017, we and ONEOK Partners entered into the Merger Agreement pursuant to which we will acquire all of ONEOK Partners' outstanding common units representing limited partner interests in ONEOK Partners not already directly or indirectly owned by us in an all stock-for-unit transaction at a ratio of 0.985 of a share of ONEOK common stock per common unit of ONEOK Partners, in a taxable transaction to ONEOK Partners' common unitholders. Following completion of the Merger Transaction, all of ONEOK Partners' outstanding common units will be directly or indirectly owned by us and will no longer be publicly traded. All of our and ONEOK Partners' outstanding debt is expected to remain outstanding. We, ONEOK Partners and the Intermediate Partnership expect to issue, to the extent not already in place, guarantees of the indebtedness of ONEOK and ONEOK Partners.

A Special Committee of our Board of Directors, the Conflicts Committee of the Board of Directors of the general partner of ONEOK Partners and the Board of Directors of the general partner of ONEOK Partners each unanimously approved the Merger Agreement. Subject to customary approvals and conditions, the Merger Transaction is expected to close late in the second quarter or early in the third quarter of 2017. The Merger Transaction is subject to the approval of ONEOK Partners' common unitholders and the approval by our shareholders of the issuance of ONEOK common shares in the Merger Transaction.

The Merger Agreement contains certain termination rights, including the right for either us or ONEOK Partners, as applicable, to terminate the Merger Agreement if the closing of the transactions contemplated by the Merger Agreement has not occurred on or before September 30, 2017. In the event of termination of the Merger Agreement under certain circumstances, we may be required to pay ONEOK Partners a termination fee in the form of a temporary reduction in incentive distributions (up to, in certain instances, $300 million) and, under other certain circumstances, ONEOK Partners may be required to pay us a termination fee (up to, in certain instances, $300 million in cash).

If the Merger Transaction closes, the expected changes in our ownership interest in ONEOK Partners will be accounted for as an equity transaction pursuant to ASC 810 as we expect to continue to control ONEOK Partners, and no gain or loss will be recognized in our consolidated statements of income resulting from the Merger Transaction. In addition, the tax effects of the Merger Transaction will be reported as adjustments to other assets, deferred income taxes and additional paid-in capital consistent with ASC 740, Income Taxes (ASC 740).

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 a group of financial assets and liabilities consistent with how a market participant would price the net risk exposure at the measurement date.

While many of the contracts in our derivative 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, we utilize modeling techniques using NYMEX-settled pricing data and implied forward LIBOR curves. Inputs into our fair value estimates include commodity-exchange prices, over-the-counter quotes, historical correlations of pricing data, data obtained from third-party pricing services and LIBOR and other liquid money-market instrument rates. We validate our valuation inputs with third-party information and settlement prices from other sources, where available.

In addition, as prescribed by the income approach, we compute the fair value of the derivative portfolio by discounting the projected future cash flows from the derivative assets and liabilities to present value using interest-rate yields to calculate present-value discount factors derived from LIBOR, Eurodollar futures and the LIBOR interest-rate swaps market. We also take 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. We consider current market data in evaluating counterparties', as well as our own, nonperformance risk, net of collateral, by using specific and sector bond yields and monitoring the credit default swap markets. Although we use our best estimates to determine the fair value of the executed derivative contracts, the ultimate market prices realized could differ from our estimates, and the differences could be material.

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

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Fair Value Hierarchy - At each balance sheet date, we utilize a fair value hierarchy to classify fair value amounts recognized or disclosed in our 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 for identical securities in active markets, including NYMEX-settled prices. These balances are comprised predominantly of exchange-traded derivative contracts for natural gas and crude oil.
- 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 natural gas basis and NGL price curves that incorporate observable and unobservable market data from broker quotes, third-party pricing services, market volatilities derived from the most recent NYMEX close spot prices and forward LIBOR curves, and adjustments for the credit risk of our counterparties. We corroborate the data on which our fair value estimates are based using our 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. We do not believe that our Level 3 fair value estimates have a material impact on our results of operations, as the majority of our derivatives are accounted for as hedges for which ineffectiveness has not been material.

Determining the appropriate classification of our fair value measurements within the fair value hierarchy requires management’s judgment regarding the degree to which market data is observable or corroborated by observable market data. We categorize derivatives for which fair value is determined using multiple inputs within a single level, based on the lowest level input that is significant to the fair value measurement in its entirety.

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

	March 31, 2017					
	Level 1	Level 2	Level 3	Total - Gross	Netting (a)	Total - Net (b)
	(Thousands of dollars)					
Derivative assets						
Commodity contracts						
Financial contracts	$3,293	$—	$14,675	$17,968	$(17,217)	$751
Physical contracts	—	—	508	508	—	508
Interest-rate contracts	—	47,914	—	47,914	—	47,914
Total derivative assets	$3,293	$47,914	$15,183	$66,390	$(17,217)	$49,173
Derivative liabilities						
Commodity contracts						
Financial contracts	$(15,757)	$—	$(14,562)	$(30,319)	$29,973	$(346)
Physical contracts	—	—	(1,393)	(1,393)	—	(1,393)
Interest-rate contracts	—	(11,316)	—	(11,316)	—	(11,316)
Total derivative liabilities	$(15,757)	$(11,316)	$(15,955)	$(43,028)	$29,973	$(13,055)

(a) - Derivative assets and liabilities are presented in our Consolidated Balance Sheets on a net basis. We net derivative assets and liabilities when a legally enforceable master-netting arrangement exists between the counterparty to a derivative contract and us. At March 31, 2017, we held no cash and posted $30.6 million of cash with various counterparties, including $12.8 million of cash collateral that is offsetting derivative net liability positions under master-netting arrangements in the table above. The remaining $17.8 million of cash collateral in excess of derivative net liability positions is included in other current assets in our Consolidated Balance Sheets.

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

	December 31, 2016					
	Level 1	Level 2	Level 3	Total - Gross	Netting (a)	Total - Net (b)
	(Thousands of dollars)					
Derivative assets						
Commodity contracts						
Financial contracts	$1,147	$—	$4,564	$5,711	$(4,760)	$951
Interest-rate contracts	—	47,457	—	47,457	—	47,457
Total derivative assets	$1,147	$47,457	$4,564	$53,168	$(4,760)	$48,408
Derivative liabilities						
Commodity contracts						
Financial contracts	$(31,458)	$—	$(24,861)	$(56,319)	$56,319	$—
Physical contracts	—	—	(3,022)	(3,022)	—	(3,022)
Interest-rate contracts	—	(12,795)	—	(12,795)	—	(12,795)
Total derivative liabilities	$(31,458)	$(12,795)	$(27,883)	$(72,136)	$56,319	$(15,817)

(a) - Derivative assets and liabilities are presented in our Consolidated Balance Sheets on a net basis. We net derivative assets and liabilities when a legally enforceable master-netting arrangement exists between the counterparty to a derivative contract and us. At December 31, 2016, we held no cash and posted $67.7 million of cash with various counterparties, including $51.6 million of cash collateral that is offsetting derivative net liability positions under master-netting arrangements in the table above. The remaining $16.1 million of cash collateral in excess of derivative net liability positions is included in other current assets in our Consolidated Balance Sheets.
(b) - Included in other current assets, other assets or other current liabilities in our Consolidated Balance Sheets.

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

Derivative Assets (Liabilities)	Three Months Ended March 31, 2017	2016
	(Thousands of dollars)	
Net assets (liabilities) at beginning of period	$(23,319)	$7,331
Total realized/unrealized gains (losses):		
Included in earnings (a)	913	(745)
Included in other comprehensive income (loss)	21,634	(6,552)
Net assets (liabilities) at end of period	$(772)	$34

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

Realized/unrealized gains (losses) include the realization of derivative contracts through maturity. During the three months ended March 31, 2017 and 2016, 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 each reporting period were not material.

We recognize transfers into and out of the levels in the fair value hierarchy as of the end of each reporting period. During the three months ended March 31, 2017 and 2016, there were no transfers between levels.

Other Financial Instruments - The approximate fair value of cash and cash equivalents, accounts receivable, accounts payable and short-term borrowings 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 short-term borrowings are classified as Level 2 since the estimated fair value of the short-term borrowings 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 $8.9 billion and $8.8 billion at March 31, 2017, and December 31, 2016, respectively. The book value of our consolidated long-term debt, including current maturities, was $8.3 billion at March 31, 2017, and December 31, 2016. 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.

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D. RISK-MANAGEMENT AND HEDGING ACTIVITIES USING DERIVATIVES

Risk-Management Activities - We are sensitive to changes in natural gas, crude oil and NGL prices, principally as a result of contractual terms under which these commodities are purchased, processed and sold. We use physical-forward purchases and sales and financial derivatives to secure a certain price for a portion of our natural gas, condensate and NGL products; to reduce our exposure to commodity price and interest-rate fluctuations; and to achieve more predictable cash flows. We follow established policies and procedures to assess risk and approve, monitor and report risk-management activities. We have not used these instruments for trading purposes. We are also subject to the risk of interest-rate fluctuation in the normal course of business.

Commodity price risk - Commodity price risk refers to the risk of loss in cash flows and future earnings arising from adverse changes in the price of natural gas, NGLs and condensate. We use the following commodity derivative instruments to mitigate the near-term 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 are typically nontransferable and can only be canceled with the consent of both parties;
- 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; and
- Options - Contractual agreements that give the holder the right, but not the obligation, to buy or sell a fixed quantity of a commodity at a fixed price within a specified period of time. Options may either be standardized and exchange-traded or customized and nonexchange-traded.

We may also use other instruments including collars to mitigate commodity price risk. A collar is a combination of a purchased put option and a sold call option, which places a floor and a ceiling price for commodity sales being hedged.

The Natural Gas Gathering and Processing segment is exposed to commodity price risk as a result of retaining a portion of the commodity sales proceeds associated with its POP with fee contracts. Under certain POP with fee contracts, ONEOK Partners’ fee revenues may increase or decrease if production volumes, delivery pressures or commodity prices change relative to specified thresholds. The Natural Gas Gathering and Processing segment also is exposed to basis risk between the various production and market locations where it receives and sells commodities. As part of our hedging strategy, we use the previously described commodity derivative financial instruments and physical-forward contracts to reduce the impact of price fluctuations related to natural gas, NGLs and condensate.

The Natural Gas Liquids segment is exposed to location price differential risk, primarily as a result of the relative value of NGL purchases at one location and sales at another location. The Natural Gas Liquids segment also 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. We utilize physical-forward contracts and commodity derivative financial instruments to reduce the impact of price fluctuations related to NGLs.

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 in operations by these pipelines differs from the amount provided by its customers, these pipelines must buy or sell natural gas, or store or use natural gas from inventory, which may expose them to commodity price risk depending on the regulatory treatment for this activity. To the extent that commodity price risk in the Natural Gas Pipelines segment is not mitigated by fuel cost-recovery mechanisms, we may use physical-forward sales or purchases to reduce the impact of price fluctuations related to natural gas. At March 31, 2017, and December 31, 2016, there were no financial derivative instruments with respect to ONEOK Partners’ natural gas pipeline operations.

Interest-rate risk - We 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. As of March 31, 2017 and December 31, 2016, ONEOK Partners had interest-rate swaps with notional amounts totaling $1 billion to hedge the variability of its LIBOR-based interest payments and forward-starting interest-rate swaps with notional amounts totaling $1.2 billion to hedge the variability of interest payments on a portion of its forecasted debt issuances that may result from changes in the benchmark interest rate before the debt is issued. All of ONEOK Partners’ interest-rate swaps are designated as cash flow hedges.

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Accounting Treatment - Our accounting treatment of derivative instruments is consistent with that disclosed in Note A of the Notes to consolidated Financial Statements in our Annual Report.

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 the periods indicated:

	Location in our Consolidated Balance Sheets	March 31, 2017		December 31, 2016	
		Assets	(Liabilities)	Assets	(Liabilities)
		(Thousands of dollars)			
Derivatives designated as hedging instruments					
Commodity contracts					
Financial contracts	Other current assets/other current liabilities	$6,154	$(25,855)	$1,155	$(49,938)
	Other assets/deferred credits and other liabilities	6,683	—	210	(2,142)
Physical contracts	Other current assets/other current liabilities	87	(1,393)	—	(3,022)
	Other assets	421	—	—	—
Interest-rate contracts	Other current assets/other current liabilities	90	(11,316)	—	(12,795)
	Other assets	47,824	—	47,457	—
Total derivatives designated as hedging instruments		61,259	(38,564)	48,822	(67,897)
Derivatives not designated as hedging instruments					
Commodity contracts					
Financial contracts	Other current assets/other current liabilities	4,451	(3,796)	4,346	(4,239)
	Other assets/deferred credits and other liabilities	680	(668)	—	—
Total derivatives not designated as hedging instruments		5,131	(4,464)	4,346	(4,239)
Total derivatives		$66,390	$(43,028)	$53,168	$(72,136)

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

		March 31, 2017		December 31, 2016	
	Contract Type	Purchased/ Payor	Sold/ Receiver	Purchased/ Payor	Sold/ Receiver
Derivatives designated as hedging instruments:					
Cash flow hedges					
Fixed price					
- Natural gas (Bcf)	Futures and swaps	—	(38.2)	—	(38.4)
- Natural gas (Bcf)	Put options	36.0	—	49.5	—
- Crude oil and NGLs (MMBbl)	Futures, forwards and swaps	0.3	(4.5)	—	(3.6)
Basis					
- Natural gas (Bcf)	Futures and swaps	—	(38.2)	—	(38.4)
Interest-rate contracts (Millions of dollars)	Swaps	$2,150.0	$ —	$2,150.0	$ —
Derivatives not designated as hedging instruments:					
Fixed price					
- Natural gas (Bcf)	Futures and swaps	3.5	—	0.4	—
- NGLs (MMBbl)	Futures, forwards and swaps	0.7	(2.6)	0.5	(0.7)
Basis					
- Natural gas (Bcf)	Futures and swaps	3.5	—	0.4	—

These notional amounts 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 actual exposure to market or credit risk.

Cash Flow Hedges - At March 31, 2017, our Consolidated Balance Sheet reflected a net loss of $139.1 million in accumulated other comprehensive loss. The portion of accumulated other comprehensive loss attributable to commodity derivative financial instruments is an unrealized loss of $5.4 million, net of tax, which is expected to be realized within the next 21 months as the forecasted transactions affect earnings. If commodity prices remain at current levels, we will realize approximately $7.2 million in net losses, net of tax, over the next 12 months and approximately $1.8 million in net gains, net of tax, thereafter. The amount deferred in accumulated other comprehensive loss attributable to settled interest-rate swaps is a loss of $42.3 million, net of tax, which will be recognized over the life of the long-term, fixed-rate debt, including losses of $6.5 million, net of tax, that will be reclassified into earnings during the next 12 months as the hedged items affect earnings. The remaining amounts in accumulated other comprehensive loss are attributable primarily to forward-starting interest-rate swaps with future settlement dates, which is expected to be amortized to interest expense over the life of long-term, fixed-rate debt upon issuance of the debt.

The following table sets forth the unrealized effect of cash flow hedges recognized in other comprehensive income (loss) for the periods indicated:

Derivatives in Cash Flow Hedging Relationships	Three Months Ended