ONEOK INC /NEW/
Form 10-Q
November 05, 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 September 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 October 28, 2014, the Company had 208,198,062 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	U.S. Commodity 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
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
Quarterly Report(s)	Quarterly Report(s) on Form 10-Q

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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 September 30,		Nine Months Ended September 30,	
(Unaudited)	2014	2013	2014	2013
	(Thousands of dollars, except per share amounts)			
Revenues				
Commodity sales	$2,754,495	$2,807,329	$8,276,333	$7,453,534
Services	365,650	328,052	1,073,990	968,786
Total revenues	3,120,145	3,135,381	9,350,323	8,422,320
Cost of sales and fuel	2,583,204	2,711,159	7,807,275	7,214,233
Net margin	536,941	424,222	1,543,048	1,208,087
Operating expenses				
Operations and maintenance	153,408	116,678	433,457	346,989
Depreciation and amortization	74,588	61,850	214,129	176,016
General taxes	19,087	14,323	60,171	50,912
Total operating expenses	247,083	192,851	707,757	573,917
Gain (loss) on sale of assets	1,534	21	1,533	341
Operating income	291,392	231,392	836,824	634,511
Equity earnings (loss) from investments (Note K)	(52,347)	27,468	6,747	79,744
Allowance for equity funds used during construction	1,723	6,429	13,947	21,172
Other income	100	4,278	3,117	12,634
Other expense	(2,506)	(595)	(27,827)	(2,476)
Interest expense (net of capitalized interest of $14,303, $14,320, $41,446 and $38,284, respectively)	(86,052)	(66,187)	(269,704)	(196,793)
Income before income taxes	152,310	202,785	563,104	548,792
Income taxes	(37,858)	(44,961)	(95,155)	(126,688)
Income from continuing operations	114,452	157,824	467,949	422,104
Income (loss) from discontinued operations, net of tax (Note B)	(171)	(10,126)	(6,406)	(29,206)
Net income	114,281	147,698	461,543	392,898
Less: Net income attributable to noncontrolling interests	49,823	85,342	241,980	217,102
Net income attributable to ONEOK	$64,458	$62,356	$219,563	$175,796
Amounts attributable to ONEOK:				
Income from continuing operations	$64,629	$72,482	$225,969	$205,002
Income (loss) from discontinued operations	(171)	(10,126)	(6,406)	(29,206)
Net income	$64,458	$62,356	$219,563	$175,796
Basic earnings per share:				
Income from continuing operations (Note I)	$0.31	$0.35	$1.08	$1.00
Income (loss) from discontinued operations	—	(0.05)	(0.03)	(0.15)
Net income	$0.31	$0.30	$1.05	$0.85
Diluted earnings per share:				
Income from continuing operations (Note I)	$0.31	$0.35	$1.07	$0.98
Income (loss) from discontinued operations	—	(0.05)	(0.03)	(0.14)
Net income	$0.31	$0.30	$1.04	$0.84
Average shares (thousands)				

Basic	209,489	206,235	209,341	205,952
Diluted	210,759	209,893	210,482	209,408
Dividends declared per share of common stock	$0.575	$0.38	$1.535	$1.10

See accompanying Notes to Consolidated Financial Statements.

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ONEOK, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)	Three Months Ended September 30, 2014	2013	Nine Months Ended September 30, 2014	2013
	(Thousands of dollars)			
Net income	$114,281	$147,698	$461,543	$392,898
Other comprehensive income (loss), net of tax				
Unrealized gains (losses) on energy marketing and risk-management assets/liabilities, net of tax of $(1,160), $(467), $12,664 and $(10,349), respectively	6,219	(2,542)	(72,627)	37,095
Realized (gains) losses in net income, net of tax of $(748), $333, $(14,966) and $(1,748), respectively	3,132	789	48,170	4,694
Unrealized holding gains (losses) on available-for-sale securities, net of tax of $(73), $277, $(36) and $147, respectively	107	(440)	(6)	(234)
Change in pension and postretirement benefit plan liability, net of tax of $(1,456), $4,603, $(5,379) and $13,651, respectively	2,185	(7,293)	8,069	(21,637)
Total other comprehensive income (loss), net of tax	11,643	(9,486)	(16,394)	19,918
Comprehensive income	125,924	138,212	445,149	412,816
Less: Comprehensive income attributable to noncontrolling interests	55,995	83,378	214,644	239,714
Comprehensive income attributable to ONEOK	$69,929	$54,834	$230,505	$173,102

See accompanying Notes to Consolidated Financial Statements.

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ONEOK, Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS

(Unaudited)	September 30, 2014	December 31, 2013
Assets	(Thousands of dollars)	
Current assets		
Cash and cash equivalents	$151,403	$145,565
Accounts receivable, net	971,285	1,109,510
Natural gas and natural gas liquids in storage	338,345	188,286
Commodity imbalances	74,247	80,481
Other current assets	119,427	133,010
Assets of discontinued operations (Note B)	58,080	747,872
Total current assets	1,712,787	2,404,724
Property, plant and equipment		
Property, plant and equipment	12,173,835	10,970,256
Accumulated depreciation and amortization	1,931,713	1,738,302
Net property, plant and equipment	10,242,122	9,231,954
Investments and other assets		
Investments in unconsolidated affiliates (Note K)	1,128,509	1,229,838
Goodwill and intangible assets	1,017,715	1,024,562
Other assets	184,935	224,353
Assets of discontinued operations (Note B)	26,128	3,626,050
Total investments and other assets	2,357,287	6,104,803
Total assets	$14,312,196	$17,741,481

See accompanying Notes to Consolidated Financial Statements.

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

(Unaudited)	September 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	1,221,934	1,273,102
Commodity imbalances	171,249	213,577
Accrued interest	102,838	109,099
Accrued taxes other than income	90,681	37,359
Other current liabilities	120,162	66,393
Liabilities of discontinued operations (Note B)	64,387	455,688
Total current liabilities	1,781,901	2,730,330
Long-term debt, excluding current maturities (Note F)	7,194,957	7,753,657
Deferred credits and other liabilities		
Deferred income taxes	1,303,548	1,146,562
Other deferred credits	229,280	217,522
Liabilities of discontinued operations (Note B)	43,115	1,048,230
Total deferred credits and other liabilities	1,575,943	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 208,193,467 shares at September 30, 2014; issued 245,811,180 shares and outstanding 206,618,877 shares at December 31, 2013	2,458	2,458
Paid-in capital	1,515,158	1,433,600
Accumulated other comprehensive loss (Note H)	(107,656)	(121,987)
Retained earnings	170,249	2,020,815
Treasury stock, at cost: 37,617,713 shares at September 30, 2014, and 39,192,303 shares at December 31, 2013	(956,977)	(997,035)
Total ONEOK shareholders' equity	623,232	2,337,851
Noncontrolling interests in consolidated subsidiaries	3,136,163	2,507,329
Total equity	3,759,395	4,845,180
Total liabilities and equity	$14,312,196	$17,741,481

See accompanying Notes to Consolidated Financial Statements.

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ONEOK, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)	Nine Months Ended September 30, 2014	2013
	(Thousands of dollars)	
Operating activities		
Net income	$461,543	$392,898
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	225,483	276,343
Charges attributable to exit activities	1,739	130,753
Equity earnings from investments	(6,747)	(79,744)
Distributions received from unconsolidated affiliates	84,298	79,022
Deferred income taxes	96,044	107,575
Share-based compensation expense	23,359	27,634
Pension and postretirement benefit expense, net of contributions	14,282	7,638
Allowance for equity funds used during construction	(13,947)	(21,172)
Loss (gain) on sale of assets	(1,533)	(342)
Other	—	(4,047)
Changes in assets and liabilities:		
Accounts receivable	156,555	182,377
Natural gas and natural gas liquids in storage	(43,351)	(147,199)
Accounts payable	(111,186)	82,743
Commodity imbalances, net	(33,214)	(49,274)
Settlement of exit activities liabilities	(38,627)	(6,143)
Accrued interest	(6,390)	17,462
Accrued taxes other than income	66,083	27,417
Other assets and liabilities, net	(3,852)	(2,395)
Cash provided by operating activities	870,539	1,021,546
Investing activities		
Capital expenditures (less allowance for equity funds used during construction)	(1,204,386)	(1,597,820)
Acquisitions	(14,000)	(304,889)
Contributions to unconsolidated affiliates	(1,063)	(4,558)
Distributions received from unconsolidated affiliates	24,925	24,891
Proceeds from sale of assets	2,388	1,685
Cash used in investing activities	(1,192,136)	(1,880,691)
Financing activities		
Borrowing (repayment) of notes payable, net	(564,462)	(254,841)
Issuance of ONE Gas, Inc. debt, net of discounts	1,199,994	—
Issuance of long-term debt, net of discounts	—	1,247,822
ONE Gas, Inc. long-term debt financing costs	(9,663)	—
Long-term debt financing costs	—	(10,217)
Repayment of long-term debt	(555,768)	(5,802)
Issuance of common stock	12,908	8,538
Issuance of common units, net of issuance costs	947,472	569,246
Dividends paid	(321,051)	(226,349)
Cash of ONE Gas, Inc. at separation	(60,000)	—
Distributions to noncontrolling interests	(325,158)	(273,346)
Cash provided by financing activities	324,272	1,055,051

Change in cash and cash equivalents	2,675	195,906
Change in cash and cash equivalents included in discontinued operations	3,163	1,358
Change in cash and cash equivalents included in continuing operations	5,838	197,264
Cash and cash equivalents at beginning of period	145,565	579,578
Cash and cash equivalents at end of period	$151,403	$776,842

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)	—	—	—	10,942
Common stock issued	—	—	(20,397)	—
Common stock dividends - $1.535 per share	—	—	—	—
Issuance of common units of ONEOK Partners	—	—	138,310	—
Distribution of ONE Gas to shareholders (Note B)	—	—	—	3,389
Distributions to noncontrolling interests	—	—	—	—
Other	—	—	(36,355)	—
September 30, 2014	245,811,180	$2,458	$1,515,158	$(107,656)

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	219,563	—	241,980	461,543
Other comprehensive income (loss)	—	—	(27,336)	(16,394)
Common stock issued	—	40,058	—	19,661
Common stock dividends - $1.535 per share	(321,051)	—	—	(321,051)
Issuance of common units of ONEOK Partners	—	—	739,348	877,658
Distribution of ONE Gas to shareholders (Note B)	(1,749,078)	—	—	(1,745,689)
Distributions to noncontrolling interests	—	—	(325,158)	(325,158)
Other	—	—	—	(36,355)
September 30, 2014	$170,249	$(956,977)	$3,136,163	$3,759,395

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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 38.3 percent interest in ONEOK Partners at September 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 (NYSE: OGS). 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 effective for the first quarter 2014 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 it could impact us in the future if we dispose of any individually significant components.

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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.

In August 2014, the FASB issued ASU 2014-15, “Going Concern,” which provides guidance on determining when and how to disclose going-concern uncertainties in the financial statements. The new standard requires management to perform interim and annual assessments of an entity’s ability to continue as a going concern within one year of the date the financial statements are issued. An entity must provide certain disclosures if conditions or events raise substantial doubt about the entity’s ability to continue as a going concern. The standard applies to all entities and is effective for annual periods ending after December 15, 2016, and interim periods thereafter, with early adoption permitted. We will adopt this guidance beginning in the first quarter 2017, and we do not expect it to materially impact 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 former 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 customers 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:

	Nine Months Ended September 30, 2014
	(Millions of dollars)
Beginning balance	$122.0
Noncash charges	1.7
Settlements	(38.6)
Accretion	1.5
Ending balance	$86.6

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 $53 million, with approximately $8 million to be 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 September 30, 2014			Nine Months Ended September 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	—	142 (b)	142	60,847 (a)	4,664	65,511
Depreciation and amortization	—	—	—	11,035	319	11,354
Operating income (loss)	—	(142)	(142)	24,474	(16,227)	8,247
Other income (expense), net	—	—	—	(888)	(7)	(895)
Interest expense, net	—	—	—	(4,592)	(413)	(5,005)
Income taxes	—	(29)	(29)	(16,415)	7,662	(8,753)
Income (loss) from discontinued operations, net	$—	$(171)	$(171)	$2,579	$(8,985)	$(6,406)

(a) - Includes approximately $23.0 million for the nine months ended September 30, 2014, of costs related to the ONE Gas separation.
(b) - Represents primarily accretion expense.

	Three Months Ended September 30, 2013			Nine Months Ended September 30, 2013		
	Natural Gas Distribution	Energy Services	Total	Natural Gas Distribution	Energy Services	Total
	(Thousands of dollars)					
Revenues	$219,723	$298,145	$517,868	$1,167,260	$1,128,324	$2,295,584
Cost of sales and fuel	60,492	320,411	380,903	577,912	1,287,731	1,865,643
Net margin	159,231	(22,266)	136,965	589,348	(159,407)	429,941
Operating costs	103,682	2,178	105,860	321,467	10,545	332,012
Depreciation and amortization	32,347	70	32,417	100,118	209	100,327
Operating income (loss)	23,202	(24,514)	(1,312)	167,763	(170,161)	(2,398)
Other income (expense), net	1,354	41	1,395	1,929	86	2,015
Interest expense, net	(15,233)	(488)	(15,721)	(45,702)	(1,581)	(47,283)
Income taxes	(3,571)	9,083	5,512	(44,372)	62,832	18,460
Income (loss) from discontinued operations, net	$5,752	$(15,878)	$(10,126)	$79,618	$(108,824)	$(29,206)

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 $17.7 million for the three months ended September 30, 2013, and $7.5 million and $45.8 million for the nine months ended September 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 $63.6 million for the three months ended September 30, 2013, and $46.0 million and $209.5 million for the nine months ended September 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 September 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 $43.8 million and deferred tax assets of $12.4 million; noncurrent assets, which included deferred tax assets of $25.7 million; current liabilities, which included capacity release obligations of $43.5 million and deferred tax liabilities of $11.7 million; and noncurrent liabilities, which included $43.1 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 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 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

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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:

	September 30, 2014					
	Level 1	Level 2	Level 3	Total - Gross	Netting (a)	Total - Net (b)
	(Thousands of dollars)					
Assets						
Derivatives						
Commodity contracts						
Financial contracts	$9,093	$439	$—	$9,532	$(3,004)	$6,528
Physical contracts	—	—	2,900	2,900	(329)	2,571
Interest-rate contracts	—	20,962	—	20,962	—	20,962
Total derivatives	9,093	21,401	2,900	33,394	(3,333)	30,061
Available-for-sale investment securities (c)	1,599	—	—	1,599	—	1,599
Total assets	$10,692	$21,401	$2,900	$34,993	$(3,333)	$31,660
Liabilities						
Derivatives						
Commodity contracts						
Financial contracts	$(83)	$—	$(2,921)	$(3,004)	$3,004	$—
Physical contracts	—	—	(683)	(683)	329	(354)

Interest-rate contracts	—	(23,308)	—	(23,308)	—	(23,308)
Total liabilities	$(83)	$(23,308)	$(3,604)	$(26,995)	$3,333	$(23,662)

(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 September 30, 2014, 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.

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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 September 30,		Nine Months Ended September 30,	
Derivative Assets (Liabilities)	2014	2013	2014	2013
	(Thousands of dollars)			
Net assets (liabilities) at beginning of period	$(1,313)	$7,682	$(782)	$(2,423)
Total realized/unrealized gains (losses):				
Included in earnings (a)	207	—	(688)	—
Included in other comprehensive income (loss)	402	(7,181)	(2,968)	2,924
Purchases, issuances and settlements	—	—	3,734	—
Net assets (liabilities) at end of period	$(704)	$501	$(704)	$501

(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 nine months ended September 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 nine months ended September 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 $7.9 billion and $8.2 billion at September 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 September 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.

During the three months ended September 30, 2014, ONEOK Partners recorded a noncash impairment to its equity investment in Bighorn Gas Gathering. The valuation of this investment required use of significant unobservable inputs. ONEOK Partners used an income approach to estimate the fair value of its investment. ONEOK Partners' discounted cash flow analysis included the following inputs that are not readily available: a discount rate reflective of its cost of capital and estimated contract rates, volumes, operating and maintenance costs and capital expenditures. The estimated fair value of this investment is classified as Level 3. See Note K for additional information about ONEOK Partners' investment in Bighorn Gas Gathering and the impairment charge.

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, crude oil 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 September 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 the 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 September 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. At September 30, 2014, ONEOK Partners had forward-starting interest-rate swaps with notional amounts

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totaling $900 million that have been 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, of which $400 million have settlement dates greater 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.

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.

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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:

	September 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	$9,532	$(3,004)	$6,469	$(5,107)
Physical contracts	2,554	(608)	1,064	(3,463)
Interest-rate contracts	20,962	(23,308)	54,503	—
Total derivatives designated as hedging instruments	33,048	(26,920)	62,036	(8,570)
Derivatives not designated as hedging instruments				
Commodity contracts				
Physical contracts	346	(75)	959	—
Total derivatives not designated as hedging instruments	346	(75)	959	—
Total derivatives	$33,394	$(26,995)	$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.

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

		September 30, 2014		December 31, 2013	
	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	—	(31.2)	—	(48.1)
- Crude oil and NGLs (MMbbl)	Futures, forwards and swaps	—	(1.7)	—	(4.0)
Basis					
- Natural gas (Bcf)	Futures and swaps	—	(31.2)	—	(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 September 30, 2014, includes gains of approximately $1.5 million, net of tax, related to ONEOK Partners' commodity derivative instruments that will be recognized within the next 15 months as the forecasted transactions affect earnings. If prices remain at current levels, we will recognize $1.3 million in net gains over the next 12 months and net gains of $0.2 million thereafter. The amount deferred in accumulated other comprehensive income (loss) attributable to our and ONEOK Partners' settled interest-rate swaps is a loss of $38.6 million, net of tax, which will be recognized over the life of the long-term, fixed-rate debt. We expect that losses of $4.8 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.

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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 September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
	(Thousands of dollars)			
Commodity contracts	$17,133	$(10,317)	$(24,743)	$3,060
Interest-rate contracts	(9,755)	6,721	(56,849)	35,726
Total unrealized gain (loss) recognized in other comprehensive income (loss) on derivatives(effective portion)	$7,378	$(3,596)	$(81,592)	$38,786

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 (Loss) into Net Income (Effective Portion)	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
		(Thousands of dollars)			
Commodity contracts	Commodity sales revenues	$(355)	$361	$(31,961)	$4,172
Interest-rate contracts	Interest expense	(3,525)	(3,696)	(18,372)	(10,840)
Total gain (loss) reclassified from accumulated other comprehensive income (loss) into net income on derivatives (effective portion)		$(3,880)	$(3,335)	$(50,333)	$(6,668)

Ineffectiveness related to our and ONEOK Partners’ cash flow hedges was not material for the three and nine months ended September 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 nine months ended September 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 September 30, 2014, and the three and nine months ended September 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 September 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.

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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 September 30, 2014, ONEOK's ratio of indebtedness to Consolidated EBITDA was 1.9 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 September 30, 2014, ONEOK had $2.1 million in letters of credit issued and no borrowings under the ONEOK Credit Agreement.

ONEOK Partners Credit Agreement - The amount of short-term borrowings authorized by ONEOK Partners GP's Board of Directors is $2.5 billion. At September 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 September 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.

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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 in 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.

In September 2013, ONEOK Partners completed an underwritten public offering of $1.25 billion of senior notes, consisting of $425 million, 3.2 percent senior notes due 2018, $425 million, 5.0 percent senior notes due 2023 and $400 million, 6.2 percent senior notes due 2043. A portion of the net proceeds from the offering of approximately $1.24 billion was used to repay amounts outstanding under its commercial paper program, and the balance was used for general partnership purposes, including but not limited to capital expenditures.

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 September 30, 2014			Three Months Ended September 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	$656,425	$3,136,906	$3,793,331	$2,085,349	$2,089,007	$4,174,356
Net income	64,458	49,823	114,281	62,356	85,342	147,698
Other comprehensive income (loss)	5,471	6,172	11,643	(7,522)	(1,964)	(9,486)
Common stock issued	5,757	—	5,757	4,142	—	4,142
Common stock dividends	(121,367)	—	(121,367)	(78,367)	—	(78,367)
Issuance of common units of ONEOK Partners	11,185	62,078	73,263	81,502	420,391	501,893
	1,735	—	1,735	—	—	—

Distribution of ONE Gas to shareholders						
Distributions to noncontrolling interests	—	(118,816)	(118,816)	—	(91,824)	(91,824)
Other	(432)	—	(432)	42,234	—	42,234
Ending balance	$623,232	$3,136,163	$3,759,395	$2,189,694	$2,500,952	$4,690,646

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	Nine Months Ended September 30, 2014			Nine Months Ended September 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	219,563	241,980	461,543	175,796	217,102	392,898
Other comprehensive income (loss)	10,942	(27,336)	(16,394)	(2,694)	22,612	19,918
Common stock issued	19,661	—	19,661	11,892	—	11,892
Common stock dividends	(321,051)	—	(321,051)	(226,349)	—	(226,349)
Issuance of common units of ONEOK Partners	138,310	739,348	877,658	84,458	431,743	516,201
Distribution of ONE Gas to shareholders	(1,745,689)	—	(1,745,689)	—	—	—
Distributions to noncontrolling interests	—	(325,158)	(325,158)	—	(273,346)	(273,346)
Other	(36,355)	—	(36,355)	16,982	—	16,982
Ending balance	$623,232	$3,136,163	$3,759,395	$2,189,694	$2,500,952	$4,690,646

Dividends - Dividends paid on our common stock to shareholders of record at the close of business on February 10, 2014, April 30, 2014, and August 14, 2014, were $0.40 per share, $0.56 per share and $0.575 per share, respectively. A dividend of $0.59 per share was declared for shareholders of record at the close of business on November 3, 2014, payable November 14, 2014.

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

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	(20,717)	(6)	(79)	(20,802)
	23,596	—	8,148	31,744

Amounts reclassified from accumulated other comprehensive income (loss)				
Other comprehensive income (loss) attributable to ONEOK	2,879	(6)	8,069	10,942
Transfer to ONE Gas	—	—	3,389	3,389
September 30, 2014	$(40,289)	$851	$(68,218)	$(107,656)

(a) All amounts are presented net of tax.

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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 September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 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	$355	$(361)			