

ONEOK INC /NEW/  
Form 10-Q  
October 31, 2012  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended September 30, 2012

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  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  No

Indicate by checkmark 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.

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Large accelerated filer  Accelerated filer

Non-accelerated filer

Smaller reporting company

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

On October 26, 2012, the Company had 204,613,070 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,” “plan,” “believe,” “should,” “goal,” “forecast,” “guidance,” “could,” “may,” “continue,” “might,” “potential,” “scheduled” and other words 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](http://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, 2011
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
Bcf/d	Billion cubic feet per day
Btu(s)	British thermal units, a measure of the amount of heat required to raise the temperature of one pound of water one degree Fahrenheit
CFTC	Commodities Futures Trading Commission
Clean Air Act	Federal Clean Air Act, as amended
Clean Water Act	Federal Water Pollution Control Act Amendments of 1972, as amended
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
DOT	United States Department of Transportation
EBITDA	Earnings before interest expense, income taxes, depreciation and amortization
EPA	United States Environmental Protection Agency
Exchange Act	Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
GAAP	Accounting principles generally accepted in the United States of America
Intermediate Partnership	ONEOK Partners Intermediate Limited Partnership, a wholly owned subsidiary of ONEOK Partners, L.P.
KCC	Kansas Corporation Commission
KDHE	Kansas Department of Health and Environment
LDCs	Local distribution companies
LIBOR	London Interbank Offered Rate
MBbl	Thousand barrels
MBbl/d	Thousand barrels per day
Mcf	Thousand cubic feet
MDth/d	Thousand dekatherms per day
MMBbl	Million barrels
MMBtu	Million British thermal units
MMBtu/d	Million British thermal units per day
MMcf	Million cubic feet
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 products	Marketable natural gas liquid purity products, such as ethane, ethane/propane mix, propane, iso-butane, normal butane and natural gasoline
NGL(s)	Natural gas liquid(s)
NYMEX	New York Mercantile Exchange
OCC	Oklahoma Corporation Commission
ONEOK	ONEOK, Inc.

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ONEOK 2011 Credit Agreement	ONEOK's \$1.2 billion revolving credit agreement dated April 5, 2011
ONEOK Partners	ONEOK Partners, L.P.
ONEOK Partners 2011 Credit Agreement	ONEOK Partners' \$1.2 billion revolving credit agreement dated August 1, 2011
ONEOK Partners GP	ONEOK Partners GP, L.L.C., a wholly owned subsidiary of ONEOK and the sole general partner of ONEOK Partners
POP	Percent of Proceeds

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Quarterly Report(s)	Quarterly Report(s) on Form 10-Q
S&P	Standard & Poor's Rating Services
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

(Unaudited)	Three Months Ended		Nine Months Ended		
	September 30, 2012	2011	September 30, 2012	2011	
	(Thousands of dollars, except per share amounts)				
Revenues	\$3,028,775	\$3,529,359	\$8,972,635	\$10,734,757	
Cost of sales and fuel	2,474,803	2,996,735	7,226,114	9,053,423	
Net margin	553,972	532,624	1,746,521	1,681,334	
Operating expenses					
Operations and maintenance	206,048	185,127	603,055	575,658	
Depreciation and amortization	81,434	75,953	249,429	234,103	
Goodwill impairment	—	—	10,255	—	
General taxes	23,157	22,134	81,471	76,893	
Total operating expenses	310,639	283,214	944,210	886,654	
Gain (loss) on sale of assets	(420	) (69	) 603	(791	)
Operating income	242,913	249,341	802,914	793,889	
Equity earnings from investments (Note K)	28,591	32,029	92,380	93,665	
Allowance for equity funds used during construction	3,302	759	6,126	1,625	
Other income	5,049	184	11,495	1,069	
Other expense	(919	) (13,285	) (3,990	) (13,535	)
Interest expense (net of capitalized interest of \$11,802, \$6,469, \$30,521 and \$13,904, respectively)	(71,364	) (73,841	) (218,714	) (228,688	)
Income before income taxes	207,572	195,187	690,211	648,025	
Income taxes	(42,584	) (34,028	) (156,835	) (154,252	)
Income from continuing operations	164,988	161,159	533,376	493,773	
Income from discontinued operations, net of tax (Note B)	—	(279	) 762	1,219	
Gain on sale of discontinued operations, net of tax (Note B)	—	—	13,517	—	
Net income	164,988	160,880	547,655	494,992	
Less: Net income attributable to noncontrolling interests	99,769	100,559	298,578	249,399	
Net income attributable to ONEOK	\$65,219	\$60,321	\$249,077	\$245,593	
Amounts attributable to ONEOK:					
Income from continuing operations	\$65,219	\$60,600	\$234,798	\$244,374	
Income from discontinued operations	—	(279	) 14,279	1,219	
Net income	\$65,219	\$60,321	\$249,077	\$245,593	
Basic earnings per share:					
Income from continuing operations (Note I)	\$0.32	\$0.29	\$1.14	\$1.16	
Income from discontinued operations	—	—	0.07	0.01	
Net income	\$0.32	\$0.29	\$1.21	\$1.17	
Diluted earnings per share:					
Income from continuing operations (Note I)	\$0.31	\$0.29	\$1.11	\$1.13	
Income from discontinued operations	—	(0.01	) 0.07	0.01	
Net Income	\$0.31	\$0.28	\$1.18	\$1.14	
Average shares (thousands)					
Basic	205,005	206,606	206,638	210,440	

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Diluted	209,960	211,940	211,198	215,454
Dividends declared per share of common stock	\$0.33	\$0.28	\$0.94	\$0.80

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,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(Thousands of dollars)			
Net income	\$ 164,988	\$ 160,880	\$ 547,655	\$ 494,992
Other comprehensive income (loss), net of tax				
Unrealized gains (losses) on energy marketing and risk-management assets/liabilities, net of tax of \$12,244, \$14,194, \$(2,146) and \$10,487, respectively	(30,383 )	(37,842 )	4,520	(38,004 )
Realized (gains) losses in net income, net of tax of \$6,143, \$10,193, \$12,954 and \$22,127, respectively	(20,973 )	(15,814 )	(44,675 )	(32,522 )
Unrealized holding gains (losses) on available-for-sale securities, net of tax of \$(57), \$31, \$(132) and \$234, respectively	90	(331 )	210	(370 )
Change in pension and postretirement benefit plan liability, net of tax of \$3,644, \$2,947, \$10,932 and \$8,842, respectively	(5,778 )	(4,672 )	(17,330 )	(14,017 )
Other, net of tax of \$0, \$11, \$0 and \$73, respectively	—	(18 )	—	(115 )
Total other comprehensive income (loss), net of tax	(57,044 )	(58,677 )	(57,275 )	(85,028 )
Comprehensive income	107,944	102,203	490,380	409,964
Less: Comprehensive income attributable to noncontrolling interests	77,561	85,189	275,658	230,142
Comprehensive income attributable to ONEOK	\$ 30,383	\$ 17,014	\$ 214,722	\$ 179,822

See accompanying Notes to Consolidated Financial Statements.

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## ONEOK, Inc. and Subsidiaries

## CONSOLIDATED BALANCE SHEETS

(Unaudited)	September 30, 2012	December 31, 2011
Assets	(Thousands of dollars)	
Current assets		
Cash and cash equivalents	\$978,825	\$65,953
Accounts receivable, net	984,724	1,339,933
Gas and natural gas liquids in storage	644,719	549,915
Commodity imbalances	57,303	63,452
Energy marketing and risk management assets (Notes C and D)	70,324	40,280
Other current assets	220,135	185,143
Assets of discontinued operations (Note B)	—	74,136
Total current assets	2,956,030	2,318,812
Property, plant and equipment		
Property, plant and equipment	12,404,878	11,177,934
Accumulated depreciation and amortization	2,914,496	2,733,601
Net property, plant and equipment	9,490,382	8,444,333
Investments and other assets		
Investments in unconsolidated affiliates (Note K)	1,218,282	1,223,398
Goodwill and intangible assets	998,122	1,014,127
Other assets	701,491	695,965
Total investments and other assets	2,917,895	2,933,490
Total assets	\$15,364,307	\$13,696,635
See accompanying Notes to Consolidated Financial Statements.		

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CONSOLIDATED BALANCE SHEETS  
(Continued)

(Unaudited)	September 30, 2012	December 31, 2011
Liabilities and equity	(Thousands of dollars)	
Current liabilities		
Current maturities of long-term debt	\$ 11,140	\$ 364,391
Notes payable (Note E)	676,747	841,982
Accounts payable	1,153,750	1,341,718
Commodity imbalances	213,367	202,206
Energy marketing and risk management liabilities (Notes C and D)	25,856	137,680
Other current liabilities	358,253	345,383
Liabilities of discontinued operations (Note B)	—	12,815
Total current liabilities	2,439,113	3,246,175
Long-term debt, excluding current maturities (Note F)	6,517,464	4,529,551
Deferred credits and other liabilities		
Deferred income taxes	1,539,960	1,446,591
Other deferred credits	692,211	674,586
Total deferred credits and other liabilities	2,232,171	2,121,177
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 204,598,717 shares at September 30, 2012; issued 245,809,848 shares and outstanding 206,509,960 shares at December 31, 2011	2,458	2,458
Paid-in capital	1,337,045	1,417,185
Accumulated other comprehensive loss (Note H)	(240,476)	(206,121)
Retained earnings	2,015,008	1,960,374
Treasury stock, at cost: 41,212,463 shares at September 30, 2012, and 39,299,888 shares at December 31, 2011	(1,048,329)	(935,323)
Total ONEOK shareholders' equity	2,065,706	2,238,573
Noncontrolling interests in consolidated subsidiaries	2,109,853	1,561,159
Total equity	4,175,559	3,799,732
Total liabilities and equity	\$ 15,364,307	\$ 13,696,635

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,	
	2012	2011
	(Thousands of dollars)	
Operating activities		
Net income	\$547,655	\$494,992
Depreciation and amortization	249,437	234,201
Impairment of goodwill	10,255	—
Gain on sale of discontinued operations	(13,517)	)
Reclassified loss on energy price risk management assets and liabilities	29,861	—
Equity earnings from investments	(92,380)	) (93,665)
Distributions received from unconsolidated affiliates	92,996	87,151
Deferred income taxes	170,657	200,961
Share-based compensation expense	35,970	39,297
Allowance for equity funds used during construction	(6,126)	) (1,625)
Loss (gain) on sale of assets	(603)	) 791
Other	(1,770)	) (1,260)
Changes in assets and liabilities:		
Accounts receivable	350,350	194,631
Gas and natural gas liquids in storage	(94,362)	) 26,975
Accounts payable	(156,483)	) (401)
Commodity imbalances, net	17,310	(63,159)
Energy marketing and risk management assets and liabilities	(205,008)	) (12,705)
Other assets and liabilities	(171,383)	) (76,565)
Cash provided by operating activities	762,859	1,029,619
Investing activities		
Capital expenditures (less allowance for equity funds used during construction)	(1,238,908)	) (862,310)
Proceeds from sale of discontinued operations, net of cash sold	32,946	—
Contributions to unconsolidated affiliates	(21,284)	) (51,686)
Distributions received from unconsolidated affiliates	25,756	16,158
Proceeds from sale of assets	1,918	951
Other	988	—
Cash used in investing activities	(1,198,584)	) (896,887)
Financing activities		
Borrowing (repayment) of notes payable, net	(165,235)	) 93,145
Issuance of debt, net of discounts	1,994,693	1,295,450
Long-term debt financing costs	(15,030)	) (10,986)
Repayment of debt	(359,251)	) (724,405)
Repurchase of common stock	(150,000)	) (300,108)
Issuance of common stock	7,068	7,142
Issuance of common units, net of issuance costs	459,680	—
Dividends paid	(194,443)	) (169,337)
Distributions to noncontrolling interests	(237,744)	) (206,260)
Cash provided by (used in) financing activities	1,339,738	(15,359)
Change in cash and cash equivalents	904,013	117,373
Change in cash and cash equivalents included in discontinued operations	8,859	1,898
Change in cash and cash equivalents from continuing operations	912,872	119,271

Cash and cash equivalents at beginning of period	65,953	30,341
Cash and cash equivalents at end of period	\$978,825	\$149,612
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			Accumulated Other Comprehensive Income (Loss)
	Common Stock Issued  (Shares)	Common Stock  (Thousands of dollars)	Paid-in Capital	
December 31, 2011	245,809,848	\$2,458	\$1,417,185	\$(206,121 )
Net income	—	—	—	—
Other comprehensive income (loss)	—	—	—	(34,355 )
Repurchase of common stock	—	—	—	—
Common stock issued	1,332	—	(26,604 )	—
Common stock dividends - \$0.94 per share	—	—	—	—
Issuance of common units of ONEOK Partners	—	—	(51,100 )	—
Distributions to noncontrolling interests	—	—	—	—
Other	—	—	(2,436 )	—
September 30, 2012	245,811,180	\$2,458	\$1,337,045	\$(240,476 )

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			Noncontrolling Interests in Consolidated Subsidiaries	Total Equity
	Retained Earnings	Treasury Stock			
	(Thousands of dollars)				
December 31, 2011	\$1,960,374	\$ (935,323 )	\$ 1,561,159		\$3,799,732
Net income	249,077	—	298,578		547,655
Other comprehensive income (loss)	—	—	(22,920 )		(57,275 )
Repurchase of common stock	—	(150,000 )	—		(150,000 )
Common stock issued	—	36,994	—		10,390
Common stock dividends - \$0.94 per share	(194,443 )	—	—		(194,443 )
Issuance of common units of ONEOK Partners	—	—	510,780		459,680
Distributions to noncontrolling interests	—	—	(237,744 )		(237,744 )
Other	—	—	—		(2,436 )
September 30, 2012	\$2,015,008	\$ (1,048,329 )	\$ 2,109,853		\$4,175,559

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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 2011 year-end consolidated balance sheet data was derived from 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. Due to the seasonal nature of our business, the results of operations for the three and nine months ended September 30, 2012, are not necessarily indicative of the results that may be expected for a 12-month period.

Stock Split - In June 2012, we completed our previously announced two-for-one split of our common stock. We have adjusted all share and per-share amounts contained herein to be presented on a post-split basis.

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

Recently Issued Accounting Standards Update - In May 2011, the FASB issued ASU 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRS)," which provides a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between GAAP and IFRS. This new guidance changes some fair value measurement principles and disclosure requirements. We adopted this guidance with our March 31, 2012, Quarterly Report, and the impact was not material. See Note C for information on our fair value measurements.

In June 2011, the FASB issued ASU 2011-05, "Presentation of Comprehensive Income," which provides two options for presenting items of net income, other comprehensive income and total comprehensive income either by creating one continuous statement of comprehensive income or two separate consecutive statements, and requires certain other disclosures. In December 2011, the FASB issued ASU 2011-12, "Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05," which deferred certain presentation requirements in ASU 2011-05 for items reclassified out of accumulated other comprehensive income. We adopted this guidance, except for the portions deferred by ASU 2011-12, with our March 31, 2012, Quarterly Report, and the impact was not material.

In September 2011, the FASB issued ASU 2011-08, "Testing Goodwill for Impairment," which permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Under the amendments in this update, an entity is not required to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that its fair value is less than its carrying amount. An entity has the option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the first step of the two-step goodwill impairment test. An entity may also resume performing the qualitative assessment in any subsequent period. We adopted this guidance beginning with our July 1, 2012, goodwill impairment test, and it did not impact our financial position or results of operations.

In July 2012, the FASB issued ASU 2012-02, "Testing Indefinite-lived Intangible Assets for Impairment," which allows companies to perform a "qualitative" assessment to determine whether further impairment testing of indefinite-lived intangible assets is necessary. Under the revised standard, an entity is not required to calculate the fair value of an indefinite-lived intangible asset and perform the quantitative impairment test unless the entity determines that it is

more likely than not that the asset is impaired. An entity has the option to bypass the qualitative assessment and perform the quantitative impairment test for any indefinite-lived intangible assets in any period. We expect the impact of this guidance to be immaterial when we adopt it for our annual assessments beginning in 2013.

Goodwill Impairment Test - We assess our goodwill for impairment at least annually on July 1, unless events or changes in circumstances indicate an impairment may have occurred before that time. As a result of the decline in natural gas prices and its effect on location and seasonal price differentials, we performed an interim impairment assessment of our Energy Services segment's goodwill balance as of March 31, 2012. As a result of that assessment, goodwill with a carrying amount of \$10.3 million was written down to its implied fair value of zero, with a resulting impairment charge of \$10.3 million recorded in

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earnings for the three months ended March 31, 2012. The fair value of our Energy Services reporting unit and the implied fair value of its goodwill were calculated using Level 3, significant unobservable inputs.

At July 1, 2012, we assessed qualitative factors to determine whether it was more likely than not that the fair value of each of our reporting units was less than its carrying amount. After assessing qualitative factors (including macroeconomic conditions, industry and market considerations, cost factors and overall financial performance), we determined that no further testing was necessary.

**B. DISCONTINUED OPERATIONS**

On February 1, 2012, we sold ONEOK Energy Marketing Company, our retail natural gas marketing business, to Constellation Energy Group, Inc. for \$22.5 million plus working capital. We received net proceeds of approximately \$32.9 million and recognized a gain on the sale of approximately \$13.5 million, net of taxes of \$8.3 million. The proceeds from the sale were used to reduce short-term borrowings. The financial information of ONEOK Energy Marketing Company is reflected as discontinued operations in this Quarterly Report. All prior periods presented have been recast to reflect the discontinued operations.

The amounts of revenue, costs and income taxes reported in discontinued operations are set forth in the table below for the periods indicated:

	One Month Ended January 31, 2012 (Thousands of dollars)	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2011
Revenues	\$27,607	\$65,832	\$241,798
Cost of sales and fuel	25,961	64,463	233,942
Net margin	1,646	1,369	7,856
Operating costs	408	1,797	5,814
Depreciation and amortization	8	33	98
Operating income	1,230	(461	) 1,944
Other income (expense), net	—	(93	) (78
Income taxes	(468	) 275	(647
Income from discontinued operations, net	\$762	\$(279	) \$1,219

The following table discloses the major classes of discontinued assets and liabilities included on our Consolidated Balance Sheet for the period indicated:

	December 31, 2011 (Thousands of dollars)
<b>Assets</b>	
Cash and cash equivalents	\$8,859
Accounts receivable, net	47,967
Gas in storage	2,101
Energy marketing and risk management assets	15,016
Other assets	193
Assets of discontinued operations	\$74,136
<b>Liabilities</b>	
Accounts payable	\$11,435
Energy marketing and risk management liabilities	629
Other liabilities	751

Liabilities of discontinued operations	\$12,815
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At December 31, 2011, the liabilities of our discontinued operations exclude \$45.7 million of intercompany payables due to its parent or other affiliates.

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C. FAIR VALUE MEASUREMENTS

Fair Value Measurements - 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 the 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.

While many of the contracts in our 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. Inputs into our fair value estimates include commodity exchange prices, over-the-counter quotes, volatility, historical correlations of pricing data and LIBOR and other liquid money market instrument rates. We also utilize internally developed basis curves that incorporate observable and unobservable market data. 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 our derivative portfolio by discounting the projected future cash flows from our 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. 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 also monitor the credit default swap markets. Although we use our best estimates to determine the fair value of the derivative contracts we have executed, the ultimate market prices realized could differ from our estimates, and the differences could be material.

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

	September 30, 2012				
	Level 1	Level 2	Level 3	Netting	Total
	(Thousands of dollars)				
Assets					
Derivatives (a)					
Commodity contracts					
Financial contracts	\$ 140,955	\$ 25,252	\$ 20,946	\$—	\$ 187,153
Physical contracts	—	3,205	2,707	—	5,912
Netting	—	—	—	(126,717 )	(126,717 )
Interest-rate contracts	—	7,600	—	—	7,600
Total derivatives	140,955	36,057	23,653	(126,717 )	73,948
Trading securities (b)	6,759	—	—	—	6,759
Available-for-sale investment securities (c)	2,292	—	—	—	2,292
Total assets	\$ 150,006	\$ 36,057	\$ 23,653	\$ (126,717 )	\$ 82,999
Liabilities					
Derivatives (a)					
Commodity contracts					
Financial contracts	\$(118,050 )	\$(16,651 )	\$(8,336 )	\$—	\$(143,037 )
Physical contracts	—	(630 )	(1,163 )	—	(1,793 )
Netting	—	—	—	118,554	118,554
Total derivatives	(118,050 )	(17,281 )	(9,499 )	118,554	(26,276 )
Fair value of firm commitments (d)	—	—	(2,167 )	—	(2,167 )
Total liabilities	\$(118,050 )	\$(17,281 )	\$(11,666 )	\$ 118,554	\$(28,443 )

(a) - Our derivative assets and liabilities are presented in our Consolidated Balance Sheets as energy marketing and risk management assets and liabilities and other assets on a net basis. We net derivative assets and liabilities, including cash collateral, when a legally enforceable master-netting arrangement exists between the counterparty to a derivative contract and us. At September 30, 2012, we held \$8.2 million of cash collateral and had posted \$7.6 million of cash collateral with various counterparties.

(b) - Included in our Consolidated Balance Sheets as other current assets.

(c) - Included in our Consolidated Balance Sheets as other assets.

(d) - Included in our Consolidated Balance Sheets as other current liabilities and other deferred credits.

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	December 31, 2011				
	Level 1 (Thousands of dollars)	Level 2	Level 3	Netting	Total
Assets					
Derivatives (a)					
Commodity contracts					
Financial contracts	\$545,247	\$13,874	\$32,931	\$—	\$592,052
Physical contracts	—	23,879	14,916	—	38,795
Netting	—	—	—	(569,243 )	(569,243 )
Total derivatives	545,247	37,753	47,847	(569,243 )	61,604
Trading securities (b)	5,749	—	—	—	5,749
Available-for-sale investment securities (c)	1,949	—	—	—	1,949
Total assets	\$552,945	\$37,753	\$47,847	\$(569,243 )	\$69,302
Liabilities					
Derivatives (a)					
Commodity contracts					
Financial contracts	\$(479,073 )	\$(6,498 )	\$(20,995 )	\$—	\$(506,566 )
Physical contracts	—	(261 )	(1,748 )	—	(2,009 )
Netting	—	—	—	497,608	497,608
Interest-rate contracts	—	(128,666 )	—	—	(128,666 )
Total derivatives	(479,073 )	(135,425 )	(22,743 )	497,608	(139,633 )
Fair value of firm commitments (d)	—	—	(7,283 )	—	(7,283 )
Total liabilities	\$(479,073 )	\$(135,425 )	\$(30,026 )	\$497,608	\$(146,916 )

(a) - Our derivative assets and liabilities are presented in our Consolidated Balance Sheets as energy marketing and risk management assets and liabilities, other assets and other deferred credits on a net basis. We net derivative assets and liabilities, including cash collateral, when a legally enforceable master-netting arrangement exists between the counterparty to a derivative contract and us. At December 31, 2011, we held \$73.3 million of cash collateral and had posted \$1.7 million of cash collateral with various counterparties.

(b) - Included in our Consolidated Balance Sheets as other current assets.

(c) - Included in our Consolidated Balance Sheets as other assets.

(d) - Included in our Consolidated Balance Sheets as other current liabilities and other deferred credits.

The December 31, 2011, table above includes balances for ONEOK Energy Marketing Company that have been reflected as discontinued operations in our Consolidated Balance Sheet. At December 31, 2011, we had \$15.0 million in derivative assets and \$0.6 million in derivative liabilities related to this discontinued operation.

Our Level 1 fair value measurements are based on NYMEX-settled prices and actively quoted prices for equity securities. These balances are comprised predominantly of exchange-traded derivative contracts, including futures and certain options for natural gas and crude oil, which are valued based on unadjusted quoted prices in active markets. Also included in Level 1 are equity securities.

Our Level 2 fair value inputs are based on NYMEX-settled prices for natural gas and crude oil that are utilized to determine the fair value of certain nonexchange-traded financial instruments, including natural gas and crude oil swaps, as well as physical forwards. Also, included in Level 2 are interest-rate swaps that are valued using financial models that incorporate the implied forward LIBOR yield curve for the same period as the future interest swap settlements.

Our Level 3 inputs include internally developed basis curves incorporating observable and unobservable market data, NGL price curves from independent broker quotes, 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. The derivatives categorized as Level 3 include natural gas basis swaps, swing swaps, options, other commodity swaps and physical forward contracts. Also included in Level 3 are the fair values of firm commitments. 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 is not material. The significant unobservable inputs used in

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the fair value measurement of our swaps, forwards and firm commitments are the unpublished forward basis and index curves. Significant increases or decreases in either of those inputs in isolation would not have a material impact on our fair value measurements.

The following tables set forth the reconciliation of our Level 3 fair value measurements for the periods indicated:

	Derivative Assets (Liabilities) (Thousands of dollars)	Fair Value of Firm Commitments	Total
July 1, 2012	\$37,745	\$(4,250)	) \$33,495
Total realized/unrealized gains (losses):			
Included in earnings (a)	(4,366)	) 2,083	(2,283)
Included in other comprehensive income (loss)	(20,295)	) —	(20,295)
Transfers into Level 3	385	—	385
Transfers out of Level 3	685	—	685
September 30, 2012	\$14,154	\$(2,167)	) \$11,987
Total gains (losses) for the period included in earnings attributable to the change in unrealized gains (losses) relating to assets and liabilities still held as of September 30, 2012 (a)	\$51	\$205	\$256

(a) - Reported in revenues and cost of sales and fuel in our Consolidated Statements of Income.

	Derivative Assets (Liabilities) (Thousands of dollars)	Fair Value of Firm Commitments	Total
July 1, 2011	\$23,858	\$(21,212)	) \$2,646
Total realized/unrealized gains (losses):			
Included in earnings (a)	(5,444)	) 9,881	4,437
Included in other comprehensive income (loss)	9,717	—	9,717
Transfers into Level 3	1,284	—	1,284
Transfers out of Level 3	(3,682)	) —	(3,682)
September 30, 2011	\$25,733	\$(11,331)	) \$14,402
Total gains (losses) for the period included in earnings attributable to the change in unrealized gains (losses) relating to assets and liabilities still held as of September 30, 2011 (a)	\$14,115	\$(3,229)	) \$10,886

(a) - Reported in revenues and cost of sales and fuel in our Consolidated Statements of Income.

	Derivative Assets (Liabilities) (Thousands of dollars)	Fair Value of Firm Commitments	Total
January 1, 2012	\$25,104	\$(7,283)	) \$17,821
Total realized/unrealized gains (losses):			
Included in earnings (a)	(13,153)	) 5,116	(8,037)
Included in other comprehensive income (loss)	6,384	—	6,384
Sale of discontinued operations	(3,636)	) —	(3,636)
Transfers out of Level 3	(545)	) —	(545)
September 30, 2012	\$14,154	\$(2,167)	) \$11,987
Total gains (losses) for the period included in earnings attributable to the change in unrealized gains (losses) relating to assets and liabilities still held as of September 30, 2012 (a)	\$352	\$(296)	) \$56

(a) - Reported in revenues and cost of sales and fuel in our Consolidated Statements of Income.

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	Derivative Assets (Liabilities) (Thousands of dollars)	Fair Value of Firm Commitments	Total
January 1, 2011	\$49,266	\$(29,536)	) \$19,730
Total realized/unrealized gains (losses):			
Included in earnings (a)	(28,352)	) 18,205	(10,147)
Included in other comprehensive income (loss)	1,160	—	1,160
Transfers into Level 3	4,739	—	4,739
Transfers out of Level 3	(1,080)	) —	(1,080)
September 30, 2011	\$25,733	\$(11,331)	) \$14,402
Total gains (losses) for the period included in earnings attributable to the change in unrealized gains (losses) relating to assets and liabilities still held as of September 30, 2011 (a)	\$20,620	\$(6,978)	) \$13,642

(a) - Reported in revenues and cost of sales and fuel in our Consolidated Statements of Income.

Realized/unrealized gains (losses) include the realization of our derivative contracts through maturity and changes in fair value of our hedged firm commitments. We recognize transfers into and out of the levels in the fair value hierarchy as of the end of each reporting period. We had no transfers into or out of Level 1 during the periods presented. Transfers into Level 3 represent existing assets or liabilities that were previously categorized at a higher level for which the unobservable inputs became a more significant portion of the fair value estimates. Transfers out of Level 3 represent existing assets and liabilities that were classified previously as Level 3 for which the observable inputs became a more significant portion of the fair value estimates.

Our Level 3 fair value measurements based on unobservable inputs, excluding the portion of our fair value measurements based on third-party pricing information without adjustment, are not material at September 30, 2012.

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 \$7.4 billion at September 30, 2012, and \$5.6 billion at December 31, 2011. The book value of long-term debt, including current maturities, was \$6.5 billion and \$4.9 billion at September 30, 2012, and December 31, 2011, 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. Our consolidated long-term debt is classified as Level 2.

#### D. RISK MANAGEMENT AND HEDGING ACTIVITIES USING DERIVATIVES

Our Energy Services and ONEOK Partners segments are exposed to various risks that we manage by periodically entering into derivative instruments. These risks include the following:

Commodity price risk - We are exposed to the risk of loss in cash flows and future earnings arising from adverse changes in the price of natural gas, NGLs and crude oil. We use commodity derivative instruments such as futures, physical forward contracts, swaps and options to reduce the commodity price risk associated with a portion of the forecasted purchases and sales of commodities and natural gas and natural gas liquids in storage. Commodity price volatility may have a significant impact on the fair value of our derivative instruments as of a given date;

Basis risk - We are exposed to the risk of loss in cash flows and future earnings arising from adverse changes in the price differentials between pipeline receipt and delivery locations. Our firm transportation capacity allows us to purchase natural gas at a pipeline receipt point and sell natural gas at a pipeline delivery point. As market conditions permit, our Energy Services segment periodically enters into basis swaps between the transportation receipt and delivery points in order to protect the fair value of these location price differentials related to our firm commitments;

Currency exchange rate risk - As a result of our Energy Services segment's activities in Canada, we are exposed to the risk of loss in cash flows and future earnings from adverse changes in currency exchange rates on our commodity purchases and sales, primarily related to our firm transportation and storage contracts that are transacted



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in a currency other than our functional currency, the United States dollar. To reduce our exposure to exchange-rate fluctuations, we use physical forward transactions, which result in an actual two-way flow of currency on the settlement date in which we exchange United States dollars for Canadian dollars with another party; and

**Interest-rate risk** - We are also subject to fluctuations in interest rates. We manage interest-rate risk through the use of fixed-rate debt, floating-rate debt and interest-rate swaps.

The following derivative instruments are used to manage our exposure to these risks:

**Futures contracts** - Standardized exchange-traded contracts to purchase or sell natural gas and crude oil at a specified price, requiring delivery on or settlement through the sale or purchase of an offsetting contract by a specified future date under the provisions of exchange regulations;

**Forward contracts** - Commitments to purchase or sell natural gas, crude oil or NGLs for physical delivery at some specified time in the future. We also may use currency forward contracts to manage our currency exchange-rate risk. Forward contracts are different from futures in that forwards are customized and nonexchange traded;

**Swaps** - Financial trades involving the exchange of payments based on two different pricing structures for a commodity or other instrument. In a typical commodity swap, parties exchange payments based on changes in the price of a commodity or a market index, while fixing the price they effectively pay or receive for the physical commodity. As a result, one party assumes the risks and benefits of movements in market prices, while the other party assumes the risks and benefits of a fixed price for the commodity. Interest-rate swaps are agreements to exchange interest payments at some future point based on specified notional amounts; 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.

Our objectives for entering into such contracts include but are not limited to:

reducing the variability of cash flows by locking in the price for all or a portion of anticipated index-based physical purchases and sales, transportation fuel requirements, asset management transactions and customer-related business activities;

locking in a price differential to protect the fair value between transportation receipt and delivery points and to protect the fair value of natural gas or NGLs that are purchased in one month and sold in a later month;

reducing our exposure to fluctuations in interest and foreign currency exchange rates; and

reducing variability in cash flows from changes in interest rates associated with forecasted debt issuances.

Our Energy Services segment also enters into derivative contracts for financial trading purposes primarily to capitalize on opportunities created by market volatility, weather-related events, supply-demand imbalances and market liquidity inefficiencies, which allow us to capture additional margin. Financial trading activities are executed generally using financially settled derivatives and are normally short term in nature.

With respect to the net open positions that exist within our marketing and financial trading operations, fluctuating commodity prices can impact our financial position and results of operations. The net open positions are actively managed, and the impact of the changing prices on our financial condition at a point in time is not necessarily indicative of the impact of price movements throughout the year.

Our Natural Gas Distribution segment also uses derivative instruments to hedge the cost of a portion of anticipated natural gas purchases during the winter heating months to protect our customers from upward volatility in the market price of natural gas. The use of these derivative instruments and the associated recovery of these costs have been approved by the OCC, KCC and regulatory authorities in certain Texas jurisdictions.

ONEOK entered into forward-starting interest-rate swaps designated as cash flow hedges of the variability of interest payments on a portion of forecasted debt issuances that may result from changes in the benchmark interest rate before the debt is issued. ONEOK had interest-rate swaps with notional values totaling \$500 million at December 31, 2011. In January 2012, ONEOK entered into additional interest-rate swaps with notional amounts totaling \$200 million. Upon issuance in January 2012 of our \$700 million, 4.25-percent senior notes due 2022, ONEOK settled all \$700 million of its interest-rate swaps and realized a loss of \$44.1 million in accumulated other comprehensive income (loss) that will be amortized to interest expense over the term of the related debt.

ONEOK Partners has entered into forward-starting interest-rate swaps designated as cash flow hedges of the variability of interest payments on a portion of forecasted debt issuances that may result from changes in the benchmark interest rate before

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the debt is issued. At December 31, 2011, ONEOK Partners had interest-rate swaps with notional values totaling \$750 million. During the nine months ended September 30, 2012, ONEOK Partners entered into additional interest-rate swaps with notional amounts totaling \$650 million. Upon ONEOK Partners' debt issuance in September 2012, ONEOK Partners settled \$1 billion of its interest-rate swaps and realized a loss of \$124.9 million in accumulated other comprehensive income (loss) that will be amortized to interest expense over the term of the related debt. At September 30, 2012, ONEOK Partners' remaining interest-rate swaps with notional amounts totaling \$400 million have settlement dates greater than 12 months.

**Accounting Treatment** - We 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.

If certain conditions are met, we may elect to designate a derivative instrument as a hedge of exposure to changes in fair values, cash flows or foreign currency. Certain nontrading derivative transactions, which are economic hedges of our accrual transactions such as our storage and transportation contracts, do not qualify for hedge accounting treatment.

The table below summarizes the various ways in which we account for our 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		Effective portion of the gain or loss on the
	- derivative instrument is reported initially - as a component of accumulated other comprehensive income (loss)	-	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		Change in fair value of the hedged item is
	- is	-	recognized in earnings
	recorded as an adjustment to book value		

Gains or losses associated with the fair value of derivative instruments entered into by our Natural Gas Distribution segment are included in, and recoverable through, the monthly purchased-gas cost mechanism.

We 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 specifically identify the asset, liability, firm commitment or forecasted transaction that has been designated as the hedged item. We assess the effectiveness of hedging relationships quarterly by performing an effectiveness analysis on our cash flow and fair value hedging relationships to determine whether the hedge relationships are highly effective on a retrospective and prospective basis. We also document our normal purchases

and normal sales transactions that we expect to result in physical delivery and that we elect to exempt from derivative accounting treatment.

The presentation of settled derivative instruments on either a gross or net basis in our Consolidated Statements of Income is dependent on the relevant facts and circumstances of our different types of activities rather than based solely on the terms of the individual contracts. All financially settled derivative instruments, as well as derivative instruments considered held for trading purposes that result in physical delivery, are reported on a net basis in revenues in our Consolidated Statements of Income. The realized revenues and purchase costs of derivative instruments that are not considered held for trading purposes and nonderivative contracts are reported on a gross basis. Derivatives that qualify as normal purchases or normal sales that are expected to result in physical delivery are also reported on a gross basis.

Revenues in our Consolidated Statements of Income include financial trading margins, as well as certain physical natural gas transactions with our trading counterparties. Revenues and cost of sales and fuel from such physical transactions are reported on a net basis.

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

Fair Values of Derivative Instruments - The following table sets forth the fair values of our derivative instruments for our continuing and discontinued operations for the periods indicated:

	September 30, 2012		December 31, 2011	
	Fair Values of Derivatives (a)		Fair Values of Derivatives (a)	
	Assets	(Liabilities)	Assets	(Liabilities)
	(Thousands of dollars)			
Derivatives designated as hedging instruments				
Commodity contracts				
Financial contracts	\$73,544	(b) \$(31,188)	(b) \$184,184	(c) \$(73,346)
Physical contracts	18	(85)	62	(344)
Interest-rate contracts	7,600	—	—	(128,666)
Total derivatives designated as hedging instruments	81,162	(31,273)	184,246	(202,356)
Derivatives not designated as hedging instruments				
Commodity contracts				
Nontrading instruments				
Financial contracts	87,342	(87,271)	295,948	(323,170)
Physical contracts	5,894	(1,708)	38,733	(1,665)
Trading instruments				
Financial contracts	26,267	(24,578)	111,920	(110,050)
Total derivatives not designated as hedging instruments	119,503	(113,557)	446,601	(434,885)
Total derivatives	\$200,665	\$(144,830)	\$630,847	\$(637,241)

(a) - Included on a net basis in energy marketing and risk management assets and liabilities, other assets and other deferred credits on our Consolidated Balance Sheets.

(b) - Includes \$4.7 million of derivative assets associated with cash flow hedges of inventory that were adjusted to reflect the lower of cost or market value in a prior period. Includes \$22.8 million of deferred net assets and ineffectiveness associated with cash flow hedges of inventory related to certain financial contracts that were used to hedge forecasted purchases and sales of natural gas. The deferred gains and losses associated with these assets have been reclassified from accumulated other comprehensive income (loss).

(c) - Includes \$88.9 million of derivative assets associated with cash flow hedges of inventory that were adjusted to reflect the lower of cost or market value. The deferred gains associated with these assets have been reclassified from accumulated other comprehensive income (loss).

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

	Contract Type	September 30, 2012		December 31, 2011	
		Purchased/ Payor	Sold/ Receiver	Purchased/ Payor	Sold/ Receiver
Derivatives designated as hedging instruments:					
Cash flow hedges					
Fixed price					
- Natural gas (Bcf)	Exchange futures	3.0	(12.3 )	21.2	(23.4 )
	Swaps	2.1	(95.3 )	19.5	(111.9 )
- Crude oil and NGLs (MMbbl)	Swaps	—	(2.0 )	—	(2.9 )
Basis					
- Natural gas (Bcf)	Forwards and swaps	3.8	(44.8 )	3.2	(82.8 )
Interest-rate contracts (Millions of dollars)	Forward-starting swaps	\$400.0	\$—	\$1,250.0	\$—
Fair value hedges					
Basis					
- Natural gas (Bcf)	Forwards and swaps	74.3	(74.3 )	76.5	(77.0 )
Derivatives not designated as hedging instruments:					
Fixed price					
- Natural gas (Bcf)	Exchange futures	42.7	(34.1 )	76.9	(59.6 )
	Forwards and swaps	77.7	(85.9 )	235.8	(253.4 )
	Options	259.0	(261.7 )	33.6	(14.3 )
Basis					
- Natural gas (Bcf)	Forwards and swaps	117.6	(119.5 )	216.9	(219.3 )
Index					
- Natural gas (Bcf)	Forwards and swaps	18.7	(8.7 )	29.3	(22.1 )

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 our actual exposure to market or credit risk.

Cash Flow Hedges - Our Energy Services and ONEOK Partners segments use derivative instruments to hedge the cash flows associated with anticipated purchases and sales of natural gas, NGLs and condensate and cost of fuel used in the transportation of natural gas. Accumulated other comprehensive income (loss) at September 30, 2012, includes losses of approximately \$14.5 million, net of tax, related to these hedges that will be recognized within the next 15 months as the forecasted transactions affect earnings. If prices remain at current levels, we will recognize \$16.2 million in net losses over the next 12 months, and we will recognize net gains of \$1.7 million thereafter. The remaining amounts deferred in accumulated other comprehensive income (loss) associated with derivative instruments are primarily attributable to our interest-rate swaps of which losses of \$14.1 million will be reclassified into earnings during the next 12 months as the hedged items affect earnings.

For the nine months ended September 30, 2012, net margin in our Consolidated Statement of Income includes losses of \$29.9 million related to certain financial contracts that were used to hedge forecasted purchases of natural gas. As a result of the continued decline in natural gas prices, the combination of the cost basis of the forecasted purchases of inventory and the financial contracts exceed the amount expected to be recovered through sales of that inventory after considering related sales hedges, which requires reclassification of the loss from accumulated other comprehensive loss to current period earnings.



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

Derivatives in Cash Flow Hedging Relationships	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(Thousands of dollars)			
Commodity contracts	\$ (41,452 )	\$ 60,217	\$ 39,461	\$ 63,762
Interest-rate contracts	(1,175 )	(112,253 )	(32,795 )	(112,253 )
Total gain (loss) recognized in other comprehensive income (loss) on derivatives (effective portion)	\$ (42,627 )	\$ (52,036 )	\$ 6,666	\$ (48,491 )

The following tables set forth the effect of cash flow hedges on our Consolidated Statements of Income 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,	
		2012	2011
		(Thousands of dollars)	
Commodity contracts	Revenues	\$ 31,447	\$ 2,416
Commodity contracts	Cost of sales and fuel	(2,503 )	23,681
Interest-rate contracts	Interest expense	(1,828 )	(90 )
Total gain (loss) reclassified from accumulated other comprehensive income (loss) into net income on derivatives (effective portion)		\$ 27,116	\$ 26,007
Derivatives in Cash Flow Hedging Relationships	Location of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) into Net Income (Effective Portion)	Nine Months Ended September 30,	
		2012	2011
		(Thousands of dollars)	
Commodity contracts	Revenues	\$ 127,477	\$ 32,292
Commodity contracts	Cost of sales and fuel	(65,940 )	22,745
Interest-rate contracts	Interest expense	(3,908 )	(388 )
Total gain (loss) reclassified from accumulated other comprehensive income (loss) into net income on derivatives (effective portion)		\$ 57,629	\$ 54,649

Ineffectiveness related to our cash flow hedges was not material for the three and nine months ended September 30, 2012 and 2011. In the event that it becomes probable that a forecasted transaction will not occur, we will discontinue cash flow hedge treatment, which will affect earnings. For the three and nine months ended September 30, 2012 and 2011, there were no gains or losses due to the discontinuance of cash flow hedge treatment as a result of the underlying transactions being no longer probable.

Other Derivative Instruments - The following table sets forth the effect of our September 30, 2012 instruments that are not part of a hedging relationship in our Consolidated Statements of Income for our continuing and discontinued operations for the periods indicated:

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss)	Three Months Ended September 30,		Nine Months Ended September 30,	
		2012	2011	2012	2011
		(Thousands of dollars)			
Commodity contracts - trading	Revenues	\$ 867	\$ 1,357	\$ 1,673	\$ 1,474
Commodity contracts - nontrading (a)	Cost of sales and fuel	601	4,991	4,924	15,498
Total gain recognized in income on derivatives		\$ 1,468	\$ 6,348	\$ 6,597	\$ 16,972



(a) - Amounts are presented net of deferred gains (losses) associated with derivatives entered into by our Natural Gas Distribution segment.

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Our Natural Gas Distribution segment held natural gas call options with premiums totaling \$12.3 million and \$10.0 million at September 30, 2012, and December 31, 2011, respectively. The premiums are recorded in other current assets as these contracts are included in, and recoverable through, the monthly purchased-gas cost mechanism. For the three and nine months ended September 30, 2012, we recorded gains of \$2.8 million and \$3.8 million, respectively, associated with the change in value of option contracts, which are deferred as part of our unrecovered purchased-gas costs. For the three and nine months ended September 30, 2011, we recorded losses of \$8.4 million and \$11.5 million, respectively, associated with the decline in value and expiration of option contracts, which are deferred as part of our unrecovered purchase-gas costs. The gains and losses associated with these derivative instruments are deferred as part of our unrecovered-gas costs.

**Fair Value Hedges** - Our Energy Services segment uses basis swaps to hedge the fair value of location price differentials related to certain firm transportation commitments. Cost of sales and fuel in our Consolidated Statements of Income includes losses of \$0.3 million and gains of \$0.9 million for the three and nine months ended September 30, 2012, respectively, related to the change in fair value of derivatives designated as fair value hedges. Revenues include gains of \$0.2 million and losses of \$0.1 million for the three and nine months ended September 30, 2012, respectively, to recognize the change in fair value of the related hedged firm commitments. The ineffectiveness related to these hedges was not material for the three and nine months ended September 30, 2012.

Cost of sales and fuel in our Consolidated Statements of Income includes gains of \$3.3 million and \$12.9 million for the three and nine months ended September 30, 2011, respectively, related to the change in fair value of derivatives designated as fair value hedges. Revenues include losses of \$3.1 million and \$12.5 million for the three and nine months ended September 30, 2011, respectively, to recognize the change in fair value of the related hedged firm commitments. The ineffectiveness related to these hedges was not material for the three and nine months ended September 30, 2011.

**Credit Risk** - We monitor the creditworthiness of our counterparties and compliance with policies and limits established by our Risk Oversight and Strategy Committee. We maintain credit policies with regard to our counterparties that we 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. We have counterparties whose credit is not rated, and for those customers we use internally developed credit ratings.

Some of our derivative instruments contain provisions that require us to maintain an investment-grade credit rating from S&P and/or Moody's. If our credit ratings on senior unsecured long-term debt were to decline below investment grade, we would be in violation of these provisions, and the counterparties to the derivative instruments could request collateralization on derivative instruments in net liability positions. The aggregate fair value of all financial derivative instruments with contingent features related to credit risk that were in a net liability position as of September 30, 2012, was \$3.3 million. If the contingent features underlying these agreements were triggered on September 30, 2012, we would have been required to post an additional \$3.3 million of collateral to our counterparties.

The counterparties to our derivative contracts consist primarily of major energy companies, LDCs, electric utilities, financial institutions and commercial and industrial end-users. This concentration of counterparties may impact our 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 our policies, exposures, credit and other reserves, we do not anticipate a material adverse effect on our financial position or results of operations as a result of counterparty nonperformance.

At September 30, 2012, the net credit exposure from our derivative assets is primarily with investment-grade companies in the financial and utility sectors.

#### E. CREDIT FACILITIES AND SHORT-TERM NOTES PAYABLE

ONEOK 2011 Credit Agreement - The ONEOK 2011 Credit Agreement, which is scheduled to expire in April 2016, contains certain financial, operational and legal covenants. Among other things, these covenants include maintaining ONEOK's stand-alone debt-to-capital ratio of no more than 67.5 percent at the end of any calendar quarter, limitations on the ratio of indebtedness secured by liens and indebtedness of subsidiaries to consolidated net tangible assets, a requirement that ONEOK maintains the power to control the management and policies of ONEOK Partners, and a limit on new investments in master limited partnerships. The ONEOK 2011 Credit Agreement also contains customary affirmative and negative covenants, including covenants relating to liens, investments, fundamental changes in the nature of ONEOK's businesses, transactions with affiliates, the use of proceeds and a covenant that limits ONEOK's ability to restrict its subsidiaries' ability to pay

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dividends. The debt covenant calculations in the ONEOK 2011 Credit Agreement exclude the debt of ONEOK Partners. In the event of a breach of certain covenants by ONEOK, amounts outstanding under the ONEOK 2011 Credit Agreement may become due and payable immediately. At September 30, 2012, ONEOK's stand-alone debt-to-capital ratio, as defined by the ONEOK 2011 Credit Agreement, was 50.9 percent, and ONEOK was in compliance with all covenants under the ONEOK 2011 Credit Agreement.

Under the terms of the ONEOK 2011 Credit Agreement, ONEOK may request an increase in the size of the facility to an aggregate of \$1.7 billion from \$1.2 billion by either commitments from new lenders or increased commitments from existing lenders. The ONEOK 2011 Credit Agreement is available to repay our commercial paper notes, if necessary. Amounts outstanding under the commercial paper program reduce the borrowing capacity under the ONEOK 2011 Credit Agreement.

At September 30, 2012, ONEOK had \$676.7 million of commercial paper outstanding, no borrowings under the ONEOK 2011 Credit Agreement and \$1.9 million in letters of credit issued under the ONEOK 2011 Credit Agreement. ONEOK had approximately \$521.4 million of credit available at September 30, 2012, under the ONEOK 2011 Credit Agreement.

ONEOK Partners 2011 Credit Agreement - The ONEOK Partners 2011 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 2011 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 of the acquisition and the two following quarters. Upon breach of certain covenants by ONEOK Partners in the ONEOK Partners 2011 Credit Agreement, amounts outstanding under the ONEOK Partners 2011 Credit Agreement, if any, may become due and payable immediately. At September 30, 2012, ONEOK Partners' ratio of indebtedness to adjusted EBITDA was 2.9 to 1, and ONEOK Partners was in compliance with all covenants under the ONEOK Partners 2011 Credit Agreement.

The ONEOK Partners 2011 Credit Agreement includes a \$100-million sublimit for the issuance of standby letters of credit and also features an option to request an increase in the size of the facility to an aggregate of \$1.7 billion from \$1.2 billion by either commitments from new lenders or increased commitments from existing lenders. The ONEOK Partners 2011 Credit Agreement is available to repay ONEOK Partners' commercial paper notes, if necessary. Amounts outstanding under the commercial paper program reduce the borrowing capacity under the ONEOK Partners 2011 Credit Agreement. At September 30, 2012, ONEOK Partners had no commercial paper outstanding, no letters of credit issued and no borrowings under the ONEOK Partners 2011 Credit Agreement.

In August 2012, ONEOK Partners extended the maturity date of its ONEOK Partners 2011 Credit Agreement from August 1, 2016, to August 1, 2017, pursuant to an extension agreement between ONEOK Partners and its lenders.

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

## F. LONG-TERM DEBT

In January 2012, we completed an underwritten public offering of \$700 million, 4.25-percent senior notes due 2022. The net proceeds from the offering, after deducting underwriting discounts and offering expenses, of approximately \$694.3 million were used to repay amounts outstanding under our \$1.2 billion commercial paper program and for general corporate purposes.

The indenture governing ONEOK's senior notes due 2022 includes an event of default upon the acceleration of other indebtedness of \$100 million or more. Such events of default would entitle the trustee or the holders of 25 percent in aggregate principal amount of the outstanding senior notes due 2022 to declare those senior notes immediately due and payable in full. ONEOK may redeem its senior notes due 2022 at a redemption price equal to the principal amount, plus accrued and unpaid interest, starting three months before the maturity date. Prior to this date, ONEOK may redeem the senior notes due 2022, in whole or in part, at any time for a redemption price equal to the principal amount plus accrued and unpaid interest and a make-whole premium. The redemption price will never be less than 100 percent of the principal amount of the respective note plus accrued and unpaid interest to the redemption date. ONEOK's senior notes due 2022 are senior unsecured obligations, ranking equally in right of payment with all of ONEOK's existing and future unsecured senior indebtedness.

In September 2012, ONEOK Partners completed an underwritten public offering of \$1.3 billion of senior notes, consisting of \$400 million, 2.0-percent senior notes due 2017 and \$900 million, 3.375-percent senior notes due 2022. A portion of the net

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proceeds from the offering of approximately \$1.29 billion was used to repay amounts outstanding under their commercial paper program, and the balance will be used for general partnership purposes, including but not limited to capital expenditures.

ONEOK Partners' 2.0-percent notes due 2017 and 3.375-percent notes due 2022 are governed by an indenture, dated as of September 25, 2006, between ONEOK Partners and Wells Fargo Bank, N.A., the trustee, as supplemented. The indenture does not limit the aggregate principal amount of debt securities that may be issued and provides that debt securities may be issued from time to time in one or more additional series. The indenture contains covenants including, among other provisions, limitations on ONEOK Partners' ability to place liens on its property or assets and to sell and lease back its property. The indenture includes an event of default upon acceleration of other indebtedness of \$100 million or more. Such events of default would entitle the trustee or the holders of 25 percent in aggregate principal amount of any of ONEOK Partners' outstanding senior notes to declare those notes immediately due and payable in full.

ONEOK Partners may redeem its 2.0-percent senior notes due 2017 and its 3.375-percent senior notes due 2022 at par starting one month and three months, respectively, before their maturity dates. Prior to these dates, ONEOK Partners may redeem these notes, in whole or in part, at a redemption price equal to the principal amount, plus accrued and unpaid interest and a make-whole premium. The redemption price will never be less than 100 percent of the principal amount of the respective note plus accrued and unpaid interest to the redemption date. ONEOK Partners' senior notes are senior unsecured obligations, ranking equally in right of payment with all of ONEOK Partners' existing and future unsecured senior indebtedness, and structurally subordinate to any of the existing and future debt and other liabilities of any ONEOK Partners' nonguarantor subsidiaries.

ONEOK Partners repaid its \$350 million, 5.9-percent senior notes at maturity in April 2012 with a portion of the proceeds from its March 2012 equity issuance.

**G.EQUITY**

The following tables set 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, 2012			Three Months Ended September 30, 2011		
	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	\$2,089,540	\$2,116,448	\$4,205,988	\$2,217,089	\$1,480,615	\$3,697,704
Net income	65,219	99,769	164,988	60,321	100,559	160,880
Other comprehensive income (loss)	(34,836)	(22,208)	(57,044)	(43,307)	(15,370)	(58,677)
Repurchase of common stock	—	—	—	(3)	—	(3)
Common stock issued	3,838	—	3,838	9,841	—	9,841
Common stock dividends	(67,671)	—	(67,671)	(57,981)	—	(57,981)
	—	—	—	—	—	—

Issuance of common units of ONEOK Partners						
Distributions to noncontrolling interests	—	(84,156	) (84,156	) —	(69,704	) (69,704
Other	9,616	—	9,616	—	—	—
Ending balance	\$2,065,706	\$2,109,853	\$4,175,559	\$2,185,960	\$1,496,100	\$3,682,060

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	Nine Months Ended September 30, 2012			Nine Months Ended September 30, 2011		
	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	\$2,238,573	\$1,561,159	\$3,799,732	\$2,448,623	\$1,472,218	\$3,920,841
Net income	249,077	298,578	547,655	245,593	249,399	494,992
Other comprehensive income (loss)	(34,355 )	(22,920 )	(57,275 )	(65,771 )	(19,257 )	(85,028 )
Repurchase of common stock	(150,000 )	—	(150,000 )	(300,108 )	—	(300,108 )
Common stock issued	10,390	—	10,390	26,960	—	26,960
Common stock dividends	(194,443 )	—	(194,443 )	(169,337 )	—	(169,337 )
Issuance of common units of ONEOK Partners	(51,100 )	510,780	459,680	—	—	—
Distributions to noncontrolling interests	—	(237,744 )	(237,744 )	—	(206,260 )	(206,260 )
Other	(2,436 )	—	(2,436 )	—	—	—
Ending balance	\$2,065,706	\$2,109,853	\$4,175,559	\$2,185,960	\$1,496,100	\$3,682,060

Dividends - Dividends paid on our common stock to shareholders of record at the close of business on January 31, 2012, and April 30, 2012, each were \$0.305 per share. A dividend of \$0.33 per share was paid to shareholders of record at the close of business on August 6, 2012. A dividend of \$0.33 per share was declared for shareholders of record on November 5, 2012, payable November 14, 2012.

Stock Repurchase Program - In September 2012, we completed an accelerated share repurchase agreement pursuant to which we repurchased approximately 3.4 million shares of our common stock for \$150 million.

Our three-year stock repurchase program was authorized by our Board of Directors in October 2010 to buy up to \$750 million of our common stock, subject to the limitation that purchases will not exceed \$300 million in any one calendar year. Following our \$150 million repurchase in September 2012 and our \$300 million repurchase in 2011, an additional \$300 million may yet be purchased pursuant to our three-year repurchase program, of which a maximum of \$150 million of additional shares of our common stock may be repurchased in 2012.

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 Losses on Energy	Unrealized Holding Gains	Pension and Postretirement	Accumulated Other
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	Marketing and Risk Management Assets/Liabilities (Thousands of dollars)	on Investment Securities	Benefit Plan Obligations	Comprehensive Income (Loss)
December 31, 2011	\$(55,367	) \$987	\$(151,741	) \$(206,121
Other comprehensive income (loss) attributable to ONEOK	(17,235	) 210	(17,330	) (34,355
September 30, 2012	\$(72,602	) \$1,197	\$(169,071	) \$(240,476

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## I. EARNINGS PER SHARE

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

	Three Months Ended September 30, 2012		
	Income	Shares	Per Share Amount
	(Thousands, except per share amounts)		
Basic EPS from continuing operations			
Income from continuing operations attributable to ONEOK available for common stock	\$65,219	205,005	\$0.32
Diluted EPS from continuing operations			
Effect of options and other dilutive securities	—	4,955	
Income from continuing operations attributable to ONEOK available for common stock and common stock equivalents	\$65,219	209,960	\$0.31
	Three Months Ended September 30, 2011		
	Income	Shares	Per Share Amount
	(Thousands, except per share amounts)		
Basic EPS from continuing operations			
Income from continuing operations attributable to ONEOK available for common stock	\$60,600	206,606	\$0.29
Diluted EPS from continuing operations			
Effect of options and other dilutive securities	—	5,334	
Income from continuing operations attributable to ONEOK available for common stock and common stock equivalents	\$60,600	211,940	\$0.29
	Nine Months Ended September 30, 2012		
	Income	Shares	Per Share Amount
	(Thousands, except per share amounts)		
Basic EPS from continuing operations			
Income from continuing operations attributable to ONEOK available for common stock	\$234,798	206,638	\$1.14
Diluted EPS from continuing operations			
Effect of options and other dilutive securities	—	4,560	
Income from continuing operations attributable to ONEOK available for common stock and common stock equivalents	\$234,798	211,198	\$1.11
	Nine Months Ended September 30, 2011		
	Income	Shares	Per Share Amount
	(Thousands, except per share amounts)		
Basic EPS from continuing operations			
Income from continuing operations attributable to ONEOK available for common stock	\$244,374	210,440	\$1.16
Diluted EPS from continuing operations			
Effect of options and other dilutive securities	—	5,014	
Income from continuing operations attributable to ONEOK available for common stock and common stock equivalents	\$244,374	215,454	\$1.13

There were no option shares excluded from the calculation of diluted EPS for the three and nine months ended September 30, 2012 and 2011.

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## J.EMPLOYEE BENEFIT PLANS

The following table sets forth the components of net periodic benefit cost for our pension and postretirement benefit plans for the periods indicated:

	Pension Benefits Three Months Ended September 30, 2012		Pension Benefits Nine Months Ended September 30, 2012	
	2011		2011	2011
	(Thousands of dollars)			
Components of net periodic benefit cost				
Service cost	\$5,325	\$5,003	\$15,975	\$15,009
Interest cost	14,809	14,689	44,427	44,067
Expected return on assets	(20,689 )	(18,875 )	(62,067 )	(56,625 )
Amortization of unrecognized prior service cost	242	255	726	764
Amortization of net loss	12,111	8,927	36,333	26,782
Net periodic benefit cost	\$11,798	\$9,999	\$35,394	\$29,997
	Postretirement Benefits Three Months Ended September 30, 2012		Postretirement Benefits Nine Months Ended September 30, 2012	
	2011		2011	2011
	(Thousands of dollars)			
Components of net periodic benefit cost				
Service cost	\$1,239	\$1,257	\$3,716	\$3,772
Interest cost	3,473	3,958	10,419	11,874
Expected return on assets	(2,671 )	(2,568 )	(8,013 )	(7,704 )
Amortization of unrecognized net asset at adoption	718	797	2,154	2,391
Amortization of unrecognized prior service cost	(2,063 )	(501 )	(6,189 )	(1,503 )
Amortization of net loss	3,296	2,031	9,888	6,093
Net periodic benefit cost	\$3,992	\$4,974	\$11,975	\$14,923

## K. UNCONSOLIDATED AFFILIATES

Equity Earnings from Investments - The following table sets forth our equity earnings from investments for the periods indicated. All amounts in the table below are equity earnings from investments in our ONEOK Partners segment:

	Three Months Ended September 30, 2012		Nine Months Ended September 30, 2012	
	2011		2011	2011
	(Thousands of dollars)			
Northern Border Pipeline Company	\$18,185	\$19,723	\$54,493	\$56,970
Overland Pass Pipeline	4,490	4,338	15,786	14,074
Fort Union Gas Gathering	4,091	3,444	11,494	10,120
Bighorn Gas Gathering	1,157	1,389	3,118	4,727
Other	668	3,135	7,489	7,774
Equity earnings from investments	\$28,591	\$32,029	\$92,380	\$93,665

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Unconsolidated Affiliates Financial Information - The following tables set forth summarized combined financial information of our unconsolidated affiliates for the periods indicated:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
	(Thousands of dollars)			
Income Statement				
Operating revenues	\$ 125,828	\$ 124,955	\$ 373,038	\$ 369,258
Operating expenses	\$ 60,937	\$ 55,899	\$ 173,232	\$ 162,123
Net income	\$ 55,721	\$ 65,368	\$ 180,787	\$ 187,777
Distributions paid to ONEOK Partners	\$ 34,557	\$ 32,257	\$ 118,752	\$ 103,309

In September 2012, Northern Border Pipeline Company filed with the FERC a settlement with its customers to modify its transportation rates beginning in January 2013. We expect the FERC to make a final ruling on this settlement before the end of the year. If approved, the long-term transportation rates will be approximately 11 percent lower compared with current rates.

## L. ONEOK PARTNERS

Equity Issuance - In March 2012, ONEOK Partners completed an underwritten public offering of 8,000,000 common units at a public offering price of \$59.27 per common unit, generating net proceeds of approximately \$460 million. ONEOK Partners also sold 8,000,000 common units to us in a private placement, generating net proceeds of approximately \$460 million. In conjunction with the issuances, we contributed approximately \$19 million in order to maintain our 2-percent general partner interest in ONEOK Partners. ONEOK Partners used the net proceeds from the issuances to repay \$295 million of borrowings under its commercial paper program, to repay amounts on the maturity of its \$350 million, 5.9-percent senior notes due April 2012 and for other general partnership purposes, including capital expenditures. As a result of these transactions, our aggregate ownership interest in ONEOK Partners increased to 43.4 percent from 42.8 percent.

We account for the difference between the carrying amount of our investment in ONEOK Partners and the underlying book value arising from issuance of common units by ONEOK Partners as an equity transaction. As a result of ONEOK Partners' issuance of common units, we recognized a decrease in paid-in capital of approximately \$51.1 million in the first quarter of 2012.

Ownership Interest in ONEOK Partners - Our ownership interest in ONEOK Partners is shown in the table below as of September 30, 2012:

General partner interest	2.0	%
Limited partner interest (a)	41.4	%
Total ownership interest	43.4	%

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

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

amended, the general partner receives:

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

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

	Three Months Ended		Nine Months Ended	
	September 30, 2012	2011	September 30, 2012	2011
	(Thousands, except per unit amounts)			
Distribution per unit	\$0.66	\$0.585	\$1.905	\$1.73
General partner distributions	\$3,979	\$3,078	\$11,019	\$9,030
Incentive distributions	49,886	31,580	130,968	89,849
Distributions to general partner	53,865	34,658	141,987	98,879
Limited partner distributions to ONEOK	61,240	49,601	171,882	146,684
Limited partner distributions to noncontrolling interest	83,838	69,631	237,109	205,917
Total distributions paid	\$198,943	\$153,890	\$550,978	\$451,480

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

	Three Months Ended		Nine Months Ended	
	September 30, 2012	2011	September 30, 2012	2011
	(Thousands, except per unit amounts)			
Distribution per unit	\$0.685	\$0.595	\$1.98	\$1.755
General partner distributions	\$4,199	\$3,159	\$11,937	\$9,233
Incentive distributions	55,162	33,537	149,658	94,741
Distributions to general partner	59,361	36,696	161,595	103,974
Limited partner distributions to ONEOK	63,560	50,449	183,721	148,803
Limited partner distributions to noncontrolling interest	87,014	70,821	251,514	208,893
Total distributions declared	\$209,935	\$157,966	\$596,830	\$461,670

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

Affiliate Transactions - We have certain transactions with ONEOK Partners and its subsidiaries, which comprise our ONEOK Partners segment.

ONEOK Partners sells natural gas from its natural gas gathering and processing operations to our Energy Services segment. In addition, a portion of ONEOK Partners' revenues from its natural gas pipelines business is from our Energy Services and Natural Gas Distribution segments, which contract with ONEOK Partners for natural gas transportation and storage services. ONEOK Partners also purchases natural gas from our Energy Services segment for its natural gas liquids and its natural gas gathering and processing operations.

We provide a variety of services to our affiliates, including cash management and financial services, legal and administrative services by our employees and management, insurance and office space leased in our headquarters building and other field locations. Where costs are incurred specifically on behalf of an affiliate, the costs are billed directly to the affiliate by us. In other situations, the costs may be allocated to the affiliates through a variety of methods, depending upon the nature of the expenses and the activities of the affiliates. For example, a service that applies equally to all employees is allocated based upon the number of employees in each affiliate. However, an

expense benefiting the consolidated company but having no direct basis for allocation is allocated by the modified Distrigas method, a method using a combination of ratios that include gross plant and investment, operating income and payroll expense. It is not practicable to determine what these general overhead costs would be on a stand-alone basis.



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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
	(Thousands of dollars)			
Revenues	\$91,096	\$111,177	\$247,851	\$306,669
Expenses				
Cost of sales and fuel	\$7,831	\$13,942	\$22,875	\$37,113
Administrative and general expenses	60,020	62,306	179,017	175,815
Total expenses	\$67,851	\$76,248	\$201,892	\$212,928

**M. COMMITMENTS AND CONTINGENCIES**

**Environmental Matters** - We are subject to multiple historical and wildlife preservation laws and environmental regulations affecting many aspects of our present and future operations. Regulated activities include those involving air emissions, storm water and wastewater discharges, handling and disposal of solid and hazardous wastes, hazardous materials transportation, and pipeline and facility construction. These laws and regulations require us to obtain and comply with a wide variety of environmental clearances, registrations, licenses, permits and other approvals. Failure to comply with these laws, regulations, licenses and permits may expose us to fines, penalties and/or interruptions in our operations that could be material to our results of operations. If a leak or spill of hazardous substances or petroleum products occurs from pipelines or facilities that we own, operate or otherwise use, we could be held jointly and severally liable for all resulting liabilities, including response, investigation and cleanup costs, which could affect materially our results of operations and cash flows. In addition, emission controls required under the Clean Air Act and other similar federal and state laws could require unexpected capital expenditures at our facilities. We cannot assure that existing environmental regulations will not be revised or that new regulations will not be adopted or become applicable to us. Revised or additional regulations that result in increased compliance costs or additional operating restrictions could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We own or retain legal responsibility for the environmental conditions at 12 former manufactured natural gas sites in Kansas. These sites contain potentially harmful materials that are subject to control or remediation under various environmental laws and regulations. A consent agreement with the KDHE presently governs all work at these sites. The terms of the consent agreement allow us to investigate these sites and set remediation activities based upon the results of the investigations and risk analysis. Remediation typically involves the management of contaminated soils and may involve removal of structures and monitoring and/or remediation of groundwater.

Of the 12 sites, we have begun soil remediation on 11 sites. Regulatory closure has been achieved at three locations, and we have completed or are near completion of soil remediation at eight sites. We have begun site assessment at the remaining site where no active remediation has occurred.

Our expenditures for environmental evaluation, mitigation, remediation and compliance to date have not been material in relation to our financial position, results of operations or cash flows, and our expenditures related to environmental matters had no material effects on earnings or cash flows during the three and nine months ended September 30, 2012 or 2011.

In May 2010, the EPA finalized the "Tailoring Rule" that regulates greenhouse gas emissions at new or modified facilities that meet certain criteria. Affected facilities are required to review best available control technology, conduct air-quality analysis, impact analysis and public reviews with respect to such emissions. The rule was phased

in beginning January 2011 and at current emission threshold levels has had a minimal impact on our existing facilities. The EPA has stated it will consider lowering the threshold levels over the next five years, which could increase the impact on our existing facilities; however, potential costs, fees or expenses associated with the potential adjustments are unknown.

In addition, the EPA has issued a rule on air-quality standards, “National Emission Standards for Hazardous Air Pollutants for Reciprocating Internal Combustion Engines,” also known as RICE NESHAP, with a compliance date in 2013. The rule will require capital expenditures for the purchase and installation of new emissions-control equipment. We do not expect these expenditures to have a material impact on our results of operations, financial position or cash flows.

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In July 2011, the EPA issued a proposed rule that would change the air emission New Source Performance Standards, also known as NSPS, and Maximum Achievable Control Technology requirements applicable to the oil and gas industry, including natural gas production, processing, transmission and underground storage. In April 2012, the EPA released the final rule, which includes new NSPS and air toxic standards for a variety of sources within natural gas processing plants, oil and natural gas production facilities and natural gas transmission stations. The rule also regulates emissions from the hydraulic fracturing of wells for the first time. The EPA's final rule reflects significant changes from the proposal issued in 2011 and allows for more manageable compliance options. The NSPS final rule became effective in October 2012, but the dates for compliance vary and depend in part upon the type of affected facility and the date of construction, reconstruction or modification. It will require expenditures for updated emissions controls, monitoring and record-keeping requirements at affected facilities. However, the EPA is still considering industry comments that may result in the exclusion of certain sources from some of the more costly provisions. If approved, this would reduce the anticipated capital and operations and maintenance costs resulting from the regulation. We do not expect these expenditures to have a material impact on our results of operations, financial position or cash flows.

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

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

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

**Financial Markets Legislation** - The Dodd-Frank Act represents a far-reaching overhaul of the framework for regulation of United States financial markets. Various regulatory agencies, including the SEC and the CFTC, have proposed regulations for implementation of many of the provisions of the Dodd-Frank Act. The CFTC has issued final regulations for certain provisions of the Dodd-Frank Act, but others remain outstanding. Several of the regulations became effective in October 2012. Prior to becoming effective, however, one of the final regulations, which imposed federal limits on speculative positions in certain futures contracts, was vacated by the United States District Court for the District of Columbia and remanded to the CFTC for further action. Based on our assessment of the regulations issued to date and those proposed, we expect to be able to continue to participate in financial markets for hedging certain risks inherent in our business, including commodity and interest-rate risks; however, the capital requirements and costs of hedging may increase as a result of the regulations. We also may incur additional costs associated with our compliance with the new regulations and anticipated additional record keeping, reporting and disclosure obligations; however, we do not believe the costs will be material. These requirements could affect adversely market liquidity and pricing of derivative contracts making it more difficult to execute our risk-management strategies in the future. Also, the anticipated increased costs of compliance by dealers and counterparties likely will be passed on to

customers, which could decrease the benefits of hedging to us and could reduce our profitability and liquidity.

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

#### N. SEGMENTS

Segment Descriptions - Our operations are divided into three reportable business segments as follows:

our ONEOK Partners segment reflects the consolidated operations of ONEOK Partners. We own a 43.4 percent ownership interest and control ONEOK Partners through our ownership of its general partner interest. ONEOK Partners gathers, processes, treats, transports, stores and sells natural gas and gathers, treats, fractionates, stores, distributes and

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markets NGLs. We and ONEOK Partners maintain significant financial and corporate governance separations. We seek to receive increasing cash distributions as a result of our investment in ONEOK Partners, and our investment decisions are made based on the anticipated returns from ONEOK Partners in total, not specific to any of its businesses individually;

- our Natural Gas Distribution segment is comprised of our regulated public utilities that deliver natural gas to residential, commercial and industrial customers, and transport natural gas; and
- our Energy Services segment markets natural gas to wholesale customers.

Other and Eliminations consists of the operating and leasing operations of our headquarters building and related parking facility and other amounts needed to reconcile our reportable segments to our consolidated financial statements.

Accounting Policies - The accounting policies of the segments are the same as those described in Note A of the Notes to Consolidated Financial Statements in our Annual Report. Intersegment sales are recorded on the same basis as sales to unaffiliated customers and are discussed in further detail in Note L. Net margin is comprised of total revenues less cost of sales and fuel. Cost of sales and fuel includes commodity purchases, fuel, and storage and transportation costs.

Customers - For the three and nine months ended September 30, 2012 and 2011, we had no single external customer from which we received 10 percent or more of our consolidated gross revenues.

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

Three Months Ended September 30, 2012	ONEOK Partners (a)	Natural Gas Distribution	Energy Services	Other and Eliminations	Total
	(Thousands of dollars)				
Sales to unaffiliated customers	\$2,456,364	\$204,930	\$366,955	\$526	\$3,028,775
Intersegment revenues	91,096	2	(3,116)	(87,982)	—
Total revenues	\$2,547,460	\$204,932	\$363,839	\$(87,456)	\$3,028,775
Net margin	\$419,737	\$150,987	\$(17,275)	\$523	\$553,972
Operating costs	121,176	103,373	4,424	232	229,205
Depreciation and amortization	49,754	31,962	78	(360)	81,434
Loss on sale of assets	(420)	—	—	—	(420)
Operating income	\$248,387	\$15,652	\$(21,777)	\$651	\$242,913
Equity earnings from investments	\$28,591	\$—	\$—	\$—	\$28,591
Capital expenditures	\$375,291	\$74,287	\$—	\$8,633	\$458,211

(a) - Our ONEOK Partners segment has regulated and nonregulated operations. Our ONEOK Partners segment's regulated operations had revenues of \$181.6 million, net margin of \$122.9 million and operating income of \$63.6 million.

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Three Months Ended September 30, 2011	ONEOK Partners (a)	Natural Gas Distribution	Energy Services	Other and Eliminations	Total
	(Thousands of dollars)				
Sales to unaffiliated customers	\$2,792,399	\$211,707	\$524,667	\$586	\$3,529,359
Intersegment revenues	111,177	2,176	83,522	(196,875)	) —
Total revenues	\$2,903,576	\$213,883	\$608,189	\$(196,289)	) \$3,529,359
Net margin	\$394,006	\$145,408	\$(7,373)	) \$583	\$532,624
Operating costs	106,306	95,340	5,252	363	207,261
Depreciation and amortization	45,221	30,254	100	378	75,953
Loss on sale of assets	(69)	) —	—	—	(69)
Operating income	\$242,410	\$19,814	\$(12,725)	) \$(158)	) \$249,341
Equity earnings from investments	\$32,029	\$—	\$—	\$—	\$32,029
Capital expenditures	\$252,227	\$67,459	\$21	\$18,831	\$338,538

(a) - Our ONEOK Partners segment has regulated and nonregulated operations. Our ONEOK Partners segment's regulated operations had revenues of \$166.3 million, net margin of \$112.5 million and operating income of \$55.9 million.

Nine Months Ended September 30, 2012	ONEOK Partners (a)	Natural Gas Distribution	Energy Services	Other and Eliminations	Total
	(Thousands of dollars)				
Sales to unaffiliated customers	\$7,018,503	\$943,034	\$1,009,550	\$1,548	\$8,972,635
Intersegment revenues	247,851	845	84,022	(332,718)	) —
Total revenues	\$7,266,354	\$943,879	\$1,093,572	\$(331,170)	) \$8,972,635
Net margin	\$1,242,289	\$545,823	\$(43,133)	) \$1,542	\$1,746,521
Operating costs	360,410	312,133	13,889	(1,906)	) 684,526
Depreciation and amortization	150,024	97,481	284	1,640	249,429
Goodwill impairment	—	—	10,255	—	10,255
Gain on sale of assets	603	—	—	—	603
Operating income	\$732,458	\$136,209	\$(67,561)	) \$1,808	\$802,914
Equity earnings from investments	\$92,380	\$—	\$—	\$—	\$92,380
Investments in unconsolidated affiliates	\$1,218,282	\$—	\$—	\$—	\$1,218,282
Total assets	\$10,792,593	\$3,258,320	\$450,899	\$862,495	\$15,364,307
Noncontrolling interests in consolidated subsidiaries	\$4,812	\$—	\$—	\$2,105,041	\$2,109,853
Capital expenditures	\$1,011,527	\$205,652	\$—	\$21,729	\$1,238,908

(a) - Our ONEOK Partners segment has regulated and nonregulated operations. Our ONEOK Partners segment's regulated operations had revenues of \$513.0 million, net margin of \$359.7 million and operating income of \$182.3 million.

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Nine Months Ended September 30, 2011	ONEOK Partners (a)	Natural Gas Distribution	Energy Services	Other and Eliminations	Total
	(Thousands of dollars)				
Sales to unaffiliated customers	\$7,880,736	\$1,145,032	\$1,707,223	\$1,766	\$10,734,757
Intersegment revenues	306,669	10,016	408,734	(725,419)	) —
Total revenues	\$8,187,405	\$1,155,048	\$2,115,957	\$(723,653)	) \$10,734,757
Net margin	\$1,083,100	\$548,283	\$48,143	\$1,808	\$1,681,334
Operating costs	328,630	304,554	18,554	813	652,551
Depreciation and amortization	131,665	100,638	359	1,441	234,103
Loss on sale of assets	(791)	) —	—	—	(791)
Operating income	\$622,014	\$143,091	\$29,230	\$(446)	) \$793,889
Equity earnings from investments	\$93,665	\$—	\$—	\$—	\$93,665
Investments in unconsolidated affiliates	\$1,224,397	\$—	\$—	\$—	\$1,224,397
Total assets	\$8,775,553	\$3,094,483	\$562,724	\$738,364	\$13,171,124
Noncontrolling interests in consolidated subsidiaries	\$5,249	\$—	\$—	\$1,490,851	\$1,496,100
Capital expenditures	\$662,386	\$176,508	\$24	\$23,392	\$862,310

(a) - Our ONEOK Partners segment has regulated and nonregulated operations. Our ONEOK Partners segment's regulated operations had revenues of \$474.8 million, net margin of \$341.6 million and operating income of \$169.0 million.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with our unaudited consolidated financial statements and the Notes to Consolidated Financial Statements in this Quarterly Report, as well as our Annual Report. Due to the seasonal nature of our business, the results of operations for the three and nine months ended September 30, 2012, are not necessarily indicative of the results that may be expected for a 12-month period.

RECENT DEVELOPMENTS

ONEOK Partners' Growth Projects - Oil and gas producers continue to drill aggressively in crude oil and NGL-rich areas, and related development activities continue to progress in many regions where ONEOK Partners has operations. ONEOK Partners expects continued development of the oil and natural gas reserves in the Bakken Shale and Three Forks formations in the Williston Basin and in the Cana-Woodford Shale, Woodford Shale, Granite Wash and Mississippian Lime areas in the Mid-Continent region. In response to this increased production of crude oil, natural gas and NGLs, and higher demand for NGL products from the petrochemical industry, ONEOK Partners is investing approximately \$5.7 billion to \$6.6 billion in new capital projects between 2011 and 2015 to meet the needs of oil and natural gas producers and processors in the Bakken Shale, the Cana-Woodford Shale, Woodford Shale, and the Granite Wash and Mississippian Lime areas. In addition, ONEOK Partners is investing in NGL infrastructure projects in the Rocky Mountain, Mid-Continent and Gulf Coast regions. These assets will enhance ONEOK Partners' ability to distribute NGL products to meet the increasing petrochemical industry and NGL export demand. The execution of these capital investments aligns with ONEOK Partners' focus to grow fee-based earnings. Acreage dedications and supply commitments from producers and natural gas processors in regions associated with ONEOK Partners' growth projects will provide incremental and long-term fee-based earnings and cash flows.

See discussion of ONEOK Partners' growth projects in the "Financial Results and Operating Information" section for our ONEOK Partners segment.

Dividends/Distributions - We declared a quarterly dividend of \$0.33 per share (\$1.32 per share on an annualized basis) in October 2012. A cash distribution from ONEOK Partners of \$0.685 per unit (\$2.74 per unit on an annualized basis) was declared in October 2012 for the third quarter of 2012, an increase of 2.5 cents from the previous quarter. The quarterly dividend and distribution payments will be made November 14, 2012, to shareholders and unitholders of record at the close of business on November 5, 2012.

Stock Split - In June 2012, we completed our previously announced two-for-one split of our common stock. The two-for-one split was effected by a distribution on June 1, 2012, of one share of stock for each share outstanding and held by shareholders of record on May 24, 2012. We have adjusted all share and per-share amounts contained herein, to be presented on a post-split basis.

Retail Marketing Sale - On February 1, 2012, we sold ONEOK Energy Marketing Company, our retail natural gas marketing business, to Constellation Energy Group, Inc. for \$22.5 million plus working capital. We received net proceeds of approximately \$32.9 million and recognized an after-tax gain on the sale of approximately \$13.5 million. The proceeds from the sale were used to reduce short-term borrowings. The financial information of ONEOK Energy Marketing Company is reflected as discontinued operations in this Quarterly Report. All prior periods presented have been recast to reflect the discontinued operations.



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## FINANCIAL RESULTS AND OPERATING INFORMATION

## Consolidated Operations

Selected Financial Results - The following table sets forth certain selected financial results for the periods indicated:

Financial Results	Three Months Ended		Nine Months Ended		Three Months			Nine Months		
	September 30,		September 30,		2012 vs. 2011			2012 vs. 2011		
	2012	2011	2012	2011	Increase (Decrease)			Increase (Decrease)		
	(Millions of dollars)									
Revenues	\$3,028.8	\$3,529.4	\$8,972.6	\$10,734.7	\$(500.6)	(14)	%	\$(1,762.1)	(16)	%
Cost of sales and fuel	2,474.8	2,996.8	7,226.1	9,053.4	(522.0)	(17)	%	(1,827.3)	(20)	%
Net margin	554.0	532.6	1,746.5	1,681.3	21.4	4	%	65.2	4	%
Operating costs	229.3	207.2	684.5	652.6	22.1	11	%	31.9	5	%
Depreciation and amortization	81.4	76.0	249.4	234.1	5.4	7	%	15.3	7	%
Goodwill impairment	—	—	10.3	—	—	—		10.3	100	%
Gain (loss) on sale of assets	(0.4)	(0.1)	0.6	(0.7)	(0.3)	*		1.3	*	
Operating income	\$242.9	\$249.3	\$802.9	\$793.9	\$(6.4)	(3)	%	\$9.0	1	%
Interest expense	\$(71.4)	\$(73.8)	\$(218.7)	\$(228.7)	\$(2.4)	(3)	%	\$(10.0)	(4)	%
Net income	\$165.0	\$160.9	\$547.7	\$495.0	\$4.1	3	%	\$52.7	11	%
Net income attributable to noncontrolling interests	\$99.8	\$100.6	\$298.6	\$249.4	\$(0.8)	(1)	%	\$49.2	20	%
Net income attributable to ONEOK	\$65.2	\$60.3	\$249.1	\$245.6	\$4.9	8	%	\$3.5	1	%
Capital expenditures	\$458.2	\$338.5	\$1,238.9	\$862.3	\$119.7	35	%	\$376.6	44	%

\* Percentage change is greater than 100 percent.

Revenues decreased for the three and nine months ended September 30, 2012, compared with the same periods last year, due to lower natural gas and NGL product prices, offset partially by higher natural gas and NGL sales volumes from ONEOK Partners' completed capital projects and more favorable NGL price differentials in the nine-month period. The increase in natural gas supply resulting from the development of resource areas in North America has caused lower natural gas prices and narrower natural gas location and seasonal price differentials in the markets we serve. NGL prices also have decreased in 2012 due primarily to increased NGL supply from the development of NGL-rich areas and lower NGL demand during the second and third quarters of 2012 because of scheduled maintenance at Gulf Coast petrochemical plants and lower crude-oil prices.

Operating income for the three- and nine-month periods ended September 30, 2012, reflects higher results from our ONEOK Partners segment, offset by lower results from our Energy Services and Natural Gas Distribution segments. Our ONEOK Partners segment's results benefited from higher volumes in its natural gas gathering and processing and natural gas liquids businesses. These increases were offset partially by lower realized natural gas and NGL product prices, particularly ethane and propane. For the nine months ended September 30, 2012, ONEOK Partners' natural gas liquids business also benefited from favorable NGL price differentials despite a decline in the third quarter 2012 in these differentials and lower NGL transportation capacity available for optimization activities compared with the same period in the prior year.

These increases were offset by lower margins in our Energy Services segment due primarily to lower storage and marketing margins, net of hedging activities, including a required reclassification of losses on certain financial contracts and a nonrecurring goodwill impairment charge in the first quarter 2012, lower transportation margins, net of hedging activities, and lower premium-services margins.

The increases in operating costs for both the three- and nine-month 2012 periods were due primarily to the ONEOK Partners segment's expanding operations as a result of several internal growth projects that were placed in service and scheduled maintenance costs.

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Interest expense decreased for the three and nine months ended September 30, 2012, compared with the same periods last year, primarily as a result of interest capitalized associated with the investments in ONEOK Partners' growth projects, offset partially by interest costs from ONEOK's \$700 million debt issuance in January 2012 and ONEOK Partners' \$1.3 billion debt issuance in September 2012.

Net income attributable to noncontrolling interests for the three and nine months ended September 30, 2012 and 2011, reflects primarily the portion of ONEOK Partners that we do not own and the increase in the nine-month period reflects higher earnings in our ONEOK Partners segment during 2012.

Capital expenditures increased for the three and nine months ended September 30, 2012, compared with the same periods last year, due primarily to the growth projects in ONEOK Partners' natural gas gathering and processing and natural gas liquids businesses.

Additional information regarding our financial results and operating information is provided in the following discussion for each of our segments.

### ONEOK Partners

Overview - ONEOK Partners is a diversified master limited partnership involved in the gathering, processing, storage and transportation of natural gas in the United States. In addition, ONEOK Partners owns one of the nation's premier natural gas liquids systems, connecting NGL supply in the Mid-Continent and Rocky Mountain regions with key market centers.

We own approximately 92.8 million common and Class B limited partner units, and the entire 2-percent general partner interest, which, together, represent a 43.4-percent ownership interest in ONEOK Partners. We receive distributions from ONEOK Partners on our common and Class B units and our 2-percent general partner interest, which includes incentive distribution rights we own. See Note L of the Notes to Consolidated Financial Statements in this Quarterly Report for discussion of our incentive distribution rights.

We and ONEOK Partners maintain significant financial and corporate governance separations. We seek to receive increasing cash distributions as a result of our investment in ONEOK Partners, and our investment decisions are made based on the anticipated returns from ONEOK Partners in total, not specific to any of ONEOK Partners' businesses individually. To aid in understanding the important business and financial characteristics of our ONEOK Partners segment, the following describes its business with reference to its underlying activities.

Natural gas gathering and processing business - ONEOK Partners' natural gas gathering and processing business provides nondiscretionary services to producers that include gathering and processing of natural gas produced from crude oil and natural gas wells. ONEOK Partners gathers and processes natural gas in the Mid-Continent region, which includes the NGL-rich Cana-Woodford Shale and Granite Wash formations; the Mississippian Lime formation of Oklahoma and Kansas; and the Hugoton and Central Kansas Uplift Basins of Kansas. It also gathers and/or processes natural gas in two producing basins in the Rocky Mountain region: the Williston Basin, which spans portions of Montana and North Dakota and includes the oil-producing, NGL-rich Bakken Shale and Three Forks formations; and the Powder River Basin of Wyoming. In the Powder River Basin, the natural gas that ONEOK Partners gathers is coal-bed methane, or dry, natural gas that does not require processing or NGL extraction in order to be marketable; dry natural gas is gathered, compressed and delivered into a downstream pipeline or marketed for a fee.

Natural gas pipelines business - ONEOK Partners' natural gas pipeline business owns and operates regulated natural gas transmission pipelines, natural gas storage facilities and natural gas gathering systems for unprocessed natural

gas. ONEOK Partners also provides interstate natural gas transportation and storage services in accordance with Section 311(a) of the Natural Gas Policy Act.

ONEOK Partners' FERC-regulated interstate assets transport natural gas through pipelines that access supply from Canada and from the Mid-Continent, Rocky Mountain and Gulf Coast regions. ONEOK Partners' intrastate natural gas pipeline assets are located in Oklahoma, Kansas and Texas, and have access to major natural gas producing areas in those states. ONEOK Partners owns underground natural gas storage facilities in Oklahoma, Kansas and Texas.

Natural gas liquids business - ONEOK Partners' natural gas liquids business gathers, treats, fractionates, stores and transports NGLs and distributes and stores NGL products. ONEOK Partners' natural gas liquids gathering pipelines deliver unfractionated NGLs gathered from natural gas processing plants located in Oklahoma, Kansas, Texas and the Rocky Mountain region to fractionators it owns in Oklahoma, Kansas and Texas, as well as to third-party fractionators and pipelines. The NGLs

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are then separated through the fractionation process into the individual NGL products that realize the greater economic value of the NGL components. The individual NGL products are then stored or distributed to petrochemical manufacturers, heating-fuel users, refineries and propane distributors through ONEOK Partners' FERC-regulated distribution pipelines that move NGL products from Oklahoma and Kansas to the Mid-Continent and Gulf Coast NGL market centers, as well as the Midwest markets near Chicago, Illinois.

**Growth Projects - Bakken Crude Express Pipeline** - In April 2012, ONEOK Partners announced plans to invest \$1.5 billion to \$1.8 billion to build a 1,300-mile crude-oil pipeline, the Bakken Crude Express Pipeline, with the capacity to transport 200 MBbl/d. The Bakken Crude Express Pipeline will transport light-sweet crude oil primarily from the Bakken Shale and Three Forks formations in the Williston Basin in North Dakota to the Cushing, Oklahoma, market hub.

ONEOK Partners is the largest independent gatherer and processor of natural gas in the Williston Basin and currently is constructing a natural gas liquids pipeline, the Bakken NGL Pipeline, to provide needed transportation capacity for the growing NGL production in the area. The development of the Bakken Crude Express Pipeline is a natural addition to the suite of midstream services that ONEOK Partners currently provides to producers in the Williston Basin and is expected to generate additional fee-based earnings. Additional crude-oil infrastructure is needed due to the continued crude-oil production growth that is expected to exceed the area's current truck, railcar and pipeline transportation capacity. ONEOK Partners' proposed pipeline will provide producers with efficient and reliable transportation capacity directly to one of the largest crude-oil market hubs in the U.S. and will enable producers to maintain the quality of the light-sweet crude oil during transportation.

ONEOK Partners began an open season process that provides potential shippers with the opportunity to execute long-term transportation contracts in exchange for priority transportation service. The open season began on September 21, 2012, and will conclude on November 20, 2012. Depending upon the level of supply commitments received, the capacity of this pipeline can be increased. More than 80 percent of the proposed pipeline route is expected to parallel ONEOK Partners' existing and planned natural gas liquids pipelines. Following receipt of sufficient supply commitments, all necessary permits and compliance with customary regulatory requirements, construction is expected to begin in early 2014 and be completed by mid-2015.

**Natural gas gathering and processing projects** - ONEOK Partners' natural gas gathering and processing business is investing approximately \$1.8 billion to \$1.9 billion in growth projects in the Williston Basin and Cana-Woodford Shale areas that will enable ONEOK Partners to meet the rapidly growing needs of crude oil and natural gas producers in those areas.

**Williston Basin Processing Plants and related projects** - In July 2012, ONEOK Partners announced plans to invest approximately \$310 to \$345 million to construct the 100 MMcf/d Garden Creek II natural gas processing plant and related infrastructure. The Garden Creek II plant is expected to be in service during the third quarter of 2014. Combined, ONEOK Partners' projects in this basin include four 100 MMcf/d natural gas processing facilities: the Garden Creek and Garden Creek II plants located in eastern McKenzie County, North Dakota, and the Stateline I and II plants located in western Williams County, North Dakota. ONEOK Partners has acreage dedications of approximately 3.0 million acres supporting these plants. In addition, ONEOK Partners is expanding and upgrading its existing natural gas gathering and compression infrastructure and also adding new well connections associated with these plants. The Garden Creek plant was placed in service in December 2011 and together with the related infrastructure cost approximately \$360 million, excluding AFUDC. Together, the Stateline I and II plants and related infrastructure projects are expected to cost approximately \$560 million to \$660 million, excluding AFUDC. The 100 MMcf/d Stateline I natural gas processing facility was placed into service in September 2012, and the 100 MMcf/d Stateline II natural gas processing facility is expected to be in service during the first quarter 2013.

ONEOK Partners plans to invest \$140 million to \$160 million to construct a 270-mile natural gas gathering system and related infrastructure in Divide County, North Dakota. The new system will gather and deliver natural gas from producers in the Williston Basin to both of ONEOK Partners' Stateline natural gas processing facilities in western Williams County, North Dakota. ONEOK Partners has secured long-term supply commitments from producers for this new system, which are structured with POP and fee-based components. This project is expected to be completed in the third quarter 2013.

ONEOK Partners expects that its capital projects will continue to provide additional revenues from POP and fee-based contracts as they are completed. ONEOK Partners expects its commodity price exposure to increase, particularly to NGL and natural gas prices, as equity volumes increase under its natural gas gathering and processing business' POP contracts with its customers in the Williston Basin. ONEOK Partners uses derivative instruments to mitigate its sensitivity to fluctuations in the natural gas, crude oil and NGL prices received for its share of volumes.

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Cana Woodford Shale projects - ONEOK Partners plans to invest approximately \$340 million to \$360 million to construct a new 200 MMcf/d natural gas processing facility, the Canadian Valley plant, and related infrastructure in the Cana-Woodford Shale in Canadian County, Oklahoma, in close proximity to its existing natural gas transportation and natural gas liquids gathering pipelines. The additional natural gas processing infrastructure is necessary to accommodate increased production of NGL-rich natural gas in the Cana-Woodford Shale where ONEOK Partners has substantial acreage dedications from active producers. The new Canadian Valley plant is expected to cost approximately \$190 million, excluding AFUDC, and is expected to be in service in the first quarter 2014. The related additional infrastructure is expected to cost approximately \$160 million, excluding AFUDC, and is expected to increase ONEOK Partners' capacity to gather and process natural gas to approximately 390 MMcf/d in the Cana-Woodford Shale.

In both the Williston Basin and Cana-Woodford Shale project areas, nearly all of the new gas production is from horizontally drilled and completed wells. Horizontal wells drilled in the Williston Basin are justified primarily by crude-oil economics, which are currently very favorable. These wells tend to produce at higher initial volumes resulting generally in higher initial decline rates than conventional vertical wells; however, the decline rates flatten out over time. These wells are expected to have long productive lives. ONEOK Partners expects the routine growth capital needed to connect to new wells and expand its infrastructure to increase compared with its previous experience.

Natural gas liquids projects - The growth strategy in ONEOK Partners' natural gas liquids business is focused around the oil and NGL-rich natural gas drilling activity in shale and other unconventional resource areas from the Rocky Mountain region through the Mid-Continent region into Texas. Increasing crude oil, natural gas and NGL production resulting from this activity and higher petrochemical industry demand for NGL products have required ONEOK Partners to make additional capital investments in its infrastructure to bring these commodities from supply basins to market. Expansion of the petrochemical industry in the United States is expected to increase ethane demand significantly over the next five years, and international demand for propane is expected to impact positively the NGL market in the future. ONEOK Partners' natural gas liquids business is investing approximately \$2.4 billion to \$2.9 billion in NGL-related projects through 2014. These investments will accommodate the transportation and fractionation of growing NGL supplies from shale and other resource development areas across ONEOK Partners' asset base and alleviate infrastructure constraints between the Mid-Continent and Texas Gulf Coast regions to meet the increasing petrochemical industry and NGL export demand in the Gulf Coast. Over time, these growing fee-based NGL volumes will fill much of the capacity currently used to capture the NGL price differentials between the two market centers. In addition, we believe the NGL price differentials between the Mid-Continent and Gulf Coast market centers will narrow over the long term as new fractionators and pipelines, including ONEOK Partners' growth projects discussed below, begin to alleviate constraints affecting NGL prices and location price differentials between the two market centers.

Sterling III Pipeline - ONEOK Partners plans to build a 570-plus-mile natural gas liquids pipeline, the Sterling III Pipeline, which will have the flexibility to transport either unfractionated NGLs or NGL products from the Mid-Continent to the Texas Gulf Coast. The Sterling III Pipeline will traverse the NGL-rich Woodford Shale that is currently under development, as well as provide transportation capacity for the growing NGL production from the Cana-Woodford Shale and Granite Wash areas, where the pipeline can gather unfractionated NGLs from the new natural gas processing plants that are being built as a result of increased drilling activity in these areas. The Sterling III Pipeline will have an initial capacity to transport up to 193 MBbl/d of production from ONEOK Partners' natural gas liquids infrastructure at Medford, Oklahoma, to its storage and fractionation facilities in Mont Belvieu, Texas. ONEOK Partners has multi-year supply commitments from producers and natural gas processors for approximately 75 percent of the pipeline's capacity. Installation of additional pump stations could expand the capacity of the pipeline to 250 MBbl/d. Following the receipt of all necessary permits and the acquisition of rights-of-way, construction is scheduled to begin in 2013, with an expected completion late in the same year.

The investment also includes reconfiguring its existing Sterling I and II pipelines, which currently distribute NGL products between the Mid-Continent and Gulf Coast NGL market centers, to transport either unfractionated NGLs or NGL products.

The project costs for the new pipeline and reconfiguring projects are estimated to be \$610 million to \$810 million, excluding AFUDC.

MB-2 Fractionator - ONEOK Partners is constructing a 75-MBbl/d fractionator, MB-2, near its storage facility in Mont Belvieu, Texas. The Texas Commission on Environmental Quality (TCEQ) approved the permit application to build this fractionator. Construction began in June 2011 and is expected to be completed in mid-2013. The cost of the new fractionator is estimated to be \$300 million to \$390 million, excluding AFUDC. ONEOK Partners has multi-year supply commitments from producers and natural gas processors for all of the fractionator's capacity.

MB-3 Fractionator - In July 2012, ONEOK Partners announced plans to construct a 75 MBbl/d fractionator, MB-3, near its storage facility in Mont Belvieu, Texas. In addition, ONEOK Partners plans to expand and upgrade its existing natural gas



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liquids gathering and pipeline infrastructure, including new connections to natural gas processing facilities and increasing the capacity of the Arbuckle and Sterling II NGL pipelines. The MB-3 fractionator and related infrastructure are expected to cost approximately \$525 million to \$575 million, excluding AFUDC. The MB-3 fractionator is expected to be completed in the fourth quarter 2014. Supply commitments from third-party natural gas processors are in various stages of negotiation.

Ethane/Propane Splitter - In July 2012, ONEOK Partners announced plans to construct a new 40 MBbl/d ethane/propane splitter at its Mont Belvieu storage facility to split ethane/propane mix into purity ethane in order to meet the growing needs of petrochemical customers. The facility will be capable of producing 32 MBbl/d of purity ethane and 8 MBbl/d of propane, and is expected to be in service during the second quarter 2014. The ethane/propane splitter is expected to cost approximately \$45 million, excluding AFUDC.

Bakken NGL Pipeline and related projects - ONEOK Partners is building an approximately 600-mile natural gas liquids pipeline, the Bakken NGL Pipeline, to transport unfractionated NGLs from the Williston Basin to the Overland Pass Pipeline. In July 2012, ONEOK Partners announced plans to invest an additional \$100 million to install additional pump stations on the Bakken NGL Pipeline to increase its capacity to 135 MBbl/d from an initial capacity of 60 MBbl/d. The unfractionated NGLs will then be delivered to ONEOK Partners' existing natural gas liquids fractionation and distribution infrastructure in the Mid-Continent. Project costs for the new pipeline, including the expansion, are estimated to be \$550 million to \$650 million, excluding AFUDC. NGL supply commitments for the Bakken NGL Pipeline are anchored by NGL production from ONEOK Partners' natural gas processing plants. The 12-inch diameter pipeline is expected to be in service during the first quarter of 2013, and the expansion is expected to be completed in the third quarter 2014.

The unfractionated NGLs from the Bakken NGL Pipeline and other supply sources under development in the Rocky Mountain region will require installing additional pump stations and expanding existing pump stations on the Overland Pass Pipeline in which ONEOK Partners owns a 50-percent equity interest. These additions and expansions will increase the capacity of Overland Pass Pipeline to 255 MBbl/d. ONEOK Partners' share of the costs for this project is estimated to be \$35 million to \$40 million, excluding AFUDC.

Bushton Fractionator expansion - In September 2012, ONEOK Partners completed an expansion and upgrade to its existing NGL fractionation capacity at Bushton, Kansas, increasing capacity to 210 MBbl/d from 150 MBbl/d. This additional capacity is necessary to accommodate the volume growth from the Mid-Continent and Williston Basin. The project cost approximately \$117 million, excluding AFUDC.

Cana-Woodford Shale and Granite Wash projects - ONEOK Partners constructed approximately 230 miles of natural gas liquids pipelines that expanded its existing Mid-Continent natural gas liquids gathering system in the Cana-Woodford Shale and Granite Wash areas. These pipelines expanded ONEOK Partners' capacity to transport unfractionated NGLs from these Mid-Continent supply areas to fractionation facilities in Oklahoma and Texas and distribute NGL products to the Mid-Continent, Gulf Coast and upper Midwest market centers. The pipelines are connected to three new third-party natural gas processing facilities and to three existing third-party natural gas processing facilities that were expanded. Additionally, ONEOK Partners installed additional pump stations on the Arbuckle Pipeline to increase its capacity to 240 MBbl/d. These projects are expected to add, through multi-year supply contracts, approximately 75 to 80 MBbl/d of unfractionated NGLs, to ONEOK Partners' existing natural gas liquids gathering systems. These projects were placed in service in April 2012 and cost approximately \$220 million, excluding AFUDC.

Sterling I Pipeline expansion - In 2011, ONEOK Partners installed seven additional pump stations for approximately \$30 million, excluding AFUDC, along its existing Sterling I natural gas liquids distribution pipeline, increasing its capacity by 15 MBbl/d, which is supplied by ONEOK Partners' Mid-Continent natural gas liquids infrastructure. The

Sterling I Pipeline transports NGL products from ONEOK Partners' fractionator in Medford, Oklahoma, to the Mont Belvieu, Texas, market center.

For a discussion of ONEOK Partners' capital expenditure financing, see "Capital Expenditures" in "Liquidity and Capital Resources" on page 59.

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Selected Financial Results and Operating Information - The following table sets forth certain selected financial results for our ONEOK Partners segment for the periods indicated:

Financial Results	Three Months Ended		Nine Months Ended		Three Months			Nine Months		
	September 30,		September 30,		2012 vs. 2011			2012 vs. 2011		
	2012	2011	2012	2011	Increase (Decrease)			Increase (Decrease)		
	(Millions of dollars)									
Revenues	\$2,547.5	\$2,903.6	\$7,266.4	\$8,187.4	\$(356.1)	(12)	%	\$(921.0)	(11)	%
Cost of sales and fuel	2,127.8	2,509.6	6,024.1	7,104.3	(381.8)	(15)	%	(1,080.2)	(15)	%
Net margin	419.7	394.0	1,242.3	1,083.1	25.7	7	%	159.2	15	%
Operating costs	121.1	106.3	360.4	328.6	14.8	14	%	31.8	10	%
Depreciation and amortization	49.8	45.2	150.0	131.7	4.6	10	%	18.3	14	%
Gain (loss) on sale of assets	(0.4)	(0.1)	0.6	(0.8)	(0.3)	*		1.4	*	
Operating income	\$248.4	\$242.4	\$732.5	\$622.0	\$6.0	2	%	\$110.5	18	%
Equity earnings from investments	\$28.6	\$32.0	\$92.4	\$93.7	\$(3.4)	(11)	%	\$(1.3)	(1)	%
Interest expense	\$(47.8)	\$(55.7)	\$(148.1)	\$(170.6)	\$7.9	(14)	%	\$(22.5)	(13)	%
Capital expenditures	\$375.3	\$252.2	\$1,011.5	\$662.4	\$123.1	49	%	\$349.1	53	%

\* Percentage change is greater than 100 percent.

Revenues decreased for the three and nine months ended September 30, 2012, compared with the same periods last year, due to lower natural gas and NGL product prices, offset partially by higher natural gas and NGL sales volume from our ONEOK Partners segment's completed capital projects and more favorable NGL price differentials in the nine-month period.

The differential between the composite price of NGL products and the price of natural gas, particularly the differential between ethane and natural gas, may influence the volume of NGLs recovered from natural gas processing plants. When economic conditions warrant, natural gas processors may elect not to recover the ethane component of the natural gas stream, also known as ethane rejection, and instead leave the ethane component in the higher value residue natural gas stream sold at the tailgate of natural gas processing plants. Low commodity prices have resulted in periods of ethane rejection in the Mid-Continent region during 2012. Ethane rejection did not have a material impact on ONEOK Partners' results for the three and nine months ended September 30, 2012.

Net margin increased for the three months ended September 30, 2012, compared with the same period last year, due primarily to the following:

- an increase of \$33.4 million due primarily to volume growth in the Williston Basin from the new Garden Creek natural gas processing plant and increased drilling activity resulting in higher natural gas volumes gathered, compressed, processed, transported and sold, and higher fees in ONEOK Partners' natural gas gathering and processing business;
- an increase of \$32.9 million related to higher NGL volumes gathered and fractionated across ONEOK Partners' system and contract renegotiations for higher fees in its NGL exchange services activities; and
- an increase of \$5.8 million related to higher isomerization margins resulting from wider price differentials between normal butane and iso-butane, and higher isomerization volumes; offset partially by
- a decrease of \$20.9 million in optimization and marketing margins, which resulted from a \$43.4 million decrease due to narrower NGL price differentials and lower transportation capacity available for optimization activities, as an increasing portion of ONEOK Partners' transportation capacity between the Conway, Kansas, and Mont Belvieu, Texas, NGL market centers is utilized by ONEOK Partners' exchange services business to produce fee-based earnings.

This decrease was offset partially by a \$22.5 million increase in ONEOK Partners' marketing business due primarily to margins realized on the fractionation and sale of NGL inventory held at the end of the second quarter of 2012 associated with the scheduled maintenance at ONEOK Partners' Mont Belvieu natural gas liquids fractionation facility;

- a decrease of \$11.0 million due primarily to lower natural gas and NGL product prices, particularly ethane and propane in ONEOK Partners' natural gas gathering and processing business;
- a decrease of \$9.0 million due primarily to higher compression and processing costs associated with ONEOK Partners' volume growth primarily in the Williston Basin in ONEOK Partners' natural gas gathering and processing business; and

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a decrease of \$5.5 million due to the impact of operational measurement losses in ONEOK Partners' natural gas liquids business.

Net margin increased for the nine months ended September 30, 2012, compared with the same period last year, due primarily to the following:

an increase of \$88.8 million due primarily to volume growth in the Williston Basin from ONEOK Partners' new Garden Creek natural gas processing plant and increased drilling activity resulting in higher natural gas volumes gathered, compressed, processed, transported and sold, and higher fees in ONEOK Partners' natural gas gathering and processing business;

an increase of \$68.8 million from higher NGL volumes gathered and fractionated across ONEOK Partners' systems and contract renegotiations for higher fees associated with ONEOK Partners' NGL exchange services activities; an increase of \$50.3 million in optimization and marketing margins in ONEOK Partners' natural gas liquids business, which resulted primarily from wider NGL product price differentials. ONEOK Partners' marketing margins also benefited from higher NGL truck and rail volumes;

an increase of \$9.6 million due to higher storage margins as a result of contract renegotiations at higher fees in ONEOK Partners' natural gas liquids business; and

an increase of \$3.9 million related to higher isomerization margins resulting from wider price differentials between normal butane and iso-butane in ONEOK Partners' natural gas liquids business; offset partially by

a decrease of \$26.4 million due to lower natural gas and NGL product prices, particularly ethane and propane, offset partially by higher condensate prices in ONEOK Partners' natural gas gathering and processing business;

a decrease of \$23.7 million due primarily to higher compression and processing costs associated with volume growth primarily in the Williston Basin in ONEOK Partners' natural gas gathering and processing business;

a decrease of \$4.1 million due to lower natural gas volumes gathered as a result of continued declines in coal-bed methane production in the Powder River Basin; and

a decrease of \$3.1 million due primarily to lower prices on the net retained fuel position of ONEOK Partners' natural gas pipeline business, offset partially by higher retained fuel volumes.

Operating costs increased for the three months ended September 30, 2012, compared with the same period last year, due primarily to the following:

an increase of \$6.9 million in higher labor and employee-related costs associated with the growth of ONEOK Partners' operations and completed capital projects in its natural gas gathering and processing and natural gas liquids businesses; and

an increase of \$5.1 million from higher materials and supplies, and outside services expenses associated primarily with growth and scheduled maintenance in ONEOK Partners' operations related to the completed capital projects in its natural gas gathering and processing and natural gas liquids businesses.

Operating costs increased for the nine months ended September 30, 2012, compared with the same period last year, due primarily to the following:

an increase of \$17.6 million from higher materials and supplies, and outside services expenses and property taxes associated primarily with growth and scheduled maintenance in ONEOK Partners' operations related to the completed capital projects in its natural gas gathering and processing and natural gas liquids businesses; and

an increase of \$14.2 million in higher labor and employee-related costs associated with the growth of ONEOK Partners' operations and completed capital projects in its natural gas gathering and processing and natural gas liquids businesses.

Depreciation and amortization expense increased for the three and nine months ended September 30, 2012, compared with the same periods last year, due primarily to the depreciation associated with ONEOK Partners' completed capital projects, which includes the completion of its Garden Creek natural gas processing plant, well connections and infrastructure projects supporting the volume growth in the Williston Basin.

Equity earnings decreased for the three months ended September 30, 2012, compared with the same period last year, due primarily to Hurricane Isaac, which interrupted operations at Venice Energy Services Company.

Capital expenditures increased for the three and nine months ended September 30, 2012, compared with the same periods last year, due primarily to the growth projects in ONEOK Partners' natural gas gathering and processing and natural gas liquids businesses.

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Selected Operating Information - The following table sets forth selected operating information for our ONEOK Partners segment for the periods indicated:

Operating Information	Three Months Ended		Nine Months Ended		
	September 30,		September 30,		
	2012	2011	2012	2011	
Natural gas gathering and processing business (a)					
Natural gas gathered (BBtu/d)	1,149	1,044	1,091	1,021	
Natural gas processed (BBtu/d) (b)	906	723	833	682	
NGL sales (MBbl/d)	62	50	57	47	
Residue gas sales (BBtu/d)	416	348	386	308	
Realized composite NGL net sales price (\$/gallon) (c)	\$1.10	\$1.09	\$1.07	\$1.09	
Realized condensate net sales price (\$/Bbl) (c)	\$86.54	\$87.89	\$87.72	\$81.63	
Realized residue gas net sales price (\$/MMBtu) (c)	\$3.69	\$5.25	\$3.74	\$5.63	
Realized gross processing spread (\$/MMBtu) (c)	\$8.14	\$8.17	\$8.23	\$8.30	
Natural gas pipelines business (a)					
Natural gas transportation capacity contracted (MDth/d)	5,249	5,132	5,345	5,353	
Transportation capacity subscribed (e)	87	% 85	% 88	% 88	%
Average natural gas price					
Mid-Continent region (\$/MMBtu)	\$2.75	\$4.02	\$2.43	\$4.10	
Natural gas liquids business					
NGL sales (MBbl/d)	615	485	544	481	
NGLs fractionated (MBbl/d) (d)	581	529	565	522	
NGLs transported-gathering lines (MBbl/d) (a)	530	443	517	424	
NGLs transported-distribution lines (MBbl/d) (a)	504	457	489	460	
Conway-to-Mont Belvieu OPIS average price differential					
Ethane in ethane/propane mix (\$/gallon)	\$0.16	\$0.27	\$0.21	\$0.21	

(a) - For consolidated entities only.

(b) - Includes volumes processed at company-owned and third-party facilities.

(c) - Presented net of the impact of hedging activities and includes equity volumes only.

(d) - Includes volumes fractionated from company-owned and third-party facilities.

(e) - Prior periods have been recast to reflect current estimated capacity.

Volumes in the natural gas gathering and processing business increased for the three and nine months ended September 30, 2012, compared with the same periods last year, due to increased drilling activity in the Williston Basin and western Oklahoma, completion of additional gathering lines and compression to support ONEOK Partners' new Garden Creek plant that was placed in service in December 2011, offset partially by continued declines in coal-bed methane production in the Powder River Basin in Wyoming.

Low natural gas prices and the relatively higher market prices of crude oil and NGLs compared with natural gas have caused producers primarily to focus development efforts on crude oil and NGL-rich supply basins rather than areas with dry natural gas production, such as the Powder River Basin. The reduced development activities and natural production declines in the Powder River Basin have resulted in lower volumes available to be gathered. While the reserve potential in the Powder River Basin still exists and drilling permits have recently increased, future drilling and development will be affected by commodity prices and producers' alternative prospects. A continued decline in volumes in this area may reduce ONEOK Partners' ability to recover the carrying value of its assets and equity investments in this area and possibly result in noncash charges to earnings.

The quantity and composition of NGLs received by ONEOK Partners' natural gas gathering and processing business as payments under its various processing agreements continue to change as its new natural gas processing plants in the

Williston Basin are placed in service. The Garden Creek and Stateline I plants are capable of, but currently are not recovering ethane due to the current lack of natural gas liquids pipeline takeaway transportation capacity. The natural gas liquids segment's Bakken NGL Pipeline that is expected to be completed in the first quarter of 2013 will enable ethane recovery. As a result, the 2012 equity NGL volumes and realized composite NGL net sales price associated with its natural gas gathering and processing business are weighted more toward the relatively higher priced propane, iso-butane, normal butane and natural gasoline



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compared with the prior year. This has the effect of producing a higher NGL composite barrel realized price, while most individual NGL products prices are substantially lower this year compared with the prior year.

Natural gas transportation capacity contracted increased for the three months ended September 30, 2012, compared with the same period last year due primarily to higher subscribed capacity on Midwestern Gas Transmission as a result of higher contracted capacity with local distribution companies and higher subscribed capacity with producers on ONEOK Partners' intrastate pipelines to transport their increasing natural gas supply to market.

ONEOK Partners' operating information above does not include its 50-percent interest in Northern Border Pipeline Company. Substantially all of Northern Border Pipeline Company's long-haul transportation capacity has been contracted through March 2014. The Northern Border Pipeline currently operates pursuant to a 2007 rate case settlement. In September 2012, Northern Border Pipeline Company filed with the FERC a settlement with its customers to modify its transportation rates beginning in January 2013. This settlement is expected to be approved by the FERC before the end of 2012. If approved, the long-term transportation rates will be approximately 11 percent lower, compared with current rates, which is expected to reduce ONEOK Partners' future equity earnings from Northern Border Pipeline Company.

NGLs gathered and fractionated increased for the three and nine months ended September 30, 2012, compared with the same periods last year, due primarily to increased throughput from existing connections in Texas and the Mid-Continent and Rocky Mountain regions, and new supply connections in the Mid-Continent and Rocky Mountain regions. The increased NGL gathering capacity in the Mid-Continent and Texas was made available through ONEOK Partners' Cana-Woodford Shale and Granite Wash projects, which were placed in service in April 2012. For the nine months ended September 30, 2012, the increased Gulf Coast fractionation capacity was made available by ONEOK Partners' 60 Mbl/d fractionation services agreement with Targa Resources Partners that began in the second quarter 2011. For the three months ended September 30, 2012, the increased Mid-Continent fractionation capacity was the result of the Bushton Fractionator expansion, which was completed in September 2012.

NGLs transported on distribution lines increased for the three and nine months ended September 30, 2012, compared with the same periods last year, due primarily to ONEOK Partners' Sterling I Pipeline expansion and higher volumes transported on ONEOK Partners' distribution pipelines between its Mid-Continent fractionators to optimize the delivery of NGL supply.

Commodity Price Risk - The following tables set forth ONEOK Partners' natural gas gathering and processing business' hedging information for its equity volumes for the periods indicated, as of September 30, 2012.

	Three Months Ending December 31, 2012			
	Volumes Hedged	(a)	Average Price	Percentage Hedged
NGLs (Bbl/d)	9,488		\$1.25 / gallon	71%
Condensate (Bbl/d)	1,987		\$2.42 / gallon	77%
Total (Bbl/d)	11,475		\$1.46 / gallon	72%
Natural gas (MMBtu/d)	50,109		\$4.54 / MMBtu	77%

(a) - Hedged with futures and swaps.

	Year Ending December 31, 2013			
	Volumes Hedged	(a)	Average Price	Percentage Hedged
NGLs (Bbl/d)	428		\$2.51 / gallon	2%
Condensate (Bbl/d)	2,038		\$2.43 / gallon	70%
Total (Bbl/d)	2,466		\$2.44 / gallon	10%
Natural gas (MMBtu/d)	50,137		\$3.85 / MMBtu	80%

(a) - Hedged with futures and swaps.

Year Ending December 31, 2014			
Volumes	(a)	Average Price	Percentage
Hedged			Hedged
Natural gas (MMBtu/d)			
36.726		\$4.11 / MMBtu	50%

(a) - Hedged with futures and swaps.

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ONEOK Partners expects its commodity price sensitivity in its natural gas gathering and processing business to increase in the future as volumes increase under POP contracts with ONEOK Partners' customers. ONEOK Partners' commodity price sensitivity is estimated as a hypothetical change in the price of NGLs, crude oil and natural gas, excluding the effects of hedging, and assuming normal operating conditions. ONEOK Partners' condensate sales are based on the price of crude oil. ONEOK Partners estimates the following:

- a \$0.01 per gallon change in the composite price of NGLs would change annual net margin by approximately \$2.8 million;
- a \$1.00 per barrel change in the price of crude oil would change annual net margin by approximately \$1.2 million; and
- a \$0.10 per MMBtu change in the price of natural gas would change annual net margin by approximately \$2.3 million.

These estimates do not include any effects on demand for ONEOK Partners' services or processing plant operations that might be caused by, or arise in conjunction with, price changes. For example, a change in the gross processing spread may cause a change in the amount of ethane extracted from the natural gas stream, impacting gathering and processing margins for certain contracts.

See Note D of the Notes to Consolidated Financial Statements in this Quarterly Report for more information on ONEOK Partners' hedging activities.

## Natural Gas Distribution

Overview - Our Natural Gas Distribution segment provides natural gas distribution services to more than 2 million customers in Oklahoma, Kansas and Texas through Oklahoma Natural Gas, Kansas Gas Service and Texas Gas Service. We serve residential, commercial, industrial and transportation customers in all three states. In addition, our LDCs serve wholesale and public authority customers. We operate subject to regulations and oversight of various regulatory agencies. Our regulatory strategy incorporates rate-design features that reduce earnings lag, protect margin and mitigate risks.

Selected Financial Results - The following table sets forth certain selected financial results for the continuing operations of our Natural Gas Distribution segment for the periods indicated:

Financial Results	Three Months Ended		Nine Months Ended		Three Months			Nine Months		
	September 30,		September 30,		2012 vs. 2011			2012 vs. 2011		
	2012	2011	2012	2011	Increase (Decrease)			Increase (Decrease)		
	(Millions of dollars)									
Gas sales	\$177.3	\$186.5	\$853.0	\$1,059.4	\$(9.2)	(5)	%	\$(206.4)	(19)	%
Transportation revenues	19.9	19.3	65.2	67.3	0.6	3	%	(2.1)	(3)	%
Cost of sales	53.9	68.5	398.1	606.7	(14.6)	(21)	%	(208.6)	(34)	%
Net margin, excluding other revenues	143.3	137.3	520.1	520.0	6.0	4	%	0.1	—	%
Other revenues	7.7	8.1	25.7	28.3	(0.4)	(5)	%	(2.6)	(9)	%
Net margin	151.0	145.4	545.8	548.3	5.6	4	%	(2.5)	—	%
Operating costs	103.4	95.3	312.1	304.6	8.1	8	%	7.5	2	%
Depreciation and amortization	31.9	30.3	97.5	100.6	1.6	5	%	(3.1)	(3)	%
Operating income	\$15.7	\$19.8	\$136.2	\$143.1	\$(4.1)	(21)	%	\$(6.9)	(5)	%
Capital expenditures	\$74.3	\$67.5	\$205.7	\$176.5	\$6.8	10	%	\$29.2	17	%



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The following table sets forth our net margin, excluding other revenues, by type of customer, for the periods indicated:

Net Margin, Excluding Other Revenues	Three Months Ended September 30,		Nine Months Ended September 30,		Three Months 2012 vs. 2011		Nine Months 2012 vs. 2011			
	2012	2011	2012	2011	Increase (Decrease)		Increase (Decrease)			
Gas sales (Millions of dollars)										
Residential	\$102.3	\$97.6	\$375.3	\$368.8	\$4.7	5	%	\$6.5	2	%
Commercial	19.7	19.0	74.6	78.8	0.7	4	%	(4.2)	(5)	%
Industrial	0.6	0.6	2.1	2.2	—	—	%	(0.1)	(5)	%
Wholesale/public authority	0.8	0.8	2.9	2.9	—	—	%	—	—	%
Net margin on gas sales	123.4	118.0	454.9	452.7	5.4	5	%	2.2	—	%
Transportation margin	19.9	19.3	65.2	67.3	0.6	3	%	(2.1)	(3)	%
Net margin, excluding other revenues	\$143.3	\$137.3	\$520.1	\$520.0	\$6.0	4	%	\$0.1	—	%

Natural gas prices decreased during the three and nine months ended September 30, 2012, compared with the same periods last year. The decrease in natural gas prices had a direct impact on our revenues and cost of sales.

Net margin increased for the three months ended September 30, 2012, compared with the same period last year, due primarily to an increase of \$4.3 million from new rates in all three states.

Net margin decreased for the nine months ended September 30, 2012, compared with the same period last year, due primarily to the following:

- a decrease of \$8.5 million due to expiration of the Integrity Management Program (IMP) rider, which allowed Oklahoma Natural Gas to recover certain deferred pipeline-integrity costs in Oklahoma. This decrease is offset by lower regulatory amortization in depreciation and amortization expense; and
- a decrease of \$2.0 million from lower transportation volumes due to weather-sensitive customers in Kansas and Oklahoma; offset partially by
- an increase of \$8.6 million from new rates in all three states.

Operating costs increased for the three months ended September 30, 2012, compared with the same period last year, due primarily to the following:

- an increase of \$7.0 million in share-based compensation costs from appreciation in ONEOK's share price compared with a decline during the three months ended September 30, 2011; and
- an increase of \$1.0 million in pension costs as a result of the annual change in our estimated discount rate.

Operating costs increased for the nine months ended September 30, 2012, compared with the same period last year, due primarily to the following:

- an increase of \$3.3 million from higher costs due primarily to expenses associated with IMP activities in Oklahoma, pipeline maintenance and other consulting services;
- an increase of \$3.2 million in legal costs; and
- an increase of \$3.0 million in pension costs as a result of the annual change in our estimated discount rate; offset partially by
- a decrease of \$2.1 million in share-based compensation costs from common stock awarded in the prior year to employees as part of ONEOK's stock award program and the appreciation in ONEOK's share price during 2011.

Depreciation and amortization expense increased for the three months ended September 30, 2012, due primarily to higher depreciation expense associated with additional capital expenditures.

Depreciation and amortization expense decreased for the nine months ended September 30, 2012, due primarily to a decrease of regulatory amortization associated with the expiration of the IMP rider, which allowed us to defer recognition of certain pipeline-integrity costs in Oklahoma; offset partially by an increase of \$4.7 million in higher depreciation expense associated with additional capital expenditures.

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Capital Expenditures - Our capital expenditures program includes expenditures for pipeline integrity, automated meter reading, extending service to new areas, modifications to customer-service lines, increasing system capabilities, relocating facilities to accommodate government construction and replacements. It is our practice to maintain and upgrade facilities to ensure safe, reliable and efficient operations.

Capital expenditures increased for the three and nine months ended September 30, 2012, compared with the same periods last year, primarily as a result of increased spending on pipeline replacements.

Selected Operating Information - The following tables set forth certain selected information for the regulated operations of our Natural Gas Distribution segment for the periods indicated:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Number of Customers				
Residential	1,918,486	1,902,709	1,932,295	1,921,949
Commercial	150,705	150,740	153,206	153,637
Industrial	1,208	1,244	1,224	1,243
Wholesale/public authority	2,765	2,713	2,739	2,744
Transportation	11,934	11,738	11,908	11,674
Total customers	2,085,098	2,069,144	2,101,372	2,091,247

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Volumes (MMcf)				
Gas sales				
Residential	7,342	7,253	66,060	78,054
Commercial	3,330	3,511	20,020	23,409
Industrial	363	374	1,088	1,084
Wholesale/public authority	555	289	5,388	1,851
Total volumes sold	11,590	11,427	92,556	104,398
Transportation	45,792	44,300	149,167	153,182
Total volumes delivered	57,382	55,727	241,723	257,580

Residential volumes decreased for the nine months ended September 30, 2012, and commercial volumes decreased for the three and nine months ended September 30, 2012, compared with the same periods last year, due primarily to warmer temperatures in 2012; however, the impact on margins was mitigated largely by weather normalization mechanisms. Wholesale sales represent contracted gas volumes that exceed the needs of our residential, commercial and industrial customer base and are available for sale to other parties. Wholesale volumes increased for 2012, compared to 2011; however, the impact to margins was minimal.

Regulatory Initiatives - Oklahoma - In March 2012, Oklahoma Natural Gas filed a Performance Based Rate Change (PBRC) filing seeking to increase base rates by \$16.2 million. A Joint Stipulation was approved by the OCC in July 2012. This agreement provides for a \$9.5 million rate increase and modifications to Oklahoma Natural Gas' PBRC tariff. The modified tariff narrows the range of allowed regulated return on equity (ROE) to a range of 10.0 percent to 11.0 percent from our previous range of 9.75 percent to 11.25 percent; increases the ROE reflected in any rate increase resulting from a revenue deficiency to 10.5 percent from 10.25 percent; and reduces the number of allowed pro forma adjustments that can be proposed by Oklahoma Natural Gas.

In May 2011, the OCC approved a portfolio of conservation and energy-efficiency programs and authorized recovery of costs and performance incentives. The agreement allows Oklahoma Natural Gas to pursue key energy-efficiency

programs and allows the company to earn up to \$1.5 million annually, if program objectives are achieved. Based on customer interest in the rebate programs through June 2012, we anticipate several rebate programs being fully subscribed by customers during calendar 2012.



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Kansas - In May 2012, Kansas Gas Service submitted an application to increase its overall annual revenues by \$32.7 million. The request included a \$50.7 million increase in base rates and an \$18.0 million reduction in amounts currently recovered through surcharges. In October 2012, Kansas Gas Service, the staff of the KCC and the Citizens' Utility Ratepayer Board filed a joint motion to approve a stipulated settlement agreement granting a \$28 million increase in base rates and an \$18 million reduction in amounts currently recovered through surcharges, effectively increasing its annual revenues by a net amount of \$10 million. The KCC is expected to make a final ruling by January 2013.

In March 2012, Kansas Gas Service submitted an application to the KCC to approve the implementation of an infrastructure-replacement program that would allow Kansas Gas Service to accelerate the rate at which it is replacing cast-iron pipe. The application requested a surcharge that would recover the carrying charges and depreciation expense associated with the investment as the costs are incurred. In September 2012, the KCC denied Kansas Gas Service's application. Costs incurred by Kansas Gas Service to replace cast-iron pipe are eligible for the Gas System Reliability Surcharge (GSRS).

The KCC approved an application from Kansas Gas Service to increase the GSRS by an additional \$2.9 million, effective January 2012. This surcharge is a capital-recovery mechanism that allows for rate adjustment, providing recovery of and a return on incremental safety-related and government-mandated capital investments made between rate cases.

Texas - Texas Gas Service made annual filings for interim rate relief under the Gas Reliability Infrastructure Program (GRIP) statute with the cities of Austin, Texas, and surrounding communities in February 2012 and El Paso, Texas, in April 2012. GRIP is a capital-recovery mechanism that allows for an interim rate adjustment providing recovery and a return on incremental capital investments made between rate cases. In May 2012, the City of Austin, Texas, approved a \$3.5 million increase pursuant to this filing. In July 2012, the city of El Paso approved a \$1.3 million increase.

In January 2012, the Railroad Commission of Texas approved the settlement between Texas Gas Service and the City of El Paso that allows for recovery of 2010-2013 pipeline-integrity expenditures and partial recovery of rate-case expenses. The settlement did not have a material impact on our results of operations.

In the normal course of business, Texas Gas Service has filed rate cases and requests for GRIP and cost-of-service adjustments in various other Texas jurisdictions to address investments in rate base and changes in expense. Annual rate increases totaling \$5.3 million associated with these filings have been approved in 2012.

## Energy Services

Overview - Our Energy Services segment is a provider of natural gas supply and risk-management services for natural gas and electric utilities and commercial and industrial customers. We use a network of leased storage and transportation capacity to supply natural gas to our customers. This network connects the major supply and demand centers throughout the United States and into Canada and, coupled with our industry knowledge and market intelligence, allows us to provide our customers with customized services in a more efficient and reliable manner than they can achieve independently.

We follow a strategy of optimizing our storage and cross-regional transportation capacity through the application of market knowledge and effective risk management. We seek to maximize value by actively hedging the risks associated with seasonal and location price differentials that are inherent to storage and transportation contracts. At the same time, we attempt to capitalize on opportunities created by market volatility, weather-related events, supply-demand imbalances and market inefficiencies, which allow us to capture additional margin. Using market

information, we manage these asset-based positions and seek to provide incremental margin in our trading portfolio.

To ensure natural gas is available when our customers need it, we offer premium services and products that satisfy our customers' nonuniform supply needs such as swing and peaking natural gas load requirements on a year-round basis. Types of premium services include next-day and no-notice services. Next-day services allow our customers to call on additional gas supply, up to an amount agreed upon in a service contract, and expect delivery the following day. No-notice services allow customers to call on additional natural gas supply and expect immediate delivery. We also provide weather-related protection and other custom solutions based on our customers' specific needs. Our storage and transportation assets enable us to provide these services and provide us with opportunities to capture daily, monthly and seasonal value due to market inefficiencies. We expect premium-services margins will be lower than the prior year due to lower natural gas prices.

As a result of significant increases in the supply of natural gas, primarily from shale production across North America, location and seasonal price differentials have narrowed significantly, resulting in reduced opportunities to capture margins with our firm transportation and storage capacity. Additionally, price volatility in the natural gas markets remains relatively low compared with volatility in the past, which, coupled with a fairly flat forward price curve, reduces the value of the demand fee we receive

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for premium services and further limits opportunities to optimize our assets. We have undertaken several steps to better align fixed costs with the current business environment, including attempts to renegotiate various natural gas storage and transportation contracts. Contract renegotiation activities that we have taken or expect to take include renewing contracts at current market rates at contract expiration, extending contracts in order to negotiate a more favorable rate or paying to terminate contracts in areas that are no longer strategic to our business. For the nine months ended September 30, 2012, we recognized charges to our earnings as a result of certain of these actions. As we continue our contract renegotiation activities, we may recognize additional charges to our earnings in the future. We expect these contractual changes to result in less storage and transportation capacity under lease and a better alignment of our contracted natural gas transportation and storage capacity with the needs of our premium-services customers. We also expect the reduction in our contracted natural gas transportation and storage capacity will reduce our operating costs and working-capital requirements.

Selected Financial Results - The following table sets forth certain selected financial results for our Energy Services segment for the periods indicated:

Financial Results	Three Months Ended September 30,		Nine Months Ended September 30,		Three Months 2012 vs. 2011		Nine Months 2012 vs. 2011	
	2012	2011	2012	2011	Increase (Decrease)		Increase (Decrease)	
	(Millions of dollars)							
Revenues	\$363.8	\$608.2	\$1,093.6	\$2,116.0	\$(244.4 )	(40 )%	\$(1,022.4 )	(48 )%
Cost of sales and fuel	381.1	615.6	1,136.7	2,067.9	(234.5 )	(38 )%	(931.2 )	(45 )%
Net margin	(17.3 )	(7.4 )	(43.1 )	48.1	(9.9 )	*	(91.2 )	*
Operating costs	4.4	5.2	13.9	18.6	(0.8 )	(15 )%	(4.7 )	(25 )%
Depreciation and amortization	0.1	0.1	0.3	0.3	—	—	—	—
Goodwill impairment	—	—	10.3	—	—	—	10.3	100 %
Operating income (loss)	\$(21.8 )	\$(12.7 )	\$(67.6 )	\$29.2	\$(9.1 )	(72 )%	\$(96.8 )	*

\* Percentage change is greater than 100 percent.

The following table sets forth our margins by activity for the periods indicated:

Marketing, storage and transportation revenues, gross	Three Months Ended September 30,		Nine Months Ended September 30,		Three Months 2012 vs. 2011		Nine Months 2012 vs. 2011	
	2012	2011	2012	2011	Increase (Decrease)		Increase (Decrease)	
	(Millions of dollars)							
Marketing, storage and transportation revenues, gross	\$19.1	\$30.6	\$74.6	\$167.3	\$(11.5 )	(38 )%	\$(92.7 )	(55 )%
Storage and transportation costs	37.3	39.4	119.3	120.8	(2.1 )	(5 )%	(1.5 )	(1 )%
Marketing, storage and transportation, net	(18.2 )	(8.8 )	(44.7 )	46.5	(9.4 )	*	(91.2 )	*
Financial trading, net	0.9	1.4	1.6	1.6	(0.5 )	(36 )%	—	—
Net margin	\$(17.3 )	\$(7.4 )	\$(43.1 )	\$48.1	\$(9.9 )	*	\$(91.2 )	*

\* Percentage change is greater than 100 percent.

Marketing, storage and transportation revenues, gross, primarily includes marketing, purchases and sales, premium services and the impact of cash flow and fair value hedges and other derivative instruments used to manage our risk associated with these activities. Storage and transportation costs primarily include the cost of leasing capacity, storage injection and withdrawal fees, fuel charges and gathering fees. Risk-management and operational decisions have an impact on the net result of our marketing, premium services and storage activities. We evaluate our strategies on an

ongoing basis to optimize the value of our contracted assets and to minimize the financial impact of market conditions on the services we provide.

The decrease in our storage and transportation costs for the three and nine months ended September 30, 2012, compared with the same periods in the prior year, reflects reduced transportation capacity, offset partially by an increase in storage demand fees.

For additional information on transportation and storage capacity refer to “Selected Operating Information” below.

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Financial trading, net, includes activities that are executed generally using financially settled derivatives. These activities are normally short term in nature, with a focus on capturing short-term price volatility. Revenues in our Consolidated Statements of Income include financial trading margins, as well as certain physical natural gas transactions with our trading counterparties. Revenues and cost of sales and fuel from such physical transactions are reported on a net basis.

Revenues and cost of sales and fuel decreased for the three and nine months ended September 30, 2012, compared with the same periods last year, due primarily to lower natural gas prices.

Net margin decreased for the three months ended September 30, 2012, compared with the same period last year, due primarily to the following:

- a decrease of \$9.8 million in transportation margins, net of hedging, due primarily to lower hedge settlements in 2012; and
- a decrease of \$2.1 million in premium-services margins, associated primarily with lower demand fees; offset partially by
  - an increase of \$2.2 million in storage and marketing margins, net of hedging activities, due primarily to the following:
    - an increase of \$6.9 million due to higher realized seasonal storage price differentials; offset partially by
    - a decrease of \$4.1 million due primarily to decreased marketing activities.

Net margin decreased for the nine months ended September 30, 2012, compared with the same period last year, due primarily to the following:

- a decrease of \$63.3 million in storage and marketing margins, net of hedging activities, due primarily to the following:
  - a decrease of \$29.9 million related to the reclassification of deferred losses into current earnings from accumulated other comprehensive income (loss) on certain financial contracts that were used to hedge forecasted purchases of natural gas, as a result of the continued decline in natural gas prices. The combination of the cost basis of the forecasted inventory and the financial contracts exceeds the amount expected to be recovered through sales of that inventory after considering related sales hedges, requiring reclassification of the loss from accumulated other comprehensive income (loss) to current period earnings;
  - a decrease of \$10.3 million due primarily to decreased marketing activities;
  - a decrease of \$10.0 million due to unrealized fair value changes on nonqualifying economic hedges;
  - a decrease of \$8.1 million due to lower realized seasonal storage price differentials; and
  - a decrease of \$3.7 million due to higher demand fees on storage contracts;
- a decrease of \$23.1 million in transportation margins, net of hedging, due primarily to lower hedge settlements in 2012; and
- a decrease of \$5.3 million in premium-services margins, associated primarily with lower demand fees.

Operating costs decreased for the nine months ended September 30, 2012, compared with the same period last year due primarily to lower employee-related expenses, which includes the impact of fewer employees.

We also recognized an expense of \$10.3 million related to the impairment of our goodwill in the first quarter of 2012. Given the significant decline in natural gas prices and its effect on location and seasonal price differentials, we performed an interim impairment assessment in the first quarter of 2012 that reduced our goodwill balance to zero.

Selected Operating Information - The following table sets forth certain selected operating information for our Energy Services segment for the periods indicated:

	Three Months Ended	Nine Months Ended
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Operating Information	September 30,		September 30,	
	2012	2011	2012	2011
Natural gas marketed (Bcf)	162	187	530	639
Natural gas gross margin (\$/Mcf)	\$(0.10	) \$(0.03	) \$(0.08	) \$0.08
Physically settled volumes (Bcf)	338	395	1,077	1,294

Natural gas volumes marketed and physically settled volumes decreased for the three and nine months ended September 30, 2012, compared with the same periods last year, due primarily to decreased marketing activities, lower transported volumes and reduced transportation capacity. Transportation capacity in certain markets was not utilized due to the economics of the

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location differentials as a result of increased supply of natural gas, primarily from shale production, and increased pipeline capacity as a result of pipeline construction.

At September 30, 2012, our natural gas transportation capacity was 1.1 Bcf/d, of which 1.0 Bcf/d was contracted under long-term natural gas transportation contracts, compared with 1.2 Bcf/d of total capacity and 1.2 Bcf/d of long-term capacity at September 30, 2011. Approximately 6 percent of our transportation capacity expires by the end of 2012, and an additional 69 percent expires by the end of 2015.

Approximately 35.0 MMcf/d of transportation capacity expired in the first quarter of 2012, 46.2 MMcf/d expired in the second quarter of 2012 and 59.8 MMcf/d will expire in the fourth quarter of 2012. We did not renew any of the transportation capacity that expired in the first and second quarters of 2012, and we do not expect to renew any of the transportation capacity expiring in the fourth quarter of 2012. Additionally, we have transportation capacity expiring in 2013 of 321.7 MMcf/d, in 2014 of 35.0 MMcf/d and in 2015 of 355.4 MMcf/d.

Our natural gas in storage at September 30, 2012, was 66.4 Bcf, compared with 61.6 Bcf at September 30, 2011. At September 30, 2012, our total natural gas storage capacity under lease was 72.4 Bcf, compared with 75.6 Bcf at September 30, 2011. At September 30, 2012, our natural gas storage capacity under lease had a maximum withdrawal capability of 2.3 Bcf/d and maximum injection capability of 1.3 Bcf/d. Approximately 15.2 Bcf of storage capacity expired on April 1, 2012, of which 12.7 Bcf was renewed at market rates. We have no additional storage capacity contracts expiring for the remainder of 2012; approximately 88 percent expires by the end of 2015.

Reducing storage and transportation capacity continues to be a focus as we reduce fixed costs and align our capacity with the needs of our premium-services customers. It is possible that we may recognize charges to our earnings in the future as a result of these actions.

## CONTINGENCIES

Legal Proceedings - We are a party to various litigation matters and claims that have arisen in the normal course of our operations. While the results of litigation and claims cannot be predicted with certainty, and we are unable to estimate reasonably possible losses, we believe the probable final outcome of such matters will not have a material adverse effect on our consolidated results of operations, financial position or cash flows. Additional information about our legal proceedings is included under Part I, Item 3, Legal Proceedings, in our Annual Report.

## LIQUIDITY AND CAPITAL RESOURCES

General - ONEOK and ONEOK Partners have relied primarily on operating cash flow, commercial paper, bank credit facilities, debt issuances and/or the issuance of equity for their liquidity and capital resource requirements. ONEOK and ONEOK Partners fund operating expenses, debt service, dividends to shareholders and distributions to unitholders primarily with operating cash flow. Capital expenditures are funded by short- and long-term debt, issuances of equity and operating cash flow. We expect to continue to use these sources for our liquidity and capital resource needs. Neither ONEOK nor ONEOK Partners guarantees the debt or other similar commitments to unaffiliated parties, and ONEOK does not guarantee the debt or other similar commitments of ONEOK Partners.

ONEOK's and ONEOK Partners' ability to continue to access capital markets for debt and equity financing under reasonable terms depends on market conditions and ONEOK's and ONEOK Partners' respective financial condition and credit ratings. We anticipate that our cash flow generated from operations, existing capital resources, including proceeds from the issuance of our \$700 million, 4.25-percent senior notes in January 2012 and distributions from ONEOK Partners will enable us to maintain our current and planned level of operations and fund any share repurchases under our three-year, \$750-million stock repurchase program. ONEOK Partners anticipates that its cash

flow generated from operations, proceeds from its March 2012 equity offering, September 2012 debt offering and existing capital resources and ability to obtain financing will enable it to maintain its current and planned level of operations. Additionally, ONEOK Partners expects to fund its future capital expenditures with short- and long-term debt, the issuance of equity and operating cash flows.



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Capitalization Structure - The following table sets forth ONEOK's capital structure, excluding the debt of ONEOK Partners, for the periods indicated:

	September 30, 2012	December 31, 2011
Long-term debt	45%	31%
ONEOK shareholders' equity	55%	69%
Debt (including notes payable)	54%	45%
ONEOK shareholders' equity	46%	55%

As the sole general partner of ONEOK Partners, ONEOK is responsible for directing the activities of ONEOK Partners, but ONEOK is not liable for, nor does it guarantee, any of ONEOK Partners' liabilities. Likewise, ONEOK Partners is not liable for, nor does it guarantee, any of ONEOK's liabilities. Significant legal and financial separations exist between ONEOK and ONEOK Partners. Additionally, for purposes of determining compliance with financial covenants in the ONEOK 2011 Credit Agreement, which are described below, the debt of ONEOK Partners is excluded.

The following table sets forth our consolidated capitalization structure as of the dates indicated:

	September 30, 2012	December 31, 2011
Long-term debt	61%	56%
Total equity	39%	44%
Debt (including notes payable)	63%	60%
Total equity	37%	40%

Stock Repurchase Program - In September 2012, we completed an accelerated share repurchase agreement pursuant to which we repurchased approximately 3.4 million shares of our common stock for \$150 million.

Our three-year stock repurchase program was authorized by our Board of Directors in October 2010 to buy up to \$750 million of our common stock, subject to the limitation that purchases will not exceed \$300 million in any one calendar year. Following our \$150 million repurchase in September 2012 and our \$300 million repurchase in 2011, an additional \$300 million may yet be purchased pursuant to our three-year repurchase program, of which a maximum of \$150 million of additional shares of our common stock may be purchased in 2012.

Short-term Liquidity - ONEOK's principal sources of short-term liquidity consist of cash generated from operating activities, quarterly distributions from ONEOK Partners and the issuance of commercial paper. ONEOK Partners' principal sources of short-term liquidity consist of cash generated from operating activities, the issuance of commercial paper and distributions received from unconsolidated affiliates. To the extent commercial paper is unavailable, ONEOK's and ONEOK Partners' respective revolving credit agreements may be utilized.

ONEOK 2011 Credit Agreement - The ONEOK 2011 Credit Agreement, which is scheduled to expire in April 2016, contains certain financial, operational and legal covenants. Among other things, these covenants include maintaining ONEOK's stand-alone debt-to-capital ratio of no more than 67.5 percent at the end of any calendar quarter, limitations on the ratio of indebtedness secured by liens and indebtedness of subsidiaries to consolidated net tangible assets, a requirement that ONEOK maintains the power to control the management and policies of ONEOK Partners, and a limit on new investments in master limited partnerships. The ONEOK 2011 Credit Agreement also contains customary affirmative and negative covenants, including covenants relating to liens, investments, fundamental changes in the nature of ONEOK's businesses, transactions with affiliates, the use of proceeds and a covenant that limits ONEOK's ability to restrict its subsidiaries' ability to pay dividends. The debt covenant calculations in the ONEOK 2011 Credit Agreement exclude the debt of ONEOK Partners. In the event of a breach of certain covenants

by ONEOK, amounts outstanding under the ONEOK 2011 Credit Agreement may become due and payable immediately. At September 30, 2012, ONEOK's stand-alone debt-to-capital ratio, as defined by the ONEOK 2011 Credit Agreement, was 50.9 percent, and ONEOK was in compliance with all covenants under the ONEOK 2011 Credit Agreement.

Under the terms of the ONEOK 2011 Credit Agreement, ONEOK may request an increase in the size of the facility to an aggregate of \$1.7 billion from \$1.2 billion by either commitments from new lenders or increased commitments from existing

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lenders. The ONEOK 2011 Credit Agreement is available to repay our commercial paper notes, if necessary. Amounts outstanding under the commercial paper program reduce the borrowing capacity under the ONEOK 2011 Credit Agreement.

The total amount of short-term borrowings authorized by ONEOK's Board of Directors is \$2.8 billion. At September 30, 2012, ONEOK had \$676.7 million of commercial paper outstanding, \$1.9 million in letters of credit issued under the ONEOK 2011 Credit Agreement and approximately \$15.2 million of cash and cash equivalents. ONEOK had approximately \$521.4 million of credit available at September 30, 2012, under the ONEOK 2011 Credit Agreement. As of September 30, 2012, ONEOK could have issued \$2.4 billion of additional short- and long-term debt under the most restrictive provisions contained in its various borrowing agreements.

ONEOK Partners 2011 Credit Agreement - The ONEOK Partners 2011 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 2011 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 be increased to 5.5 to 1 for the quarter of the acquisition and the two following quarters. Upon breach of certain covenants by ONEOK Partners in the ONEOK Partners 2011 Credit Agreement, amounts outstanding under the ONEOK Partners 2011 Credit Agreement, if any, may become due and payable immediately. At September 30, 2012, ONEOK Partners' ratio of indebtedness to adjusted EBITDA was 2.9 to 1, and ONEOK Partners was in compliance with all covenants under the ONEOK Partners 2011 Credit Agreement.

The ONEOK Partners 2011 Credit Agreement includes a \$100-million sublimit for the issuance of standby letters of credit and also features an option to request an increase in the size of the facility to an aggregate of \$1.7 billion from \$1.2 billion by either commitments from new lenders or increased commitments from existing lenders. The ONEOK Partners 2011 Credit Agreement is available to repay ONEOK Partners' commercial paper notes, if necessary. Amounts outstanding under ONEOK Partners' commercial paper program reduce the borrowing capacity under the ONEOK Partners 2011 Credit Agreement.

The total amount of short-term borrowings authorized by the Board of Directors of ONEOK Partners GP, the general partner of ONEOK Partners, is \$2.5 billion. At September 30, 2012, ONEOK Partners had no commercial paper outstanding, no letters of credit issued, no borrowings outstanding under the ONEOK Partners 2011 Credit Agreement, approximately \$963.6 million of cash and \$1.2 billion of credit available under the ONEOK Partners 2011 Credit Agreement. As of September 30, 2012, ONEOK Partners could have issued \$3.4 billion of short- and long-term debt to meet its liquidity needs under the most restrictive provisions contained in its various borrowing agreements.

Effective August 1, 2012, ONEOK Partners extended the maturity date of its Partnership 2011 Credit Agreement to August 1, 2017, from August 1, 2016, pursuant to an extension agreement between ONEOK Partners and its lenders.

Other - Recent events in the European economy could impact European banks. Various European-based banks participate in the ONEOK 2011 Credit Agreement and ONEOK Partners 2011 Credit Agreement, representing an aggregate of \$340 million and \$342 million in committed capacity, respectively. These banks are of significant scale and international diversification, which we believe minimizes the risk of these banks being unable to fulfill their commitments to us or ONEOK Partners under our respective credit agreements. Should any of these banks be unable to fund any future borrowings under the credit agreements, we believe other funding sources would likely be available to replace the European banks' commitments.

Long-term Financing - In addition to the principal sources of short-term liquidity discussed above, ONEOK expects to fund its longer-term cash requirements by issuing equity or long-term notes. ONEOK Partners expects to fund its longer-term cash requirements by issuing common units or long-term notes. Other options to obtain financing include, but are not limited to, issuance of convertible debt securities, asset securitization and the sale and lease back of facilities.

ONEOK and ONEOK Partners are subject to changes in the debt and equity markets, and there is no assurance they will be able or willing to access the public or private markets in the future. ONEOK and ONEOK Partners may choose to meet their cash requirements by utilizing some combination of cash flows from operations, borrowing under existing commercial paper or credit facilities, altering the timing of controllable expenditures, restricting future acquisitions and capital projects, or pursuing other debt or equity financing alternatives. Some of these alternatives could involve higher costs or negatively affect their respective credit ratings, among other factors. Based on ONEOK's and ONEOK Partners' investment-grade credit ratings, general financial condition and market expectations regarding their future earnings and projected cash flows, ONEOK and ONEOK Partners believe that they will be able to meet their respective cash requirements and maintain their investment-grade credit ratings.

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ONEOK Debt Issuance - In January 2012, we completed an underwritten public offering of \$700 million, 4.25-percent senior notes due 2022. The net proceeds from the offering, after deducting underwriting discounts and offering expenses, of approximately \$694.3 million were used to repay amounts outstanding under our commercial paper program and for general corporate purposes. We will pay interest on the senior notes due 2022 on February 1 and August 1 of each year, beginning August 1, 2012.

The indenture governing ONEOK's senior notes due 2022 includes an event of default upon acceleration of other indebtedness of \$100 million or more. Such events of default would entitle the trustee or the holders of 25 percent in aggregate principal amount of the outstanding senior notes due 2022 to declare those senior notes immediately due and payable in full.

ONEOK may redeem its senior notes due 2022 at a redemption price equal to the principal amount, plus accrued and unpaid interest, starting three months before the maturity date. Prior to this date, ONEOK may redeem the senior notes due 2022, in whole or in part, at any time for a redemption price equal to the principal amount plus accrued and unpaid interest and a make-whole premium. The redemption price will never be less than 100 percent of the principal amount of the respective note plus accrued and unpaid interest to the redemption date. ONEOK's senior notes due 2022 are senior unsecured obligations, ranking equally in right of payment with all of ONEOK's existing and future unsecured senior indebtedness.

ONEOK Partners' Debt Issuance - In September 2012, ONEOK Partners completed an underwritten public offering of \$1.3 billion of senior notes, consisting of \$400 million, 2.0-percent senior notes due 2017 and \$900 million, 3.375-percent senior notes due 2022. A portion of the net proceeds from the offering of approximately \$1.29 billion was used to repay amounts outstanding under its commercial paper program, and the balance will be used for general partnership purposes, including but not limited to capital expenditures.

ONEOK Partners' 2.0-percent notes due 2017 and 3.375-percent notes due 2022 are governed by an indenture, dated as of September 25, 2006, between ONEOK Partners and Wells Fargo Bank, N.A., the trustee, as supplemented. The indenture does not limit the aggregate principal amount of debt securities that may be issued and provides that debt securities may be issued from time to time in one or more additional series. The indenture contains covenants including, among other provisions, limitations on ONEOK Partners' ability to place liens on its property or assets and to sell and lease back its property. The indenture includes an event of default upon acceleration of other indebtedness of \$100 million or more. Such events of default would entitle the trustee or the holders of 25 percent in aggregate principal amount of any of ONEOK Partners' outstanding senior notes to declare those notes immediately due and payable in full.

ONEOK Partners may redeem its 2.0-percent senior notes due 2017 and its 3.375-percent senior notes due 2022 at par starting one month and three months, respectively, before their maturity dates. Prior to these dates, ONEOK Partners may redeem these notes, in whole or in part, at a redemption price equal to the principal amount, plus accrued and unpaid interest and a make-whole premium. The redemption price will never be less than 100 percent of the principal amount of the respective note plus accrued and unpaid interest to the redemption date. ONEOK Partners' senior notes are senior unsecured obligations, ranking equally in right of payment with all of ONEOK Partners' existing and future unsecured senior indebtedness, and structurally subordinate to any of the existing and future debt and other liabilities of any ONEOK Partners' nonguarantor subsidiaries.

ONEOK Partners' Debt Maturity - ONEOK Partners repaid its \$350 million, 5.9-percent senior notes upon maturity in April 2012 with a portion of the proceeds from its March 2012 equity issuance.

ONEOK Partners' Equity Issuance - In March 2012, ONEOK Partners completed an underwritten public offering of 8,000,000 common units at a public offering price of \$59.27 per common unit, generating net proceeds of

approximately \$460 million. ONEOK Partners also sold 8,000,000 common units to us in a private placement, generating net proceeds of approximately \$460 million. In conjunction with the issuances, we contributed approximately \$19 million in order to maintain our 2-percent general partner interest in ONEOK Partners. ONEOK Partners used the net proceeds from the issuances to repay \$295 million of borrowings under its commercial paper program, to repay amounts on the maturity of their \$350 million, 5.9-percent senior notes due April 2012 and for other general partnership purposes, including capital expenditures. As a result of these transactions, our aggregate ownership interest in ONEOK Partners increased to 43.4 percent from 42.8 percent.

Interest-rate Swaps - ONEOK entered into forward-starting interest-rate swaps to hedge 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. ONEOK had interest-rate swaps with notional values totaling \$500 million at December 31, 2011. In January 2012, ONEOK entered into additional interest-rate swaps with notional amounts totaling \$200 million. Upon issuance in January 2012 of our \$700 million, 4.25-percent senior notes due 2022, ONEOK settled all \$700 million of its interest-rate swaps and realized a loss of \$44.1 million in accumulated other comprehensive income (loss) that will be amortized to interest expense over the term of the related debt.

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ONEOK Partners has entered into forward-starting interest-rate swaps to hedge the variability of interest payments on a portion of forecasted debt issuances that may result from changes in the benchmark interest rate before the debt is issued. At December 31, 2011, ONEOK Partners had interest-rate swaps with notional values totaling \$750 million. During the nine months ended September 30, 2012, ONEOK Partners entered into additional interest-rate swaps with notional amounts totaling \$650 million. Upon ONEOK Partners' debt issuance in September 2012, ONEOK Partners settled \$1 billion of its interest-rate swaps and realized a loss of \$124.9 million in accumulated other comprehensive income (loss) that will be amortized to interest expense over the term of the related debt. At September 30, 2012, ONEOK Partners' remaining interest-rate swaps with notional amounts totaling \$400 million have settlement dates greater than 12 months.

Capital Expenditures - ONEOK's and ONEOK Partners' capital expenditures are financed typically through operating cash flows, short- and long-term debt and the issuance of equity. Capital expenditures were \$1.2 billion and \$862 million for the nine months ending September 30, 2012 and 2011, respectively. Of these amounts, ONEOK Partners' capital expenditures were \$1.0 billion and \$662 million for the nine months ended September 30, 2012 and 2011, respectively. Capital expenditures for 2012 increased, compared with the same period last year, due primarily to the growth projects in ONEOK Partners' natural gas gathering and processing and natural gas liquids businesses.

The following table sets forth our 2012 projected capital expenditures, excluding AFUDC:  
2012 Projected Capital Expenditures

	(Millions of dollars)
ONEOK Partners	\$1,868
Natural Gas Distribution	282
Other	32
Total projected capital expenditures	\$2,182

Credit Ratings - Our credit ratings as of September 30, 2012, are shown in the table below:

Rating Agency	ONEOK		ONEOK Partners	
	Rating	Outlook	Rating	Outlook
Moody's	Baa2	Stable	Baa2	Stable
S&P	BBB	Stable	BBB	Stable

ONEOK's and ONEOK Partners' commercial paper programs are each rated Prime-2 by Moody's and A2 by S&P. ONEOK's and ONEOK Partners' credit ratings, which currently are investment grade, may be affected by a material change in financial ratios or a material event affecting the business. The most common criteria for assessment of credit ratings are the debt-to-capital ratio, business risk profile, pre-tax and after-tax interest coverage, and liquidity. ONEOK and ONEOK Partners currently do not anticipate their respective credit ratings to be downgraded; however, if ONEOK's or ONEOK Partners' credit ratings were downgraded, the cost to borrow funds under their respective commercial paper programs and credit agreements would increase, and ONEOK or ONEOK Partners potentially could lose access to the commercial paper market. In the event that ONEOK is unable to borrow funds under its commercial paper program and there has not been a material adverse change in its business, ONEOK would continue to have access to the ONEOK 2011 Credit Agreement, which expires in April 2016. In the event that ONEOK Partners is unable to borrow funds under its commercial paper program and there has not been a material adverse change in its business, ONEOK Partners would continue to have access to the ONEOK Partners 2011 Credit Agreement, which expires in August 2017. An adverse rating change alone is not a default under the ONEOK 2011 Credit Agreement or the ONEOK Partners 2011 Credit Agreement.

Our Energy Services segment relies upon the investment-grade rating of ONEOK's senior unsecured long-term debt to reduce its collateral requirements. If ONEOK's credit ratings were to decline below investment grade, our ability to participate in energy marketing and trading activities could be significantly limited. Without an investment-grade

rating, we may be required to fund margin requirements with our counterparties with cash, letters of credit or other negotiable instruments. At September 30, 2012, ONEOK could have been required to fund approximately \$3.3 million in margin requirements related to financial contracts upon such a downgrade. A decline in ONEOK's credit rating below investment grade also may impact significantly other business segments.

In the normal course of business, ONEOK's and ONEOK Partners' counterparties provide secured and unsecured credit. In the event of a downgrade in ONEOK's or ONEOK Partners' credit ratings or a significant change in ONEOK's or ONEOK Partners' counterparties' evaluation of our creditworthiness, ONEOK or ONEOK Partners could be required to provide



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additional collateral in the form of cash, letters of credit or other negotiable instruments as a condition of continuing to conduct business with such counterparties.

**Commodity Prices** - We are subject to commodity price volatility. Significant fluctuations in commodity prices will impact our overall liquidity due to the impact commodity price changes have on our cash flows from operating activities, including the impact on working capital for NGLs and natural gas held in storage, margin requirements and certain energy-related receivables. We believe that ONEOK's and ONEOK Partners' available credit and cash and cash equivalents are adequate to meet liquidity requirements associated with commodity price volatility. See Note D of the Notes to Consolidated Financial Statements; the discussion under ONEOK Partners' "Commodity Price Risk" in Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations; and Energy Services' discussion under "Commodity Price Risk" in Item 3, Quantitative and Qualitative Disclosures about Market Risk, for information on our hedging activities.

**Pension and Postretirement Benefit Plans** - Information about our pension and postretirement benefits plans, including anticipated contributions, is included under Note M of the Notes to Consolidated Financial Statements in our Annual Report. See Note J of the Notes to Consolidated Financial Statements in this Quarterly Report for additional information.

**CASH FLOW ANALYSIS**

We use the indirect method to prepare our Consolidated Statements of Cash Flows. Under this method, we reconcile net income to cash flows provided by operating activities by adjusting net income for those items that impact net income but may not result in actual cash receipts or payments during the period.

The following table sets forth the changes in cash flows by operating, investing and financing activities for the periods indicated:

	Nine Months Ended September 30, 2012		2011		Variance 2012 vs. 2011 Increase (Decrease)
	(Millions of dollars)				
Total cash provided by (used in):					
Operating activities	\$762.9	\$1,029.6			\$(266.7 )
Investing activities	(1,198.6 )	(896.9 )			(301.7 )
Financing activities	1,339.7	(15.4 )			1,355.1
Change in cash and cash equivalents	904.0	117.3			786.7
Change in cash and cash equivalents included in discontinued operations	8.8	2.0			6.8
Change in cash and cash equivalents from continuing operations	912.8	119.3			793.5
Cash and cash equivalents at beginning of period	66.0	30.3			35.7
Cash and cash equivalents at end of period	\$978.8	\$149.6			\$829.2

**Operating Cash Flows** - Operating cash flows are affected by earnings from our business activities. Changes in commodity prices and demand for our services or products, whether because of general economic conditions, changes in supply, changes in demand for the end products that are made with our products or increased competition from other service providers, could affect our earnings and operating cash flows.

Cash flows from operating activities, before changes in operating assets and liabilities, were approximately \$1.0 billion for the nine months ended September 30, 2012, compared with \$960.8 million for the same period in 2011. The increase was due primarily to changes in net margin and operating expenses discussed in Financial Results

and Operating Information on pages 40-41.

The changes in operating assets and liabilities decreased operating cash flows \$259.6 million for the nine months ended September 30, 2012, compared with an increase of \$68.8 million for the same period in 2011. The change was due primarily to the settlement of interest-rate swaps associated with ONEOK's \$700 million debt issuance in January 2012 and ONEOK Partners' \$1.3 billion debt issuance in September 2012; and the change in gas and natural gas liquids in storage. The change in natural gas and natural gas liquids in storage results from changes in storage levels and the impact of commodity prices on the purchase cost of inventory, both which vary from period to period. The change was also impacted by the collection and

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payment of trade receivables and payables, resulting from the timing of cash collections from customers and paid to vendors and suppliers, which vary from period to period.

**Investing Cash Flows** - The change in cash flows from investing activities for the nine months ended September 30, 2012, compared with the same period in 2011, reflects increased capital expenditures due primarily to ONEOK Partners' growth projects, offset partially by proceeds from the sale of ONEOK Energy Marketing Company and increased distributions received from unconsolidated affiliates.

**Financing Cash Flows** - The change in cash flows from financing activities is the result of ONEOK's January 2012 debt issuance and the ONEOK Partners equity issuances in March 2012, offset partially by increased distributions to noncontrolling interests and increased dividends. Financing cash flows also reflect net proceeds from ONEOK Partners' debt issuance of \$1.3 billion in the nine months ended September 30, 2012 and 2011.

## REGULATORY

**Financial Markets Legislation** - The Dodd-Frank Act represents a far-reaching overhaul of the framework for regulation of United States financial markets. Various regulatory agencies, including the SEC and the CFTC, have proposed regulations for implementation of many of the provisions of the Dodd-Frank Act. The CFTC has issued final regulations for certain provisions of the Dodd-Frank Act, but others remain outstanding. Several of the regulations became effective in October 2012. Prior to becoming effective, however, one of the final regulations, which imposed federal limits on speculative positions in certain futures contracts, was vacated by the United States District Court for the District of Columbia and remanded to the CFTC for further action. Based on our assessment of the regulations issued to date and those proposed, we expect to be able to continue to participate in financial markets for hedging certain risks inherent in our business, including commodity and interest-rate risks; however, the capital requirements and costs of hedging may increase as a result of the regulations. We also may incur additional costs associated with our compliance with the new regulations and anticipated additional record keeping, reporting and disclosure obligations; however, we do not believe the costs will be material. These requirements could affect adversely market liquidity and pricing of derivative contracts making it more difficult to execute our risk-management strategies in the future. Also, the anticipated increased costs of compliance by dealers and counterparties likely will be passed on to customers, which could decrease the benefits of hedging to us and could reduce our profitability and liquidity.

**Other** - Several regulatory initiatives impacted the earnings and future earnings potential for our Natural Gas Distribution segment. See discussion of our Natural Gas Distribution segment's regulatory initiatives beginning on page 51.

## ENVIRONMENTAL AND SAFETY MATTERS

**Environmental Matters** - We are subject to multiple historical and wildlife preservation laws and environmental regulations affecting many aspects of our present and future operations. Regulated activities include those involving air emissions; storm water and wastewater discharges; handling and disposal of solid and hazardous wastes; hazardous materials transportation; and pipeline and facility construction. These laws and regulations require us to obtain and comply with a wide variety of environmental clearances, registrations, licenses, permits and other approvals. Failure to comply with these laws, regulations, licenses and permits may expose us to fines, penalties and/or interruptions in our operations that could be material to our results of operations. If a leak or spill of hazardous substances or petroleum products occurs from pipelines or facilities that we own, operate or otherwise use, we could be held jointly and severally liable for all resulting liabilities, including response, investigation and cleanup costs, which could affect materially our results of operations and cash flows. In addition, emission controls required under the Clean Air Act and other similar federal and state laws could require unexpected capital expenditures at our facilities. We cannot assure that existing environmental regulations will not be revised or that new regulations will not be adopted or

become applicable to us. Revised or additional regulations that result in increased compliance costs or additional operating restrictions could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Additional information about our environmental matters is included in Note M of the Notes to Consolidated Financial Statements in this Quarterly Report.

Pipeline Safety - We are subject to Pipeline and Hazardous Materials Safety Administration regulations, including integrity- management regulations. The Pipeline Safety Improvement Act of 2002 requires pipeline companies operating high-pressure pipelines to perform integrity assessments on pipeline segments that pass through densely populated areas or near specifically designated high-consequence areas. In January 2012, The Pipeline Safety, Regulatory Certainty and Job Creation Act of 2011 was signed into law. The new law increased maximum penalties for violating federal pipeline safety regulations and directs the

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DOT and Secretary of Transportation to conduct further review or studies on issues that may or may not be material to us. These issues include but are not limited to:

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

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

**Air and Water Emissions** - The Clean Air Act, the Clean Water Act and analogous state laws impose restrictions and controls regarding the discharge of pollutants into the air and water in the United States. Under the Clean Air Act, a federally enforceable operating permit is required for sources of significant air emissions. We may be required to incur certain capital expenditures for air-pollution-control equipment in connection with obtaining or maintaining permits and approvals for sources of air emissions. The Clean Water Act imposes substantial potential liability for the removal of pollutants discharged to waters of the United States and remediation of waters affected by such discharge.

Federal, state and regional initiatives to measure and regulate greenhouse gas emissions are under way. We are monitoring federal and state legislation to assess the potential impact on our operations. The EPA's Mandatory Greenhouse Gas Reporting Rule, released in September 2009, requires greenhouse gas emissions reporting for affected facilities on an annual basis and requires us to track the emission equivalents for the natural gas delivered by us to our distribution customers and emission equivalents for all NGLs delivered to customers of ONEOK Partners. Our 2010 total reported emissions were less than 66.6 million metric tons of carbon dioxide equivalents. This total includes direct emissions from the combustion of fuel in our equipment, such as compressor engines and heaters, as well as carbon dioxide equivalents from natural gas and NGL products delivered to customers, as if all such fuel and NGL products were combusted with the resulting carbon dioxide injected directly into disposal wells. We reported 2011 greenhouse gas emissions for a portion of our facilities by March 31, 2012, as required by the EPA, and for the remainder of our facilities by September 30, 2012. Also, the EPA released a subpart to the Mandatory Greenhouse Gas Reporting Rule that will require the reporting of vented and fugitive emissions of methane from our facilities. The new requirements began in January 2011, with the first reporting of fugitive emissions due September 30, 2012. We do not expect the cost to gather this emission data to have a material impact on our results of operations, financial position or cash flows. In addition, Congress has considered, and may consider in the future, legislation to reduce greenhouse gas emissions, including carbon dioxide and methane. At this time, no rule or legislation has been enacted that assesses any costs, fees or expenses on any of these emissions.

In May 2010, the EPA finalized the "Tailoring Rule" that regulates greenhouse gas emissions at new or modified facilities that meet certain criteria. Affected facilities are required to review best available control technology, conduct air-quality analysis, impact analysis and public reviews with respect to such emissions. The rule was phased in beginning January 2011, and at current emission threshold levels has had a minimal impact on our existing facilities. The EPA has stated it will consider lowering the threshold levels over the next five years, which could increase the impact on our existing facilities; however, potential costs, fees or expenses associated with the potential adjustments are unknown.

In addition, the EPA has issued a rule on air-quality standards, "National Emission Standards for Hazardous Air Pollutants for Reciprocating Internal Combustion Engines," also known as RICE NESHAP, with a compliance date in

2013. The rule will require capital expenditures over the next two years for the purchase and installation of new emissions-control equipment. We do not expect these expenditures to have a material impact on our results of operations, financial position or cash flows.

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

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EPA is still considering industry comments that may result in the exclusion of certain sources from some of the more costly provisions. If approved, this would reduce the anticipated capital and operations and maintenance costs resulting from the regulation. We do not expect these expenditures to have a material impact on our results of operations, financial position or cash flows.

Superfund - The Comprehensive Environmental Response, Compensation and Liability Act, also known as CERCLA or Superfund, imposes liability, without regard to fault or the legality of the original act, on certain classes of persons that contributed to the release of a hazardous substance into the environment. These persons include the owner or operator of a facility where the release occurred and companies that disposed or arranged for the disposal of the hazardous substances found at the facility. Under CERCLA, these persons may be liable for the costs of cleaning up the hazardous substances released into the environment, damages to natural resources and the costs of certain health studies. Neither we nor ONEOK Partners expect our respective responsibilities under CERCLA, for this facility and any other, to have a material impact on our respective results of operations, financial position or cash flows.

Chemical Site Security - The United States Department of Homeland Security (Homeland Security) released an interim rule in April 2007 that requires companies to provide reports on sites where certain chemicals, including many hydrocarbon products, are stored. We completed the Homeland Security assessments, and our facilities subsequently were assigned one of four risk-based tiers ranging from high (Tier 1) to low (Tier 4) risk, or not tiered at all due to low risk. To date, four of our facilities have been given a Tier 4 rating. Facilities receiving a Tier 4 rating are required to complete Site Security Plans and possible physical security enhancements. We do not expect the Site Security Plans and possible security enhancements cost to have a material impact on our results of operations, financial position or cash flows.

Pipeline Security - Homeland Security's Transportation Security Administration and the DOT have completed a review and inspection of our "critical facilities" and identified no material security issues. Also, the Transportation Security Administration has released new pipeline security guidelines that include broader definitions for the determination of pipeline "critical facilities." We have reviewed our pipeline facilities according to the new guideline requirements, and there have been no material changes required to date.

Environmental Footprint - Our environmental and climate change strategy focuses on taking steps to minimize the impact of our operations on the environment. These strategies include: (i) developing and maintaining an accurate greenhouse gas emissions inventory according to current rules issued by the EPA; (ii) improving the efficiency of our various pipelines, natural gas processing facilities and natural gas liquids fractionation facilities; (iii) following developing technologies for emission control; and (iv) following developing technologies to capture carbon dioxide to keep it from reaching the atmosphere.

ONEOK Partners participates in the EPA's Natural Gas STAR Program to reduce voluntarily methane emissions. We continue to focus on maintaining low rates of lost-and-unaccounted-for natural gas through expanded implementation of best practices to limit the release of natural gas during pipeline and facility maintenance and operations. Our most recent calculation of our annual lost-and-unaccounted-for natural gas, for all of our business operations, is less than 1 percent of total throughput.

## IMPACT OF NEW ACCOUNTING STANDARDS

Information about the impact of new accounting standards is included in Note A of the Notes to Consolidated Financial Statements in this Quarterly Report.

## ESTIMATES AND CRITICAL ACCOUNTING POLICIES

The preparation of our consolidated financial statements and related disclosures in accordance with GAAP requires us to make estimates and assumptions with respect to values or conditions that cannot be known with certainty that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements. These estimates and assumptions also affect the reported amounts of revenue and expenses during the reporting period. Although we believe these estimates and assumptions are reasonable, actual results could differ from our estimates.

We review our goodwill for impairment at least annually as of July 1. We performed an interim assessment of our Energy Services segment's goodwill as of March 31, 2012, resulting in a \$10.3 million impairment. Our goodwill impairment analysis performed as of July 1, 2012, did not result in an impairment charge nor did our analysis reflect any reporting units at risk, and subsequent to that date, no event has occurred indicating that the implied fair value of each of our reporting units (including its inherent goodwill) is less than the carrying value of its net assets. See Note A of the Notes to Consolidated Financial Statements in this Quarterly Report for additional information on our goodwill impairment assessments.



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Information about our estimates and critical accounting policies is included under Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations, “Estimates and Critical Accounting Policies,” in our Annual Report.

FORWARD-LOOKING STATEMENTS

Some of the statements contained and incorporated in this Quarterly Report are forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. The forward-looking statements relate to our anticipated financial performance, liquidity, management’s plans and objectives for our future operations, our business prospects, the outcome of regulatory and legal proceedings, market conditions and other matters. We make these forward-looking statements in reliance on the safe harbor protections provided under the Private Securities Litigation Reform Act of 1995. The following discussion is intended to identify important factors that could cause future outcomes to differ materially from those set forth in the forward-looking statements.

Forward-looking statements include the items identified in the preceding paragraph, the information concerning possible or assumed future results of our operations and other statements contained or incorporated in this Quarterly Report identified by words such as “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “believe,” “should,” “goal,” “guidance,” “could,” “may,” “continue,” “might,” “potential,” “scheduled,” and other words and terms of similar meaning.

One should not place undue reliance on forward-looking statements, which are applicable only as of the date of this Quarterly Report. Known and unknown risks, uncertainties and other factors may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by forward-looking statements. Those factors may affect our operations, markets, products, services and prices. In addition to any assumptions and other factors referred to specifically in connection with the forward-looking statements, factors that could cause our actual results to differ materially from those contemplated in any forward-looking statement include, among others, the following:

- the effects of weather and other natural phenomena, including climate change, on our operations, including energy sales and demand for our services and energy prices;
- competition from other United States and foreign energy suppliers and transporters, as well as alternative forms of energy, including, but not limited to, solar power, wind power, geothermal energy and biofuels such as ethanol and biodiesel;
- the status of deregulation of retail natural gas distribution;
- the capital intensive nature of our businesses;
- the profitability of assets or businesses acquired or constructed by us;
- our ability to make cost-saving changes in operations;
- risks of marketing, trading and hedging activities, including the risks of changes in energy prices or the financial condition of our counterparties;
- the uncertainty of estimates, including accruals and costs of environmental remediation;
- the timing and extent of changes in energy commodity prices;
- the effects of changes in governmental policies and regulatory actions, including changes with respect to income and other taxes, pipeline safety, environmental compliance, climate change initiatives and authorized rates of recovery of natural gas and natural gas transportation costs;
- the impact on drilling and production by factors beyond our control, including the demand for natural gas and crude oil; producers’ desire and ability to obtain necessary permits; reserve performance; and capacity constraints on the pipelines that transport crude oil, natural gas and NGLs from producing areas and our facilities;
-

changes in demand for the use of natural gas and crude oil because of market conditions caused by concerns about global warming;

the impact of unforeseen changes in interest rates, equity markets, inflation rates, economic recession and

- other external factors over which we have no control, including the effect on pension and postretirement expense and funding resulting from changes in stock and bond market returns;

our indebtedness could make us vulnerable to general adverse economic and industry conditions, limit our ability to borrow additional funds and/or place us at competitive disadvantages compared with our competitors that have less debt, or have other adverse consequences;

actions by rating agencies concerning the credit ratings of ONEOK and ONEOK Partners;

the results of administrative proceedings and litigation, regulatory actions, rule changes and receipt of expected clearances involving the OCC, KCC, Texas regulatory authorities or any other local, state or federal regulatory body, including the FERC, the National Transportation Safety Board, the Pipeline and Hazardous Materials Safety Administration, the EPA and CFTC;

our ability to access capital at competitive rates or on terms acceptable to us;

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risks associated with adequate supply to our gathering, processing, fractionation and pipeline facilities, including production declines that outpace new drilling;

the risk that material weaknesses or significant deficiencies in our internal controls over financial reporting could emerge or that minor problems could become significant;

the impact and outcome of pending and future litigation;

the ability to market pipeline capacity on favorable terms, including the effects of:

- future demand for and prices of natural gas, NGLs and crude oil;
- competitive conditions in the overall energy market;
- availability of supplies of Canadian and United States natural gas and crude oil; and
- availability of additional storage capacity;

performance of contractual obligations by our customers, service providers, contractors and shippers;

the timely receipt of approval by applicable governmental entities for construction and operation of our pipeline and other projects and required regulatory clearances;

our ability to acquire all necessary permits, consents or other approvals in a timely manner, to promptly obtain all necessary materials and supplies required for construction, and to construct gathering, processing, storage, fractionation and transportation facilities without labor or contractor problems;

the mechanical integrity of facilities operated;

demand for our services in the proximity of our facilities;

our ability to control operating costs;

adverse labor relations;

acts of nature, sabotage, terrorism or other similar acts that cause damage to our facilities or our suppliers' or shippers' facilities;

economic climate and growth in the geographic areas in which we do business;

the risk of a prolonged slowdown in growth or decline in the United States or international economies, including liquidity risks in United States or foreign credit markets;

the impact of recently issued and future accounting updates and other changes in accounting policies;

the possibility of future terrorist attacks or the possibility or occurrence of an outbreak of, or changes in, hostilities or changes in the political conditions in the Middle East and elsewhere;

the risk of increased costs for insurance premiums, security or other items as a consequence of terrorist attacks;

risks associated with pending or possible acquisitions and dispositions, including our ability to finance or integrate any such acquisitions and any regulatory delay or conditions imposed by regulatory bodies in connection with any such acquisitions and dispositions;

the possible loss of natural gas distribution franchises or other adverse effects caused by the actions of municipalities;

the impact of uncontracted capacity in our assets being greater or less than expected;

the ability to recover operating costs and amounts equivalent to income taxes, costs of property, plant and equipment and regulatory assets in our state and FERC-regulated rates;

the composition and quality of the natural gas and NGLs we gather and process in our plants and transport on our pipelines;

the efficiency of our plants in processing natural gas and extracting and fractionating NGLs;

the impact of potential impairment charges;

the risk inherent in the use of information systems in our respective businesses, implementation of new software and hardware, and the impact on the timeliness of information for financial reporting;

our ability to control construction costs and completion schedules of our pipelines and other projects; and

the risk factors listed in the reports we have filed and may file with the SEC, which are incorporated by reference.

These factors are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in any of our forward-looking statements. Other factors could also have material adverse effects on our future results. These and other risks are described in greater detail in Item 1A, Risk Factors, in our Annual Report. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in

their entirety by these factors. Other than as required under securities laws, we undertake no obligation to update publicly any forward-looking statement whether as a result of new information, subsequent events or change in circumstances, expectations or otherwise.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our quantitative and qualitative disclosures about market risk are consistent with those discussed in Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk, in our Annual Report.

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## COMMODITY PRICE RISK

See Note D of the Notes to Consolidated Financial Statements and the discussion under ONEOK Partners' "Commodity Price Risk" in Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, in this Quarterly Report for information on our hedging activities.

## Energy Services

Fair Value Component of the Energy Marketing and Risk Management Assets and Liabilities - The following table sets forth the fair value component of the energy marketing and risk management assets and liabilities, excluding \$14.4 million and \$80.7 million of net assets at September 30, 2012, and December 31, 2011, respectively, from derivative instruments declared as either fair value or cash flow hedges for the periods indicated:

## Fair Value Component of Energy Marketing and Risk Management Assets and Liabilities

	(Thousands of dollars)
Net fair value of derivatives outstanding at December 31, 2011	\$12,609
Derivatives reclassified or otherwise settled during the period	(11,200 )
Fair value of new derivatives entered into during the period	8,062
Other changes in fair value	(3,525 )
Net fair value of derivatives outstanding at September 30, 2012 (a)	\$5,946

(a) - The maturities of derivatives are based on injection and withdrawal periods from April through March, which is consistent with our business strategy. The maturities are as follows: \$4.1 million matures through March 2013 and \$1.8 million matures through March 2016.

The change in the net fair value of derivatives outstanding includes the effect of settled energy contracts and current period changes resulting primarily from newly originated transactions and the impact of market movements on the fair value of energy marketing and risk management assets and liabilities.

For further discussion of fair value measurements and derivative instruments, see the "Estimates and Critical Accounting Policies" section of Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in our Annual Report. Also, see Notes C and D of the Notes to Consolidated Financial Statements in this Quarterly Report.

Value-at-Risk (VAR) Disclosure of Commodity Price Risk - The potential impact on our future earnings, as measured by VAR, was \$2.7 million and \$3.2 million at September 30, 2012 and 2011, respectively. The following table sets forth the average, high and low VAR calculations for the periods indicated:

Value-at-Risk	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
	(Millions of dollars)			
Average	\$3.0	\$2.5	\$2.8	\$3.1
High	\$4.0	\$4.5	\$4.0	\$6.6
Low	\$1.8	\$1.2	\$1.8	\$1.2

Our VAR calculation includes derivatives, executory storage and transportation agreements and their related hedges. The variations in the VAR data are reflective of market volatility and changes in our portfolio during the year. The decrease in average VAR for September 30, 2012, compared with September 30, 2011, was due primarily to a decrease in total transportation capacity over the five-year period that VAR is calculated.

To the extent open commodity positions exist, fluctuating commodity prices can impact our financial results and financial position either favorably or unfavorably. As a result, we cannot predict with precision the impact risk-management decisions may have on our business, operating results or financial position.

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### INTEREST-RATE RISK

We are subject to the risk of interest-rate fluctuation in the normal course of business. We manage interest-rate risk through the use of fixed-rate debt, floating-rate debt and interest-rate swaps. At September 30, 2012, the interest rate on all of ONEOK's and ONEOK Partners' long-term debt was fixed.

ONEOK entered into forward-starting interest-rate swaps designated as cash flow hedges of the variability of interest payments on a portion of forecasted debt issuances that may result from changes in the benchmark interest rate before the debt is issued. ONEOK had interest-rate swaps with notional values totaling \$500 million at December 31, 2011. In January 2012, ONEOK entered into additional interest-rate swaps with notional amounts totaling \$200 million. Upon issuance in January 2012 of our \$700 million, 4.25-percent senior notes due 2022, ONEOK settled all \$700 million of its interest-rate swaps and realized a loss of \$44.1 million in accumulated other comprehensive income that will be amortized to interest expense over the term of the related debt.

ONEOK Partners has entered into forward-starting interest-rate swaps designated as cash flow hedges of the variability of interest payments on a portion of forecasted debt issuances that may result from changes in the benchmark interest rate before the debt is issued. At December 31, 2011, ONEOK Partners had interest-rate swaps with notional values totaling \$750 million. During the nine months ended September 30, 2012, ONEOK Partners entered into additional interest-rate swaps with notional amounts totaling \$650 million. Upon ONEOK Partners' debt issuance in September 2012, ONEOK Partners settled \$1 billion of its interest-rate swaps and realized a loss of \$124.9 million in accumulated other comprehensive income that will be amortized to interest expense over the term of the related debt. At September 30, 2012, ONEOK Partners' remaining interest-rate swaps with notional amounts totaling \$400 million have settlement dates greater than 12 months.

### ITEM 4. CONTROLS AND PROCEDURES

Quarterly Evaluation of Disclosure Controls and Procedures - Our Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer) have concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report based on the evaluation of the controls and procedures required by Rules 13a-15(b) of the Exchange Act.

Changes in Internal Control Over Financial Reporting - There have been no changes in our internal control over financial reporting during the third quarter ended September 30, 2012, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

Additional information about our legal proceedings is included under Part I, Item 3, Legal Proceedings, in our Annual Report.

Thomas F. Boles, et al. v. El Paso Corporation, et al. (f/k/a Will Price, et al. v. Gas Pipelines, et al., f/k/a Quinque Operating Company, et al. v. Gas Pipelines, et al.), 26th Judicial District, District Court of Stevens County, Kansas, Civil Department, Case No. 99C30 ("Boles I"). On September 19, 2012, the Court dismissed without prejudice all of the ONEOK defendants from the case, other than ONEOK Field Services Company, L.L.C.

Thomas F. Boles, et al. v. El Paso Corporation, et al. (f/k/a Will Price and Stixon Petroleum, et al. v. Gas Pipelines, et al.), 26th Judicial District, District Court of Stevens County, Kansas, Civil Department, Case No. 03C232 ("Boles II").

On September 19, 2012, the Court dismissed without prejudice all of the ONEOK defendants from the case, other than ONEOK Field Services Company, L.L.C.

#### ITEM 1A. RISK FACTORS

Our investors should consider the risks set forth in Part I, Item 1A, Risk Factors, of our Annual Report that could affect us and our business. Although we have tried to discuss key factors, our investors need to be aware that other risks may prove to be important in the future. New risks may emerge at any time, and we cannot predict such risks or estimate the extent to which they may affect our financial performance. Investors should carefully consider the discussion of risks and the other information included or incorporated by reference in this Quarterly Report, including “Forward-Looking Statements,” which are included in Part I, Item 2, Management’s Discussion and Analysis of Financial Condition and Results of Operations.



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## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table sets forth information relating to our purchases of our common stock for the periods indicated:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number(or Approximate Dollar Value) of Shares (or Units) that May Be Purchased Under the Plans or Programs
July 1-31, 2012	—	\$—	—	
August 1-31, 2012	—	\$—	—	
September 1-30, 2012	544,726 (a)	\$43.38	544,726	
Total	544,726	\$43.38	544,726	\$300,000,000 (b)

(a) - Shares purchased in completing our \$150 million accelerated share repurchase agreement discussed under "Liquidity and Capital Resources" in Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations in this Quarterly Report.

(b) - The maximum approximate dollar value of shares that may yet be purchased pursuant to our approximately \$750 million stock repurchase program that was announced on October 21, 2010, subject to the limitations that purchases will not exceed \$300 million in any one calendar year and that a maximum of \$150 million of additional shares of our common stock may be purchased in 2012. The program will terminate upon the completion of the repurchase of \$750 million of common stock or on December 31, 2013, whichever occurs first.

## ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable.

## ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

## ITEM 5. OTHER INFORMATION

Not Applicable.

## ITEM 6. EXHIBITS

Readers of this report should not rely on or assume the accuracy of any representation or warranty or the validity of any opinion contained in any agreement filed as an exhibit to this Quarterly Report, because such representation, warranty or opinion may be subject to exceptions and qualifications contained in separate disclosure schedules, may represent an allocation of risk between parties in the particular transaction, may be qualified by materiality standards that differ from what may be viewed as material for securities law purposes, or may no longer continue to be true as of any given date. All exhibits attached to this Quarterly Report are included for the purpose of complying with requirements of the SEC. Other than the certifications made by our officers pursuant to the Sarbanes-Oxley Act of 2002 included as exhibits to this Quarterly Report, all exhibits are included only to provide information to investors regarding their respective terms and should not be relied upon as constituting or providing any factual disclosures about us, any other persons, any state of affairs or other matters.



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The following exhibits are filed as part of this Quarterly Report:

Exhibit No.	Exhibit Description
4.1	Eighth Supplemental Indenture, dated September 13, 2012, among ONEOK Partners, L.P., ONEOK Partners Intermediate Limited Partnership and Wells Fargo Bank, N.A., as trustee, with respect to the 2.000% Senior Notes due 2017 (incorporated by reference from Exhibit 4.2 to ONEOK Partners, L.P.'s Current Report on Form 8-K filed on September 13, 2012 (File No. 1-12202)).
4.2	Ninth Supplemental Indenture, dated September 13, 2012, among ONEOK Partners, L.P., ONEOK Partners Intermediate Limited Partnership and Wells Fargo Bank, N.A., as trustee, with respect to the 3.375% Senior Notes due 2022 (incorporated by reference from Exhibit 4.3 to ONEOK Partners, L.P.'s Current Report on Form 8-K filed on September 13, 2012 (File No. 1-12202)).
10.1	Underwriting Agreement, dated September 10, 2012, among ONEOK Partners, L.P. and ONEOK Partners Intermediate Limited Partnership and RBS Securities Inc., Mitsubishi UFJ Securities (USA), Inc. and U.S. Bancorp Investments, Inc., as representative of the several underwriters named therein (incorporated by reference from Exhibit 1.1 to ONEOK Partners, L.P.'s Current Report on Form 8-K on September 13, 2012 (File No. 1-12202)).
10.2	Extension Agreement, dated August 1, 2012, among ONEOK Partners, L.P., as Borrower, each of the existing Lenders and Citibank, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer (incorporated by reference from Exhibit 10.1 to ONEOK Partners, L.P.'s Quarterly Report on 10-Q filed on August 1, 2012 (File No. 1-12202)).
31.1	Certification of John W. Gibson pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Robert F. Martinovich pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of John W. Gibson pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished only pursuant to Rule 13a-14(b)).
32.2	Certification of Robert F. Martinovich pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished only pursuant to Rule 13a-14(b)).
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definitions Document
101.LAB	XBRL Taxonomy Label Linkbase Document
101.PRE	XBRL Taxonomy Presentation Linkbase Document

Attached as Exhibit 101 to this Quarterly Report are the following XBRL-related documents: (i) Document and Entity Information; (ii) Consolidated Statements of Income for the three and nine months ended September 30, 2012 and 2011; (iii) Consolidated Statements of Comprehensive Income for the three and nine months ended September 30,

2012 and 2011; (iv) Consolidated Balance Sheets at September 30, 2012, and December 31, 2011; (v) Consolidated Statements of Cash Flows for the nine months ended September 30, 2012 and 2011; (vi) Consolidated Statement of Changes in Equity for the nine months ended September 30, 2012; and (vii) Notes to Consolidated Financial Statements.

We also make available on our website the Interactive Data Files submitted as Exhibit 101 to this Quarterly Report.

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SIGNATURE

Pursuant to the requirements of the Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ONEOK, Inc.  
Registrant

Date: October 31, 2012

By: /s/ Robert F. Martinovich  
Robert F. Martinovich  
Executive Vice President,  
Chief Financial Officer and Treasurer  
(Principal Financial Officer)