

ONEOK INC /NEW/
Form 10-Q
August 03, 2016
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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 June 30, 2016.

OR

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____.

Commission file number 001-13643

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

Oklahoma 73-1520922
(State or other jurisdiction of (I.R.S. Employer Identification No.)
incorporation or organization)

100 West Fifth Street, Tulsa, OK 74103
(Address of principal executive offices) (Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes 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 check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

On July 25, 2016, the Company had 210,426,799 shares of common stock outstanding.

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As used in this Quarterly Report, references to “we,” “our” or “us” refer to ONEOK, Inc., an Oklahoma corporation, and its predecessors, divisions and subsidiaries, unless the context indicates otherwise.

The statements in this Quarterly Report that are not historical information, including statements concerning plans and objectives of management for future operations, economic performance or related assumptions, are forward-looking statements. Forward-looking statements may include words such as “anticipate,” “estimate,” “expect,” “project,” “intend,” “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) 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, 2015 |
| ASU | Accounting Standards Update |
| Bbl | Barrels, 1 barrel is equivalent to 42 United States gallons |
| BBtu/d | Billion British thermal units per day |
| Bcf | Billion cubic feet |
| CFTC | U.S. Commodity Futures Trading Commission |
| Clean Air Act | Federal Clean Air Act, as amended |
| EBITDA | Earnings before interest expense, income taxes, depreciation and amortization |
| EPA | United States Environmental Protection Agency |
| Exchange Act | Securities Exchange Act of 1934, as amended |
| FASB | Financial Accounting Standards Board |
| FERC | Federal Energy Regulatory Commission |
| GAAP | Accounting principles generally accepted in the United States of America |
| Intermediate Partnership | ONEOK Partners Intermediate Limited Partnership, a wholly owned subsidiary of ONEOK Partners, L.P. |
| LIBOR | London Interbank Offered Rate |
| MBbl/d | Thousand barrels per day |
| MDth/d | Thousand dekatherms per day |
| MMBbl | Million barrels |
| MMBtu | Million British thermal units |
| MMcf/d | Million cubic feet per day |
| Moody's | Moody's Investors Service, Inc. |
| NGL(s) | Natural gas liquid(s) |
| NGL products | Marketable natural gas liquid purity products, such as ethane, ethane/propane mix, propane, iso-butane, normal butane and natural gasoline |
| NYMEX | New York Mercantile Exchange |
| NYSE | New York Stock Exchange |
| ONEOK | ONEOK, Inc. |
| ONEOK Credit Agreement | ONEOK's \$300 million amended and restated revolving credit agreement effective as of January 31, 2014 |
| ONEOK Partners | ONEOK Partners, L.P. |
| ONEOK Partners Credit Agreement | ONEOK Partners' \$2.4 billion amended and restated revolving credit agreement effective as of January 31, 2014, as amended |
| ONEOK Partners GP | ONEOK Partners GP, L.L.C., a wholly owned subsidiary of ONEOK and the sole general partner of ONEOK Partners |
| OPIS | Oil Price Information Service |
| Partnership Agreement | Third Amended and Restated Agreement of Limited Partnership of ONEOK Partners, L.P., as amended |
| PHMSA | United States Department of Transportation Pipeline and Hazardous Materials Safety Administration |
| POP | Percent of Proceeds |
| Quarterly Report(s) | Quarterly Report(s) on Form 10-Q |
| Roadrunner | Roadrunner Gas Transmission, LLC |
| S&P | S&P Global Ratings |
| SCOOP | South Central Oklahoma Oil Province, an area in the Anadarko Basin in |

SEC
STACK
Term Loan Agreement

Oklahoma
Securities and Exchange Commission
Sooner Trend Anadarko Canadian Kingfisher, an area in the Anadarko Basin in
Oklahoma
ONEOK Partners' senior unsecured delayed-draw three-year \$1.0 billion term loan
agreement dated January 8, 2016

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West Texas LPG West Texas LPG Pipeline Limited Partnership and Mesquite Pipeline
WTI West Texas Intermediate
XBRL eXtensible Business Reporting Language

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ONEOK, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

| (Unaudited) | Three Months Ended | | Six Months Ended | |
|--|--|-------------|------------------|-------------|
| | June 30, 2016 | 2015 | June 30, 2016 | 2015 |
| | (Thousands of dollars, except per share amounts) | | | |
| Revenues | | | | |
| Commodity sales | \$1,633,272 | \$1,722,254 | \$2,916,783 | \$3,157,970 |
| Services | 500,835 | 405,798 | 991,783 | 775,388 |
| Total revenues | 2,134,107 | 2,128,052 | 3,908,566 | 3,933,358 |
| Cost of sales and fuel (exclusive of items shown separately below) | 1,527,323 | 1,603,093 | 2,723,061 | 2,946,957 |
| Operations and maintenance | 167,667 | 140,869 | 322,812 | 295,200 |
| Depreciation and amortization | 99,247 | 86,987 | 193,725 | 172,942 |
| General taxes | 24,172 | 24,481 | 46,042 | 49,168 |
| (Gain) loss on sale of assets | 413 | (122) | (3,793) | (116) |
| Operating income | 315,285 | 272,744 | 626,719 | 469,207 |
| Equity in net earnings from investments (Note J) | 32,372 | 30,040 | 65,286 | 60,961 |
| Allowance for equity funds used during construction | — | 742 | 208 | 1,541 |
| Other income | 4,804 | 60 | 5,109 | 2,670 |
| Other expense | (941) | (1,960) | (1,578) | (2,738) |
| Interest expense (net of capitalized interest of \$2,572, \$9,927, \$5,459 and \$17,157, respectively) | (118,976) | (102,384) | (237,223) | (199,134) |
| Income before income taxes | 232,544 | 199,242 | 458,521 | 332,507 |
| Income taxes | (52,458) | (48,222) | (102,524) | (85,650) |
| Income from continuing operations | 180,086 | 151,020 | 355,997 | 246,857 |
| Income (loss) from discontinued operations, net of tax (Note M) | (227) | (140) | (1,179) | (284) |
| Net income | 179,859 | 150,880 | 354,818 | 246,573 |
| Less: Net income attributable to noncontrolling interests | 93,915 | 74,375 | 185,428 | 109,268 |
| Net income attributable to ONEOK | \$85,944 | \$76,505 | \$169,390 | \$137,305 |
| Amounts attributable to ONEOK: | | | | |
| Income from continuing operations | \$86,171 | \$76,645 | \$170,569 | \$137,589 |
| Income (loss) from discontinued operations | (227) | (140) | (1,179) | (284) |
| Net income | \$85,944 | \$76,505 | \$169,390 | \$137,305 |
| Basic earnings per share: | | | | |
| Income from continuing operations (Note H) | \$0.41 | \$0.36 | \$0.81 | \$0.65 |
| Income (loss) from discontinued operations | — | — | (0.01) | — |
| Net income | \$0.41 | \$0.36 | \$0.80 | \$0.65 |
| Diluted earnings per share: | | | | |
| Income from continuing operations (Note H) | \$0.41 | \$0.36 | \$0.81 | \$0.65 |
| Income (loss) from discontinued operations | (0.01) | — | (0.01) | — |
| Net income | \$0.40 | \$0.36 | \$0.80 | \$0.65 |
| Average shares (thousands) | | | | |
| Basic | 211,075 | 210,204 | 210,928 | 210,059 |
| Diluted | 212,618 | 210,477 | 211,663 | 210,486 |

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| | | | | |
|--|---------|---------|--------|--------|
| Dividends declared per share of common stock | \$0.615 | \$0.605 | \$1.23 | \$1.21 |
|--|---------|---------|--------|--------|

See accompanying Notes to Consolidated Financial Statements.

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ONEOK, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| (Unaudited) | Three Months Ended | | Six Months Ended | |
|--|------------------------|-----------|------------------|-----------|
| | June 30, 2016 | 2015 | June 30, 2016 | 2015 |
| | (Thousands of dollars) | | | |
| Net income | \$179,859 | \$150,880 | \$354,818 | \$246,573 |
| Other comprehensive income (loss), net of tax | | | | |
| Unrealized gains (losses) on derivatives, net of tax of \$13,295, \$(2,726), \$16,334 and \$(1,047), respectively | (73,923) | 15,255 | (90,817) | 4,377 |
| Realized (gains) losses on derivatives in net income, net of tax of \$1,193, \$1,439, \$2,469 and \$2,664, respectively | (8,054) | (11,041) | (16,579) | (20,271) |
| Unrealized holding gains (losses) on available-for-sale securities, net of tax of \$0, \$0, \$0 and \$648, respectively | — | — | — | (955) |
| Change in pension and postretirement benefit plan liability, net of tax of \$(1,035), \$(1,600), \$(2,070) and \$(3,199), respectively | 1,552 | 2,441 | 3,105 | 4,879 |
| Other comprehensive income (loss) on investments in unconsolidated affiliates, net of tax of \$848, \$0, \$1,732 and \$0, respectively | (4,714) | — | (9,631) | — |
| Total other comprehensive income (loss), net of tax | (85,139) | 6,655 | (113,922) | (11,970) |
| Comprehensive income | 94,720 | 157,535 | 240,896 | 234,603 |
| Less: Comprehensive income attributable to noncontrolling interests | 33,408 | 76,472 | 103,510 | 96,279 |
| Comprehensive income attributable to ONEOK | \$61,312 | \$81,063 | \$137,386 | \$138,324 |
| See accompanying Notes to Consolidated Financial Statements. | | | | |

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CONSOLIDATED BALANCE SHEETS

| (Unaudited) | June 30, 2016 | December 31, 2015 |
|--|---------------------------|-------------------------|
| Assets | (Thousands of dollars) | |
| Current assets | | |
| Cash and cash equivalents | \$ 180,854 | \$ 97,619 |
| Accounts receivable, net | 672,059 | 593,979 |
| Materials and supplies | 85,127 | 76,696 |
| Natural gas and natural gas liquids in storage | 245,946 | 128,084 |
| Commodity imbalances | 38,300 | 38,681 |
| Other current assets | 58,200 | 39,946 |
| Assets of discontinued operations (Note M) | 702 | |