

ONEOK INC /NEW/  
Form 10-K  
February 21, 2012

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
1934

For the fiscal year ended December 31, 2011.

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

Securities registered pursuant to Section 12(b) of the Act:  
Common stock, par value of \$0.01  
(Title of each class) New York Stock Exchange  
(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 if disclosure of delinquent filers pursuant to Item 405 of Registration S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by checkmark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one) 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 Act). Yes  No

Aggregate market value of registrant's common stock held by non-affiliates based on the closing trade price on June 30, 2011, was \$7.3 billion.

On February 14, 2012, the Company had 103,893,790 shares of common stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE:**

Portions of the definitive proxy statement to be delivered to shareholders in connection with the Annual Meeting of Shareholders to be held May 23, 2012, are incorporated by reference in Part III.

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2011 ANNUAL REPORT

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

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## GLOSSARY

The abbreviations, acronyms and industry terminology used in this Annual 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
Bushton Plant	Bushton Gas Processing Plant
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
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
Guardian Pipeline	Guardian Pipeline, L.L.C.
Intermediate Partnership	ONEOK Partners Intermediate Limited Partnership, a wholly owned subsidiary of ONEOK Partners, L.P.
IRS	Internal Revenue Service
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
Midwestern Gas Transmission	Midwestern Gas Transmission Company
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 Act	Natural Gas Act of 1938, as amended
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)
Northern Border Pipeline	Northern Border Pipeline Company

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	NYMEX	New York Mercantile Exchange
	NYSE	New York Stock Exchange
OBPI	ONEOK Bushton Processing, L.L.C., formerly ONEOK Bushton Processing, Inc.	
	OCC	Oklahoma Corporation Commission
	ONEOK	ONEOK, Inc.
ONEOK 2011 Credit Agreement	ONEOK's five-year, \$1.2 billion revolving credit agreement dated April 5, 2011	
ONEOK Credit Agreement	ONEOK's amended and restated \$1.2 billion revolving credit agreement dated July 14, 2006	
	ONEOK Partners	ONEOK Partners, L.P.

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ONEOK Partners 2011 Credit Agreement ONEOK Partners' five-year, \$1.2 billion revolving credit agreement dated August 1, 2011

ONEOK Partners Credit Agreement ONEOK Partners' \$1.0 billion amended and restated revolving credit agreement dated March 30, 2007

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
OSHA	Occupational Safety and Health Administration
Overland Pass Pipeline Company	Overland Pass Pipeline Company LLC
Quarterly Report(s)	Quarterly Report(s) on Form 10-Q
POP	Percent of Proceeds
RRC	Railroad Commission of Texas
S&P	Standard & Poor's Rating Services
SEC	Securities and Exchange Commission
Securities Act	Securities Act of 1933, as amended
Viking Gas Transmission	Viking Gas Transmission Company
XBRL	eXtensible Business Reporting Language

The statements in this Annual 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 and 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 1A, “Risk Factors,” and Part II, Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operation and “Forward-Looking Statements,” in this Annual Report.

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PART I

ITEM 1. BUSINESS

GENERAL

We are a diversified energy company and successor to the company founded in 1906 known as Oklahoma Natural Gas Company. We are a corporation incorporated under the laws of the state of Oklahoma and our common stock is listed on the NYSE under the trading symbol “OKE.” We are the sole general partner and own 42.8 percent of ONEOK Partners, L.P. (NYSE: OKS), one of the largest publicly traded master limited partnerships. ONEOK Partners is a leader 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 are the largest natural gas distributor in Oklahoma and Kansas and the third largest natural gas distributor in Texas, providing service as a regulated public utility to wholesale and retail customers. Our largest distribution markets are Oklahoma City and Tulsa, Oklahoma; Kansas City, Wichita and Topeka, Kansas; and Austin and El Paso, Texas. Our energy services business is engaged in providing premium natural gas marketing services to its customers across the United States.

EXECUTIVE SUMMARY

North American natural gas production continues to increase at a faster rate than demand, primarily as a result of increased production from unconventional resource areas, such as shale plays. Because of the relatively higher market prices of crude oil and NGLs, drilling activity is especially robust in shale plays with crude oil and NGL-rich natural gas production. As a result, we expect producers to focus development efforts on crude oil and NGL-rich supply basins rather than areas with dry natural gas production. We expect inter-regional opportunities for midstream infrastructure development driven by producers who need to connect emerging production with end use markets where current infrastructure is either insufficient or nonexistent.

In 2011, producers continued to drill aggressively in a number of NGL-rich resource plays in the Mid-Continent and Rocky Mountain regions, creating a need for additional infrastructure to bring this new supply to market. The resulting increase in natural gas supply has caused lower natural gas prices, less volatility and narrower natural gas location and seasonal price differentials in the markets we serve.

Additionally, we have seen strong ethane demand from the petrochemical sector in the Gulf Coast, due to the price advantage ethane has over other feedstocks. Consequently, NGL pipeline capacity between the Conway, Kansas, and Mont Belvieu, Texas, market centers is constrained and contributes to wider location price differentials between those markets. The natural gas supply growth has also increased NGL supply in the Mid-Continent, coupled with increased demand in the Gulf Coast, resulting in decreased NGL prices in the Mid-Continent market center at Conway, Kansas, relative to prices in the Gulf Coast market center at Mont Belvieu, Texas.

Additional fractionation and pipeline capacity is needed to accommodate the growing NGL supply and demand, as well as new infrastructure to gather, process and transport growing natural gas production from both new and existing resource plays. In response to this increased production and demand for NGL products, ONEOK Partners is investing approximately \$2.7 billion to \$3.3 billion in new capital projects to meet the needs of oil and natural gas producers in the Bakken Shale, the Cana-Woodford Shale and the Granite Wash areas, and for additional NGL infrastructure in the Mid-Continent and Gulf Coast areas that will enhance the distribution of NGL products to meet the increasing petrochemical industry and NGL export demand. When completed, ONEOK Partners expects these projects to provide additional earnings and cash flows.



During 2011, we paid cash dividends of \$2.16 per share, an increase of approximately 18.7 percent from the \$1.82 per share paid during 2010. In January 2012, we declared a dividend of \$0.61 per share (\$2.44 per share on an annualized basis), an increase of approximately 17.3 percent from the \$0.52 declared in January 2011.

During 2011, ONEOK Partners paid cash distributions to its limited partners of \$2.325 per unit, an increase of approximately 4.3 percent from the \$2.23 per unit paid during 2010. In January 2012, a cash distribution to ONEOK Partners' limited partners of \$0.61 per unit (\$2.44 per unit on an annualized basis) was declared, an increase of approximately 7.0 percent from the \$0.57 declared in January 2011.

In January 2012, we completed an underwritten public offering of \$700 million of 4.25-percent senior notes due 2022. The net proceeds from the offering, after deducting underwriting discounts and estimated expenses, of approximately \$693.9 million were used to repay amounts outstanding under our \$1.2 billion commercial paper program and for general corporate purposes, which may include one or more of the following: the repurchase of our common stock, the purchase of additional common units of ONEOK Partners and the payment of dividends.

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During 2011, we relied primarily on operating cash flow, commercial paper and distributions from ONEOK Partners to fund our short-term liquidity and capital requirements, repay \$400 million of maturing senior notes and redeem \$90.5 million of 6.4-percent senior notes. In January 2011, ONEOK Partners completed an underwritten public offering of senior notes generating net proceeds of approximately \$1.28 billion. ONEOK Partners utilized proceeds from its January 2011 debt issuance, its cash from operations and its commercial paper program, to repay \$225 million of its maturing senior notes and to fund its capital projects and short-term liquidity needs.

In December 2011, we entered into a definitive agreement to sell ONEOK Energy Marketing Company to Constellation Energy Group, Inc. for \$22.5 million plus working capital. The transaction closed on February 1, 2012. The financial information of ONEOK Energy Marketing Company is reflected as discontinued operations in this Annual Report. All prior periods presented have been recast to reflect the discontinued operations.

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 issued in January 2012, and distributions from ONEOK Partners will enable us to maintain our current level of operations, our planned operations and fund the remainder of our three-year, \$750 million stock repurchase program. ONEOK Partners anticipates that its cash flow generated from operations, existing capital resources and ability to obtain financing will enable it to maintain its current level of operations and its planned operations. Additionally, ONEOK Partners expects to fund its capital expenditures with short- and long-term debt, the issuance of equity and operating cash flows.

See Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operation, for more information on our growth projects, results of operations, liquidity and capital resources.

## BUSINESS STRATEGY

Our primary business strategy is to deliver consistent growth and sustainable earnings, while focusing on safe, reliable and environmentally responsible operations for our customers, employees, contractors and the public through the following:

- Operate in a safe, reliable and environmentally responsible manner - environmental, safety and health issues continue to be a primary focus for us; our emphasis on personal and process safety has produced improvements in the key indicators we track. We also continue to look for ways to reduce our environmental impact by conserving resources and utilizing more efficient technologies;
- Generate consistent growth and sustainable earnings - during 2011, ONEOK Partners' cash distributions increased by 9.5 cents, an approximate 4.3-percent increase compared with 2010; ONEOK Partners is investing approximately \$2.7 billion to \$3.3 billion in new capital projects to meet the needs of oil and natural gas producers in the Bakken Shale, the Cana-Woodford Shale and the Granite Wash areas, and to provide additional NGL infrastructure in the Mid-Continent and Gulf Coast areas that will enhance its ability to distribute NGL products to meet the increasing petrochemical industry and NGL export demand. When completed, these projects are anticipated to provide additional earnings and cash flows. Our Natural Gas Distribution segment benefits from rate strategies, including a performance-based rate mechanism in Oklahoma, capital-recovery mechanisms in Kansas and portions of Texas and cost-of-service adjustments in certain Texas jurisdictions that address investments in rate base and changes in expense; our Natural Gas Distribution segment's operating efficiencies include investments in automated meters in Oklahoma and Texas. Our Energy Services segment has undertaken several steps to realign fixed costs with its current business environment, including attempts to renegotiate various storage and transportation agreements and continuing to realign its contracted storage and transportation capacity with its customers' premium-service requirements;
- Execute strategic acquisitions that provide long-term value - we remain a disciplined buyer of assets and continue to evaluate assets that come to market. We did not consummate any acquisitions in 2011;
-

Manage our balance sheet to maintain strong credit ratings - our balance sheet remains strong, ending 2011 with a capital structure of 45-percent debt and 55-percent equity, excluding the debt of ONEOK Partners. We will seek to maintain our investment-grade credit ratings; and

- Attract, develop and retain employees to support strategy execution - we continue to execute on our recruiting strategy that targets colleges, universities and vocational-technical schools in our operating areas. We also continue development efforts with our employees.

#### NARRATIVE DESCRIPTION OF BUSINESS

We report operations in the following business segments:

- ONEOK Partners;
- Natural Gas Distribution; and
- Energy Services.

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### 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 84.8 million common and Class B limited partner units, and the entire 2-percent general partner interest, which, together, represent a 42.8-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 our incentive distribution rights. See Note P of the Notes to Consolidated Financial Statements in this Annual 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.

In the Mid-Continent region and the Williston Basin, unprocessed natural gas is compressed and transported through pipelines to processing facilities where volumes are aggregated, treated and processed to remove water vapor, solids and other contaminants, and to extract NGLs in order to provide marketable natural gas, commonly referred to as residue gas. The residue gas, which consists primarily of methane, is compressed and delivered to natural gas pipelines for transportation to end users. When the NGLs are separated from the unprocessed natural gas at the processing plants, the NGLs are in the form of a mixed, unfractionated NGL stream. ONEOK Partners' natural gas and NGLs are sold to affiliates and a diverse customer base.

Revenue from the natural gas gathering and processing business is derived primarily from the following three types of contracts:

- POP - ONEOK Partners retains a percentage of the NGLs and/or a percentage of the residue gas as payment for gathering, treating, compressing and processing the producer's natural gas. This type of contract represented approximately 37 percent and 35 percent of gathering and processing contracted volumes for 2011 and 2010, respectively.
- Fee - ONEOK Partners is paid a fee for the services it provides based on Btus gathered, treated, compressed and/or processed. This type of contract represented approximately 60 percent and 61 percent of gathering and processing contracted volumes for 2011 and 2010, respectively.
-

Keep-whole - ONEOK Partners extracts NGLs from unprocessed natural gas and returns to the producer volumes of residue gas containing the same amount of Btus as the unprocessed natural gas that was originally delivered. This type of contract represented approximately 3 percent and 4 percent of gathering and processing contracted volumes for 2011 and 2010, respectively, with approximately 75 percent and 85 percent, respectively, of that volume under contracts that effectively convert into fee contracts when the gross processing spread is negative.

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, Texas and Kansas, 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.

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ONEOK Partners' revenues from its natural gas pipelines are derived typically from fee-based services provided to its customers under the following types of fee-based contracts:

- Firm service - Customers can reserve a fixed quantity of pipeline or storage capacity for the terms of their contracts. Under firm-service contracts, the customer pays a fixed fee for a specified quantity regardless of their actual usage and is generally guaranteed access to the capacity they reserve; and
- Interruptible service - Customers may utilize available capacity after firm-service requests are satisfied or on an as-available basis. Under the interruptible service contract, the customer is provided capacity in of our pipelines and storage facilities on an interruptible basis.

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 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.

Revenue for the natural gas liquids business is derived primarily from fee-based services provided to ONEOK Partners' customers and physical optimization of its assets. The sources of revenue are categorized as follows:

- ONEOK Partners' exchange services business primarily collects fees to gather, fractionate and treat unfractionated NGLs, thereby converting them into marketable NGL products that are stored and shipped to a market center or customer-designated location.
- ONEOK Partners' optimization and marketing business utilizes our assets, contract portfolio and market knowledge to capture location and seasonal price differentials. ONEOK Partners transports NGL products between the Mid-Continent and Gulf Coast in order to capture the location price differentials between the two market centers. ONEOK Partners' natural gas liquids storage facilities are also utilized to capture seasonal price variances.
- ONEOK Partners' pipeline transportation business transports raw NGLs, finished NGL products and refined petroleum products primarily under our FERC-regulated tariffs. Tariffs specify the rates ONEOK Partners charges its customers and the general terms and conditions for NGL transportation service on its pipelines.
- ONEOK Partners' isomerization business captures the price differential when normal butane is converted into the more valuable iso-butane at its isomerization unit in Conway, Kansas. Iso-butane is used in the refining industry to increase the octane of motor gasoline.
  - ONEOK Partners' storage business collects fees to store NGLs at its Mid-Continent and Gulf Coast facilities.

Market Conditions and Seasonality - Supply - Natural gas and NGL supply is affected by drilling rig availability, operating capability and producer drilling activity, which are sensitive to commodity prices, exploration success, the liquid content of the natural gas that is produced and processed, access to capital and regulatory control. Higher crude oil prices and advances in horizontal drilling and completion technologies are having a positive impact on drilling activity in the oil and NGL-rich shale areas and other resource plays, providing an offset to the less favorable supply projections in the dry gas areas. As new supply is developed, ONEOK Partners' customers may require incremental services to bring their production to market.

In the Rocky Mountain region, Williston Basin volumes continue to grow as drilling activity increases, driven primarily by producer development of Bakken Shale crude oil wells, which also produce associated natural gas containing significant amounts of NGLs. However, ONEOK Partners' natural gas gathering and processing business has seen declines in natural gas volumes gathered in the Powder River Basin, which is dry gas.

In the Mid-Continent region, ONEOK Partners expects increased drilling activity in the Cana-Woodford Shale and Granite Wash areas of western Oklahoma and the Mississippian Lime formation of Oklahoma and Kansas to more than offset the volumetric declines in most conventional wells that supply ONEOK Partners' natural gas gathering and processing facilities and intrastate natural gas pipelines and storage assets.

ONEOK Partners' interstate natural gas pipelines access supply from major producing regions in the Mid-Continent, Rocky Mountain, Gulf Coast and Canada.

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ONEOK Partners expects the overall supply of NGLs to continue to increase as well as demand for fee-based services as a result of the development of shale areas and other resource plays. Many new natural gas processing plants are being constructed in Oklahoma and the Texas Panhandle to process NGL-rich natural gas being produced in the Cana-Woodford Shale, the Granite Wash, the Woodford Shale and the emerging Mississippian Lime formations. ONEOK Partners' NGL gathering and fractionation operations receive NGLs from a variety of processors and pipelines, including affiliates, located in these regions.

ONEOK Partners' natural gas gathering and processing and natural gas liquids businesses are also affected by operational or market-driven changes that impact the output of natural gas processing plants. The differential between the composite price of NGL products and the price of natural gas, particularly the differential between the price of ethane and the price of natural gas, may influence processing plant NGL output. During 2011, ethane prices remained significantly above natural gas prices on a relative Btu basis, which resulted in an economic incentive for ethane recovery from ONEOK Partners' natural gas processing plants and third-party natural gas processing plants that deliver NGLs to ONEOK Partners' natural gas liquids gathering pipelines.

Demand - Demand for natural gas gathering and processing services is aligned typically with the production of natural gas from natural gas plays or the associated natural gas from wells drilled in crude oil plays. Gathering and processing are nondiscretionary services that producers require to market their natural gas and natural gas liquid production. As producers continue to develop shale and other resource plays, ONEOK Partners expects demand for its gathering and processing services to increase. ONEOK Partners' natural gas processing plant operations can be adjusted to respond to market conditions, such as demand for ethane. By changing operating parameters at certain plants, ONEOK Partners can reduce, to some extent, the amount of ethane and propane recovered in its processing plants if prices or processing margins are unfavorable.

Demand for natural gas pipeline transportation service and natural gas storage is related directly to demand for natural gas in the markets that the natural gas pipelines and storage facilities serve, and is affected by weather, the economy and natural gas price volatility. ONEOK Partners' natural gas pipelines primarily serve end-users, such as natural gas distribution companies and electric-generation companies, that require natural gas to operate their businesses and generally are not impacted by location price differentials. However, narrower location differentials may impact demand for ONEOK Partners' services from natural gas marketers as discussed below under "Commodity Prices." Demand for ONEOK Partners' natural gas pipelines services can also be impacted as coal-fired electric generators consider natural gas as an alternative fuel.

The strength of the economy directly impacts manufacturing and industrial companies that consume natural gas. Commodity price volatility can influence producers' decisions related to the production of natural gas, the level of NGLs processed from natural gas and natural gas storage injection and withdrawal activity.

Demand for NGLs and the ability of natural gas processors to sustain successfully and economically their operations impacts the volume of unfractionated NGLs produced by natural gas processing plants, thereby affecting the demand for NGL gathering, fractionation and distribution services. Natural gas and propane are subject to weather-related seasonal demand. Other NGL products are affected by economic conditions and the demand associated with the various industries that utilize the commodity, such as butanes and natural gasoline, which are used by the refining industry as blending stocks for motor fuel, denaturant for ethanol and diluents for crude oil. Ethane, propane, normal butane and natural gasoline are used by the petrochemical industry to produce chemical products, such as plastics, rubber and synthetic fibers. During 2011, several petrochemical companies announced new plants, plant expansions, additions or enhancements that improve the light-NGL feed capability of their facilities due primarily to the increased supply and attractive price of ethane as a petrochemical feedstock in the United States. These projects are expected to increase significantly ethane demand over the next five years. In addition, international demand for propane is expected to impact the NGL market in the future. ONEOK Partners expects this increase in demand for NGLs to add



incremental fee-based earnings to its natural gas liquids business.

Commodity Prices - Crude oil, natural gas and NGL prices can be volatile due to changes in market conditions. Commodity prices can also be impacted by demand for products from the petrochemical industry and other consumers, storage injection and withdrawal rates and available storage capacity. The increase in natural gas supply from shale gas development has caused natural gas prices to decline and natural gas location and seasonal price differentials to narrow across most of the regions where ONEOK Partners operates. However, an increase in crude oil prices and the abundance of NGLs produced from the development of NGL-rich shale resource plays have made producing NGL feedstocks for the petrochemical industry more profitable. ONEOK Partners is exposed to commodity price risk in its natural gas gathering and processing business, as a result of receiving commodities in exchange for services, primarily on POP contracts, and in its natural gas liquids business from the NGLs it purchases and sells. ONEOK Partners is also exposed to market risk associated with the price differentials between receipt and delivery points along its natural gas and natural gas liquids pipelines, also known as location

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differentials. Fluctuations in location differentials impact the rates its natural gas pipelines' customers with competitive alternatives are willing to pay and the optimization opportunities for its natural gas liquids business. ONEOK Partners' natural gas and NGL storage revenues are impacted by the differential between the forward price of natural gas and NGLs and the price of natural gas and NGLs on the spot market. Additionally, fluctuations in the relative price differential between natural gas, NGLs and individual NGL products impacts ONEOK Partners' natural gas liquids exchange services and transportation revenues and, to a lesser extent, margins on its natural gas gathering and processing keep-whole contracts.

Seasonality - Our ONEOK Partners segment's products are subject to weather-related seasonal demand. Cold temperatures typically increase demand for natural gas and propane, which are used to heat homes and businesses. Warm temperatures typically drive demand for natural gas used for natural gas-fired electric generation needed to meet the electricity-generation demand required to cool residential and commercial properties. Precipitation levels also can impact the demand for natural gas that is used to fuel irrigation activity in the Mid-Continent region and demand for propane used to fuel crop-drying activity. Demand for butane and natural gasoline, which are used primarily by the refining industry as blending stocks for motor fuel, denaturant for ethanol and diluents for crude oil, may also be subject to some variability as automotive travel increases and as seasonal gasoline formulation standards are implemented. During periods of peak demand for a certain commodity, prices for that product typically increase, which may influence processing and fractionation decisions.

Competition - ONEOK Partners' natural gas and natural gas liquids businesses compete directly with other companies for natural gas and NGL supplies, markets and services. Competition for natural gas transportation services continues to increase as new infrastructure projects are completed and the FERC and state regulatory bodies continue to encourage additional competition in the natural gas markets. Competition is based primarily on fees for services, quality of services provided, current and forward natural gas and NGL prices and proximity to supply areas and markets. ONEOK Partners believes that the location and integration of its assets enable it to compete effectively.

ONEOK Partners' natural gas gathering and processing business competes for natural gas supplies with independent exploration and production companies that have gathering and processing assets, pipeline companies and their affiliated marketing companies, national and local natural gas gatherers and processors, and marketers in the Mid-Continent and Rocky Mountain regions. ONEOK Partners' natural gas liquids business competes with other fractionators, storage providers, gatherers and transporters for NGL supplies in the Rocky Mountain, Mid-Continent and Gulf Coast regions. The factors that typically affect ONEOK Partners' ability to compete for natural gas and NGL supplies are:

- fees charged under its contracts;
  - pressures maintained on its gathering systems;
- location of its assets relative to those of its competitors;
  - location of its assets relative to drilling activity;
  - efficiency and reliability of its operations; and
- receipt and delivery capabilities that exist in each system, plant, fractionator and storage location.

ONEOK Partners is responding to these factors by making capital investments to access new supplies; increasing gathering, fractionation, storage and transportation capacity; increasing storage, withdrawal and injection capabilities; and improving natural gas processing efficiency and reducing operating costs. ONEOK Partners' competitors have also recently announced plans for new natural gas gathering and processing facilities and natural gas liquids pipelines and fractionators to address the growing natural gas and NGL supply and petrochemical demand. When completed, ONEOK Partners' growth projects and those of its competitors are expected to impact NGL prices and narrow location differentials between the Mid-Continent and Gulf Coast market centers. ONEOK Partners is also evaluating asset consolidation opportunities to maximize earnings and renegotiating low-margin contracts. The principal goal of the contract renegotiation effort is to improve margins and reduce risk.

Government Regulation - The FERC traditionally has maintained that a natural gas processing plant is not a facility for the transportation or sale for resale of natural gas in interstate commerce and, therefore, is not subject to jurisdiction under the Natural Gas Act. Although the FERC has made no specific declaration as to the jurisdictional status of ONEOK Partners' natural gas processing operations or facilities, ONEOK Partners' natural gas processing plants are primarily involved in extracting NGLs and, therefore, ONEOK Partners believes, its natural gas processing plants are exempt from FERC jurisdiction. The Natural Gas Act also exempts natural gas gathering facilities from the jurisdiction of the FERC. ONEOK Partners believes its natural gas gathering facilities and operations meet the criteria used by the FERC for nonjurisdictional gathering facility status. However, ONEOK Partners is subject to newly adopted FERC regulations that require it to post publicly certain natural gas flow information on ONEOK Partners' website. Interstate transmission facilities remain subject to FERC jurisdiction. The FERC has distinguished historically between these two types of facilities, either interstate or intrastate, on a fact-specific basis. ONEOK Partners also transports residue gas from its natural gas processing plants to interstate pipelines in accordance with Section 311(a) of the Natural Gas Policy Act.

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Oklahoma, Kansas, Wyoming, Montana and North Dakota also have statutes regulating, in various degrees, the gathering of natural gas in those states. In each state, regulation is applied on a case-by-case basis if a complaint is filed against the gatherer with the appropriate state regulatory agency.

ONEOK Partners' interstate natural gas pipelines are regulated under the Natural Gas Act and Natural Gas Policy Act, which give the FERC jurisdiction to regulate virtually all aspects of the pipeline activities. ONEOK Partners' intrastate natural gas transportation assets in Oklahoma, Kansas and Texas are regulated by the OCC, KCC and RRC, respectively. ONEOK Partners has flexibility in establishing natural gas transportation rates with customers. However, there are maximum rates that ONEOK Partners can charge its customers in Oklahoma and Kansas.

ONEOK Partners' proprietary natural gas liquids gathering pipelines, fractionation and storage facilities in Oklahoma, Kansas and Texas are not regulated by the FERC or the states' respective corporation commissions. ONEOK Partners' remaining natural gas liquids pipelines are regulated by the FERC, which has authority over the terms and conditions of service, rates, including depreciation and amortization policies, and initiation of service. In Kansas and Texas, ONEOK Partners' intrastate natural gas liquids pipelines that provide common carrier services are subject to the jurisdiction of the KCC and RRC, respectively, which have oversight regarding services provided.

See further discussion in the "Environmental and Safety Matters" section.

Unconsolidated Affiliates - Our ONEOK Partners segment has investments in unconsolidated affiliates that include Northern Border Pipeline, Overland Pass Pipeline Company, three partnerships that operate natural gas gathering systems located primarily in the Powder River of Wyoming and other investments. Northern Border Pipeline is a leading transporter of natural gas imported from Canada into the United States. Overland Pass Pipeline Company operates an interstate natural gas liquids pipeline system that transports natural gas liquids from the Rocky Mountain region to the Mid-Continent NGL market center.

See Note O of the Notes to Consolidated Financial Statements in this Annual Report for additional discussion of ONEOK Partners' unconsolidated affiliates.

## 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 the state regulatory agencies. Our regulatory strategy incorporates features that reduce earnings lag, protect margin and mitigate risks.

Our strategies to reduce earnings lag include a performance-based rate mechanism in Oklahoma and capital-recovery mechanisms in Kansas and portions of Texas. In addition, we also have cost-of-service adjustments in certain Texas markets that address investments in rate base and changes in operating expenses.

Margin protection strategies include increasing the portion of our service fees that is fixed rather than volumetrically based. Customer consumption is a function of price levels and weather conditions. Weather normalization mechanisms limit our sensitivity to weather.

Risk mitigation strategies include mechanisms to recover the fuel-related component of bad debts in Oklahoma, Kansas and portions of Texas and pension and other post-retirement benefits and ad valorem taxes in Kansas.

Our operating results are affected primarily by the number of customers, usage and the ability to collect delivery rates that provide a reasonable rate of return on our investment and recovery of our cost of service. Natural gas costs are passed through to our customers based on the actual cost of natural gas purchased by the respective natural gas distribution companies and related expenses. Substantial fluctuations in natural gas sales can occur from year to year without materially or adversely impacting our net margin, since the fluctuations in natural gas costs affect natural gas sales and cost of gas by an equivalent amount. Higher natural gas costs may cause customers to conserve or use alternative energy sources. Higher natural gas costs may also impact adversely our accounts receivable collections, resulting in higher bad-debt expense. Recovery of the fuel-related portion of bad debts is allowed in all three states.

Oklahoma Natural Gas, Kansas Gas Service and Texas Gas Service distribute natural gas as public utilities to approximately 82 percent, 67 percent and 14 percent of the natural gas distribution markets for Oklahoma, Kansas and Texas, respectively. Natural gas sold to residential and commercial customers accounts for approximately 81 and 18 percent of our natural gas

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sales, respectively, in Oklahoma; 80 and 19 percent of our natural gas sales, respectively, in Kansas; and 69 and 23 percent of our natural gas sales, respectively, in Texas.

In December 2011, we entered into a definitive agreement to sell ONEOK Energy Marketing Company to Constellation Energy Group, Inc. for \$22.5 million plus working capital. The transaction closed on February 1, 2012. The financial information of ONEOK Energy Marketing Company is reflected as discontinued operations in this Annual Report. All prior periods presented have been recast to reflect the discontinued operations.

**Market Conditions and Seasonality - Supply** - Our LDCs purchased 163 Bcf and 186 Bcf of natural gas supply in 2011 and 2010, respectively. Our natural gas supply portfolio consists of long-term, seasonal and short-term contracts from a diverse group of suppliers. These contracts are awarded through competitive-bidding processes to ensure reliable and competitively priced natural gas supply. Our Natural Gas Distribution segment's natural gas supply is acquired from natural gas processing plants, natural gas marketers and natural gas producers.

An objective of our supply-sourcing strategy is to provide value to customers through reliable, competitively priced and flexible gas supply and transportation purchases from multiple production areas and suppliers. This strategy is designed to protect receipt of supply from being curtailed by physical interruption, possible financial difficulties of a single supplier, natural disasters and other unforeseen force majeure events, as well as ensuring these resources are reliable and flexible to meet the variations of customer demands.

We do not anticipate problems with securing natural gas supply to satisfy customer demand; however, if supply shortages were to occur, each of our LDCs has curtailment tariff provisions in place that provide for: reducing or discontinuing natural gas service to large industrial users; and requesting that residential and commercial customers reduce their natural gas requirements to an amount essential for public health and safety. In addition, during times of critical supply disruptions, curtailments of deliveries to customers with firm contracts may be made in accordance with guidelines established by appropriate federal, state and local regulatory agencies.

Natural gas supply requirements are affected by weather conditions. In addition, economic conditions impact the requirements of our commercial and industrial customers. Natural gas usage per residential customer may decline as customers change their consumption patterns in response to: (i) more volatile and higher natural gas prices, as discussed above; (ii) customers' improving the energy efficiency of existing homes by replacing doors and windows and adding insulation, and retrofitting natural gas appliances with more efficient appliances; (iii) more energy-efficient construction; and (iv) fuel switching. In each jurisdiction in which we operate, changes in customer usage profiles are considered in the design of our rates.

In managing our natural gas supply portfolios, we partially mitigate price volatility using a combination of financial derivatives and fixed price contracts. We have natural gas hedging programs in each state that have been approved by the respective states' regulatory authorities. We do not utilize financial derivatives for speculative purposes nor do we have trading operations associated with our Natural Gas Distribution segment. In addition, we utilized 39.3 Bcf of contracted storage capacity in 2011, which allows gas to be purchased during the off-peak season and stored for use in the winter periods.

**Demand** - See discussion below under "Seasonality" and "Competition" for factors affecting demand for our services.

**Seasonality** - Natural gas sales to residential and commercial customers are seasonal, as a substantial portion of their natural gas requirements are for heating. Accordingly, the volume of natural gas sales is higher normally during the months of November through March than in other months of the year. The impact on margins for our LDCs resulting from weather that is above or below normal is offset in part through weather-normalization adjustments (WNA). These adjustments have been approved by the regulatory authorities for our Oklahoma, Kansas and certain

Texas service territories. WNA allows us to increase customer billing to offset lower gas usage when weather is warmer than normal and decrease customer billing to offset higher gas usage when weather is colder than normal.

Competition - We encounter competition based on customers' preference for natural gas, compared with other energy products and their comparative prices. The most significant product competition occurs between natural gas and electricity in the residential and small commercial markets. We compete for space and water heating, cooking, clothes drying and other general energy needs. Customers and builders typically make the decision on the type of equipment at initial installation and use the chosen energy source for the life of the equipment. The markets in our service territories have become increasingly competitive. Changes in the competitive position of natural gas relative to electricity and other energy products have the potential to cause a decline in consumption or in the number of natural gas customers.

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However, recent studies have demonstrated that assessing energy efficiency in terms of full fuel-cycle analysis highlights the high overall efficiency of natural gas in residential and commercial uses, compared with electricity. The Department of Energy recently issued a statement of policy that it will use full fuel-cycle measures of energy use and emissions when evaluating energy-conservation standards for appliances. Further, independent studies show that natural gas provides a cost advantage over electricity for typical home and business applications.

We believe that we must maintain a competitive advantage in order to retain our customers, and, accordingly, we focus on providing safe, reliable and efficient service and controlling costs. Our Natural Gas Distribution segment is subject to competition from other pipelines for our existing industrial load. Oklahoma Natural Gas, Kansas Gas Service and Texas Gas Service compete for service to large industrial and commercial customers, and competition has and may continue to impact margins.

Under our transportation tariffs, qualifying industrial and commercial customers are able to purchase their natural gas commodity from the supplier of their choice and have us transport it for a fee. A portion of transportation services provided is at negotiated rates that are generally below the maximum approved transportation tariff rates. Reduced rate transportation service may be negotiated when a competitive pipeline is in proximity or another viable energy option is available. Increased competition could potentially lower these rates.

Government Regulation - Rates charged by LDCs in our Natural Gas Distribution segment for natural gas services are established by the OCC for Oklahoma Natural Gas and by the KCC for Kansas Gas Service. Texas Gas Service is subject to regulatory oversight by the various municipalities that it serves, which have primary jurisdiction in their respective areas. Rates in unincorporated areas of Texas and all appellate matters are subject to regulatory oversight by the RRC. Natural gas supply costs for our LDCs are passed on to our customers through a purchased-gas cost-adjustment mechanism. We do not make a profit on the cost of natural gas. Other changes in costs must be recovered through periodic rate adjustments approved by the OCC, KCC, RRC and various municipalities in Texas. See pages 52 for a detailed description of our various regulatory initiatives.

See further discussion in the “Environmental and Safety Matters” section.

## Energy Services

Overview - Our Energy Services segment is a provider of non-uniform natural gas supply and risk-management services for natural gas and electric utilities and commercial and industrial customers with natural gas needs. 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 customized services in a more efficient and reliable manner than they can achieve independently.

Strategy - 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’ non-uniform 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 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.

As a result of significant increases in the supply of natural gas, primarily from shale production across North America, location and seasonal differentials have significantly narrowed, resulting in reduced opportunities to optimize our firm transportation and storage capacity. Additionally, price volatility in the natural gas markets has diminished, which 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 consider further include renewing contracts at current market prices 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. It is possible that we may recognize charges to our earnings as a result of certain of these actions. These changes would result in a better alignment of our contracted natural gas transportation and storage

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capacity with the needs of our premium-services customers. We also expect the effect of these strategies to be a reduction in our contracted natural gas transportation and storage capacity, which should reduce our operating costs and working-capital requirements primarily through a reduction in natural gas inventory levels.

Approximately 14 percent of our transportation capacity and approximately 20 percent of our storage capacity expire by the end of 2012, and an additional amount of approximately 64 percent of our transportation capacity and an additional amount of approximately 68 percent of our storage capacity expires by the end of 2015.

**Derivatives** - It is our intention to minimize the mark-to-market earnings impact that our forward hedges have on current period earnings. When possible, we implement hedging strategies using derivative instruments that qualify as hedges for accounting purposes. We actively manage the commodity price and volatility risks associated with providing energy risk-management services to our customers by executing derivative instruments in accordance with the parameters established in our commodity risk-management policy. The derivative instruments consist of over-the-counter transactions such as forward, swap and option contracts, and NYMEX futures and option contracts.

We utilize our experience to optimize the value of our contracted assets and use our risk management and marketing capabilities to both manage risk and generate additional margins. We apply a combination of cash flow and fair value hedge accounting when implementing hedging strategies that take advantage of favorable market conditions. See Note D of the Notes to Consolidated Financial Statements in this Annual Report for additional information. Additionally, certain non-trading transactions, which are economic hedges of our accrual transactions such as certain of our storage and transportation contracts, will not qualify for hedge accounting treatment. These economic hedges receive mark-to-market accounting treatment, as they are derivative contracts and are not designated as part of a hedge relationship. As a result, the underlying risk being hedged receives accrual accounting treatment, while we use mark-to-market accounting treatment for the economic hedges. We cannot predict the earnings fluctuations from mark-to-market accounting, and the impact on earnings could be material.

In prior years, we were able to hedge location differentials and seasonal storage differentials at more favorable levels compared with opportunities currently available to us. These factors have impacted negatively our Energy Services segment's results of operations in 2011, and we anticipate these factors will persist throughout 2012 and potentially into 2013. A significant amount of our storage and transportation hedges that were entered into at favorable levels were realized by the end of 2011.

**Working Capital** - Our Energy Services segment requires working capital to purchase natural gas inventory, to reserve transportation and storage capacity and to meet cash collateral requirements associated with our risk-management activities. Our inventory purchases and hedging strategies are implemented with consideration given to ONEOK's overall working capital requirements and liquidity. Restrictions on our access to working capital may impact our inventory purchases and risk-management activities, which could impact our results. Our working capital costs would be impacted by a change in ONEOK's current investment-grade credit ratings or a significant increase in commodity prices. See discussion under "Credit Risk" of Note D of the Notes to Consolidated Financial Statements in this Annual Report for additional information about the impact of a change in ONEOK's credit rating.

Our working capital requirements related to our inventory in storage were as high as \$297.9 million during 2011 and had decreased to \$215.0 million by December 31, 2011. In addition, margin requirements can result in increased working capital requirements. During 2011, the amount we were required to post with counterparties to meet our margin requirements ranged from zero to \$22.6 million, and the amount posted for our benefit by our counterparties ranged from zero to \$60.5 million.

**Sales with Affiliates** - Our Energy Services segment conducts business with our ONEOK Partners and Natural Gas Distribution segments. These services are provided under agreements with market-based terms. Additionally,

business with our LDCs is awarded through a competitive-bidding process. We provide supply and risk-management service to certain retail marketing operations, including the retail marketing portion of our Natural Gas Distribution segment that was sold in February 2012.

Market Conditions and Seasonality - Supply - Our Energy Services segment maintains a natural gas supply portfolio consisting of various term-length contracted supply in all of the major producing regions, including the Rocky Mountain, Mid-Continent and Gulf Coast. During periods of high natural gas demand, we utilize storage capacity that allows us to supplement natural gas supply volumes to meet our peak day demand obligations or market needs.

An increase in shale natural gas production and related pipeline construction across North America has resulted in greater natural gas supply, putting downward pressure on natural gas prices and narrowing the price differentials between regions. The impact of lower natural gas prices and price volatility and narrower location and seasonal price differentials has resulted in reduced opportunities to capture incremental margin through optimization efforts.

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Demand - Demand under our swing and peaking natural gas requirements contracts in our wholesale operation usually is driven by the extent to which temperatures vary from normal levels. A significant portion of this business is contracted during the winter period of November through March.

The displacement of electric power-generation plants from coal to natural gas is resulting in a slight increase in demand for natural gas. These displacements are being driven by the cost of natural gas relative to coal and to a lesser extent due to potential government regulations.

Customers continue to contract for storage, transportation and premium services but at lower prices due to lower natural gas prices resulting from the increased supply and lower natural gas price volatility. Although future improvements in the U.S. economy, coupled with the depressed natural gas price environment, could increase modestly customer demand, we do not anticipate a significant change in customer demand in 2012.

Seasonality - Due to the seasonality of natural gas consumption, storage withdrawals and demand for our products and services, earnings are higher normally during the winter months than the summer months. Natural gas sales volumes are higher typically in the winter heating months than in the summer months, reflecting increased demand due to greater heating requirements and, typically, higher natural gas prices.

Increased natural gas supply is also impacting negatively the seasonal price differentials. There could be situations where winter prices are lower, due to mild weather and abundant supply, than the prices in the upcoming summer. These changes could result in unfavorable pricing between periods that could result in losses on the withdrawal of natural gas from inventory.

Competition - In response to a challenging marketing environment, our strategy is to concentrate our efforts on providing reliable service during peak-demand periods. We can compete effectively in the market by utilizing our contracted storage and transportation assets. We continue to focus on building and strengthening supplier and customer relationships to execute our strategy and increase our market presence.

Government Regulation - Our Energy Services segment purchases natural gas for resale at negotiated rates in interstate commerce. As such, it has been granted by FERC an automatic blanket certificate of public convenience and necessity authorizing such sales. This is a limited certificate that does not subject our Energy Services segment to any other regulation of FERC under its Natural Gas Act jurisdiction. Holders of blanket marketing certificates are subject to certain reporting and document retention requirements.

Market conditions and uncertainties associated with the implementation of financial reform through the Dodd-Frank Act have reduced liquidity in the financial derivatives markets, particularly for basis swaps, which make it difficult to implement forward hedges around our transportation and storage positions. See "Financial Markets Legislation" for discussion of the Dodd-Frank Act.

## SEGMENT FINANCIAL INFORMATION

Operating Income, Customers and Total Assets - See Note R of the Notes to Consolidated Financial Statements in this Annual Report for disclosure by segment of our operating income and total assets and for a discussion of revenues from external customers.

## Other

Through ONEOK Leasing Company, L.L.C., and ONEOK Parking Company, L.L.C., we own a parking garage and an office building (ONEOK Plaza) in downtown Tulsa, Oklahoma, where our headquarters are located. ONEOK

Leasing Company, L.L.C., leases excess office space to others and operates our headquarters office building. ONEOK Parking Company, L.L.C. owns and operates a parking garage adjacent to our headquarters.

#### 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. Although the CFTC has issued final regulations for certain provisions of the Dodd-Frank Act, many remain outstanding. In November 2011, the CFTC published final rules on speculative position limits, which we do not expect to impact directly our current risk-management practices. In December 2011, the CFTC issued an order that further defers the effective date of the provisions of the Dodd-Frank Act that require a rulemaking, such as definitions of

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certain terms, until the earlier of the effective date of the final rule defining the reference terms or July 16, 2012. Until the remaining final regulations are established, we are unable to ascertain how we may be affected by them. 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 costs of doing so may increase as a result of the new legislation. 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.

## ENVIRONMENTAL AND SAFETY MATTERS

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

**Environmental Liabilities** - 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.

**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 contains numerous requirements for the 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 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.

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

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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, and carbon dioxide equivalents from NGL products and natural gas delivered to customers, as if all such fuel and NGL products were combusted and carbon dioxide injected directly into disposal wells. The next required reporting period for 2011 greenhouse gas emissions will be due March 31, 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 will regulate greenhouse gas emissions at new or modified facilities that meet certain criteria. Affected facilities will be required to review best available control technology, conduct air-quality analysis, impact analysis and public reviews with respect to such emissions. Since January 2011, the rule has been in the process of being phased in, and at current emission threshold levels, we believe it will have 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 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.

On July 28, 2011, the EPA issued a proposed rule package that would change the air emission New Source Performance Standards and Maximum Achievable Control Technology requirements applicable to natural gas production, processing, transmission and underground storage. The proposed rules would impact emission limits for specific equipment through the use of controls; however, potential costs associated with the proposed rules currently are unknown.

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. In 2011, ONEOK Partners received notice from the EPA of potential liability for the U.S. Oil Recovery Superfund Site location in Harris County, Texas. ONEOK Partners is named a potentially responsible party as a result of waste disposal at the now-abandoned site. Neither we nor ONEOK Partners expect our respective current 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 United States Department of Transportation 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.

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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.

**EMPLOYEES**

We employed 4,795 people at January 31, 2012, including 694 people at Kansas Gas Service who are subject to collective bargaining contracts. The following table sets forth our contracts with collective bargaining units at January 31, 2012:

Union	Employees	Contract Expires
The United Steelworkers	388	October 28, 2016
International Brotherhood of Electrical Workers (IBEW)	306	June 30, 2014

**EXECUTIVE OFFICERS**

All executive officers are elected annually by our Board of Directors, and each serves until such person resigns, is removed or is otherwise disqualified to serve, or until such officer's successor is duly elected. Our executive officers listed below include the officers who have been designated by our Board of Directors as our Section 16 executive officers.

Name and Position	Age	Business Experience in Past Five Years	
John W. Gibson Chairman and Chief Executive Officer	59	2012 to present	Chairman and Chief Executive Officer, ONEOK and ONEOK Partners
		2011	Chairman, President and Chief Executive Officer, ONEOK
		2011	Vice Chairman of the Board of Directors, ONEOK
		2010 to 2011	President and Chief Executive Officer, ONEOK
		2010 to 2011	Chairman, President and Chief Executive Officer, ONEOK Partners
		2007 to 2009	Chief Executive Officer, ONEOK
		2007 to 2009	Chairman and Chief Executive Officer, ONEOK Partners
Terry K. Spencer President	52	2006 to present	Member of the Board of Directors, ONEOK and ONEOK Partners
		2012 to present	President, ONEOK and ONEOK Partners
		2010 to present	Member of the Board of Directors, ONEOK Partners
		2009 to 2011	Chief Operating Officer, ONEOK Partners
Pierce H. Norton II	52	2007 to 2009	Executive Vice President, Natural Gas Liquids, ONEOK Partners
		2012 to present	

			Executive Vice President and Chief Operating Officer, ONEOK and ONEOK Partners
Executive Vice President and		2011	Chief Operating Officer, ONEOK
Chief Operating Officer		2009 to 2011	President, ONEOK Distribution Companies, ONEOK
		2007 to 2009	Executive Vice President, Natural Gas, ONEOK Partners
		2006 to 2007	President, Gathering and Processing, ONEOK Partners
Robert F. Martinovich	54	2012 to present	Executive Vice President, Chief Financial Officer and Treasurer, ONEOK and ONEOK Partners
Executive Vice President, Chief Financial Officer		2011 to present	Member of the Board of Directors, ONEOK Partners
and Treasurer		2011	Senior Vice President, Chief Financial Officer and Treasurer, ONEOK and ONEOK Partners
		2009 to 2011	Chief Operating Officer, ONEOK
		2007 to 2009	President, Gathering and Processing, ONEOK Partners
		2006 to 2007	Group Vice President, EHS, Operations & Technical Services, DCP Midstream LLC
Stephen W. Lake	48	2012 to present	Senior Vice President, General Counsel and Assistant Secretary, ONEOK and ONEOK Partners
Senior Vice President, General Counsel and		2011	Senior Vice President, Associate General Counsel and Assistant Secretary, ONEOK and ONEOK Partners
Assistant Secretary		2008-2011	Executive Vice President and General Counsel, McJunkin Red Man Corporation
		1998-2008	Partner, GableGotwals
Derek S. Reiners	40	2009 to present	Senior Vice President and Chief Accounting Officer, ONEOK and ONEOK Partners
Senior Vice President and Chief Accounting Officer		2004 to 2009	Partner, Grant Thornton LLP

No family relationships exist between any of the executive officers, nor is there any arrangement or understanding between any executive officer and any other person pursuant to which the officer was selected.

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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, Quarterly Reports, 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.

ITEM 1A. RISK FACTORS

Our investors should consider the following risks 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 following discussion of risks and the other information included or incorporated by reference in this Annual Report, including “Forward-Looking Statements,” which are included in Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations.

RISK FACTORS INHERENT IN OUR BUSINESS

Market volatility and capital availability could affect adversely our business.

The capital and credit markets have experienced volatility and disruption in the past. In many cases during these periods, the capital markets have exerted downward pressure on equity values and reduced the credit capacity for certain companies. Our ability to grow could be constrained if we do not have regular access to the capital and credit markets. Similar or more severe levels of market disruption and volatility may have an adverse affect on us resulting from, but not limited to, disruption of our access to capital and credit markets, difficulty in obtaining financing necessary to expand facilities or acquire assets, increased financing cost and increasingly restrictive covenants.

Our operating results may be affected materially and adversely by unfavorable economic and market conditions.

Economic conditions worldwide have from time to time contributed to slowdowns in the oil and natural gas industry, as well as in the specific segments and markets in which we operate, resulting in reduced demand and increased price competition for our products and services. Our operating results in one or more geographic regions may also be affected by uncertain or changing economic conditions within that region. Volatility in commodity prices may have an impact on many of our customers, which, in turn, could have a negative impact on their ability to meet their obligations to us. If global economic and market conditions (including volatility in commodity markets), or economic conditions in the United States or other key markets, remain uncertain or persist, spread or deteriorate further, we may experience material impacts on our business, financial condition, results of operations and liquidity.

Our cash flow depends heavily on the earnings and distributions of ONEOK Partners.

Our partnership interest in ONEOK Partners is one of our largest cash-generating assets. Therefore, our cash flow is heavily dependent upon the ability of ONEOK Partners to make distributions to its partners. A significant decline in ONEOK Partners’ earnings and/or cash distributions would have a corresponding negative impact on us. For

information on the risk factors inherent in the business of ONEOK Partners, see the section below entitled “Additional Risk Factors Related to ONEOK Partners’ Business” and Item 1A, Risk Factors in the ONEOK Partners’ Annual Report.

Some of our nonregulated businesses have a higher level of risk than our regulated businesses.

Some of our nonregulated operations, which include ONEOK Partners’ natural gas gathering and processing business, most of its natural gas liquids business and our energy services business, have a higher level of risk than our regulated operations, which include the LDCs in our distribution business, ONEOK Partners’ natural gas pipelines business and a portion of its natural gas liquids business. We and ONEOK Partners expect to continue investing in natural gas and natural gas liquids projects and other related projects, some or all of which may involve nonregulated businesses or assets. These projects could involve risks associated with operational factors, such as competition and dependence on certain suppliers and customers, and

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financial, economic and political factors, such as rapid and significant changes in commodity prices, the cost and availability of capital and counterparty risk, including the inability of a counterparty, customer or supplier to fulfill a contractual obligation.

Our LDCs have recorded certain assets that may not be recoverable from our customers.

Accounting principles that govern our LDCs permit certain assets that result from the regulatory process to be recorded on our balance sheet that could not be recorded under GAAP for nonregulated entities. We consider factors such as rate orders from regulators, previous rate orders for substantially similar costs, written approval from the regulators and analysis of recoverability from internal and external legal counsel to determine the probability of future recovery of these assets. If we determine future recovery is no longer probable, we would be required to write off the regulatory assets at that time.

Terrorist attacks aimed at our facilities could affect adversely our business.

Since the September 11, 2001, terrorist attacks, the United States government has issued warnings that energy assets, specifically the nation's pipeline infrastructure, may be future targets of terrorist organizations. These developments may subject our operations to increased risks. Any future terrorist attack that may target our facilities, those of our customers and, in some cases, those of other pipelines, could have a material adverse effect on our business.

Our businesses are subject to market and credit risks.

We are exposed to market and credit risks in all of our operations. To minimize the risk of commodity price fluctuations, we periodically enter into derivative transactions to hedge anticipated purchases and sales of natural gas, NGLs, crude oil, fuel requirements and firm transportation commitments. Interest-rate swaps are also used to manage interest-rate risk. Currency forward contracts are used to mitigate unexpected changes that may occur in anticipated revenue streams of our Canadian natural gas sales and purchases driven by currency rate fluctuations. However, financial derivative instrument contracts do not eliminate the risks. Specifically, such risks include commodity price changes, market supply shortages, interest rate changes and counterparty default. The impact of these variables could result in our inability to fulfill contractual obligations, significantly higher energy or fuel costs relative to corresponding sales contracts, or increased interest expense.

We are subject to the risk of loss resulting from nonpayment and/or nonperformance by customers and counterparties of our Energy Services segment. The customers of our Energy Services segment are predominantly LDCs, industrial customers, natural gas producers and marketers that may experience deterioration of their financial condition as a result of changing market conditions or financial difficulties that could impact their creditworthiness or ability to pay for our services. If we fail to assess adequately the creditworthiness of existing or future customers, unanticipated deterioration in their creditworthiness and any resulting nonpayment and/or nonperformance could adversely impact results of operations for our Energy Services segment. In addition, if any of our Energy Services segment's customers or counterparties filed for bankruptcy protection, we may not be able to recover amounts owed, which could impact materially and adversely the results of operations for our Energy Services segment.

Increased competition could have a significant adverse financial impact on us.

The natural gas and natural gas liquids industries are expected to remain highly competitive. The demand for natural gas and NGLs is primarily a function of commodity prices, including prices for alternative energy sources, customer usage rates, weather, economic conditions and service costs. Our ability to compete also depends on a number of other factors, including competition from other companies for our existing customers, the efficiency, quality and reliability of the services we provide, and competition for throughput at ONEOK Partners' gathering systems,

pipelines, processing plants, fractionators and storage facilities.

We cannot predict when we will be subject to changes in legislation or regulation, nor can we predict the impact of these changes on our financial position, results of operations or cash flows. There are no assurances that our business will be positioned to effectively compete in the future.

We may not be able to make additional strategic acquisitions.

Our ability to make strategic acquisitions and investments will depend on: (i) the extent to which acquisitions and investment opportunities become available; (ii) our success in bidding for the opportunities that do become available; (iii) regulatory approval, if required, of the acquisitions on favorable terms; and (iv) our access to capital, including our ability to use our equity in acquisitions or investments, and the terms upon which we obtain capital. If we are unable to make strategic investments and acquisitions, we may be unable to grow.

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Acquisitions that appear to be accretive may nevertheless reduce our cash from operations on a per-share basis.

Any acquisition involves potential risks that may include, among other things:

- inaccurate assumptions about volumes, revenues and costs, including potential synergies;
  - an inability to integrate successfully the businesses we acquire;
- decrease in our liquidity as a result of our using a significant portion of our available cash or borrowing capacity to finance the acquisition;
- a significant increase in our interest expense or financial leverage if we incur additional debt to finance the acquisition;
- the assumption of unknown liabilities for which we are not indemnified, our indemnity is inadequate or our insurance policies may exclude from coverage;
- an inability to hire, train or retain qualified personnel to manage and operate the acquired business and assets;
  - limitations on rights to indemnity from the seller;
  - inaccurate assumptions about the overall costs of equity or debt;
- the diversion of management's and employees' attention from other business concerns;
  - unforeseen difficulties operating in new product areas or new geographic areas;
    - increased regulatory burdens;
  - customer or key employee losses at an acquired business; and
    - increased regulatory requirements.

If we consummate any future acquisitions, our capitalization and results of operations may change significantly, and investors will not have the opportunity to evaluate the economic, financial and other relevant information that we will consider in determining the application of our resources to future acquisitions.

We may engage in acquisitions, divestitures and other strategic transactions, the success of which may impact our results of operations.

We may engage in acquisitions, divestitures and other strategic transactions. If we are unable to integrate successfully businesses that we acquire with our existing business, our results of operations may be affected materially and adversely. Similarly, we may from time to time divest portions of our business, which may also affect materially and adversely our results of operations.

Any reduction in our credit ratings could affect materially and adversely our business, financial condition, liquidity and results of operations.

Our long-term senior unsecured debt has been assigned an investment-grade rating by S&P of "BBB" (Stable) and Moody's of "Baa2" (Stable); however, we cannot provide assurance that any of our current ratings will remain in effect for any given period of time or that a rating will not be lowered or withdrawn entirely by a rating agency if, in its judgment, circumstances in the future so warrant. Specifically, if S&P or Moody's were to downgrade our long-term rating, particularly below investment grade, our borrowing costs would increase, which would affect adversely our financial results, and our potential pool of investors and funding sources could decrease. Further, if our short-term ratings were to fall below A-2 or Prime-2, the current ratings assigned by S&P and Moody's, respectively, it could limit significantly our access to the commercial paper market. Any such downgrade of our long- or short-term ratings could increase significantly our cost of capital and reduce the availability of capital and, thus, have a material adverse effect on our business, financial condition, liquidity and results of operations. Ratings from credit agencies are not recommendations to buy, sell or hold our securities. Each rating should be evaluated independently of any other rating.



A downgrade in our credit ratings below investment grade would affect negatively the operations of our Energy Services segment. If our credit ratings fall below investment grade, ratings triggers and/or adequate assurance clauses in many of our financial and wholesale physical contracts would be in effect. A ratings trigger or adequate assurance clause gives a counterparty the right to suspend or terminate the agreement unless margin thresholds are met. Margin requirements related to the trading activities of our Energy Services segment may also increase as a result of market volatility without regard to our credit rating. The additional increase in capital required to support our Energy Services segment would impact materially and adversely our ability to compete, as well as our ability to manage actively the risk associated with existing storage and transportation contracts.

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Our established risk-management policies and procedures may not be effective, and employees may violate our risk management policies.

We have developed and implemented a comprehensive set of policies and procedures that involve both our senior management and the Audit Committee of our Board of Directors to assist us in managing risks associated with, among other things, the marketing, trading and risk-management activities associated with our business segments. Our risk policies and procedures are intended to align strategies, processes, people, information technology and business knowledge so that risk is managed throughout the organization. As conditions change and become more complex, current risk measures may fail to assess adequately the relevant risk due to changes in the market and the presence of risks previously unknown to us. Additionally, if employees fail to adhere to our policies and procedures or if our policies and procedures are not effective, potentially because of future conditions or risks outside of our control, we may be exposed to greater risk than we had intended. Ineffective risk-management policies and procedures or violation of risk-management policies and procedures could have an adverse affect on our earnings, financial position or cash flows.

Our indebtedness could impair our financial condition and our ability to fulfill our obligations.

As of December 31, 2011, we had total indebtedness for borrowed money of approximately \$1.8 billion, which excludes the debt of ONEOK Partners. Our indebtedness could have significant consequences. For example, it could:

- make it more difficult for us to satisfy our obligations with respect to our senior notes and our other indebtedness due to the increased debt-service obligations, which could, in turn, result in an event of default on such other indebtedness or our senior notes;
- impair our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions or general business purposes;
  - diminish our ability to withstand a downturn in our business or the economy;
- require us to dedicate a substantial portion of our cash flow from operations to debt-service payments, reducing the availability of cash for working capital, capital expenditures, acquisitions, or general corporate purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate; and
  - place us at a competitive disadvantage compared with our competitors that have proportionately less debt.

We are not prohibited under the indentures governing our senior notes from incurring additional indebtedness, but our debt agreements do subject us to certain operational limitations summarized in the next paragraph. If we incur significant additional indebtedness, it could worsen the negative consequences mentioned above and could affect adversely our ability to repay our other indebtedness.

Our revolving debt agreements with banks contain provisions that restrict our ability to finance future operations or capital needs or to expand or pursue our business activities. For example, certain of these agreements contain provisions that, among other things, limit our ability to make loans or investments, make material changes to the nature of our business, merge, consolidate or engage in asset sales, grant liens, or make negative pledges. Certain agreements also require us to maintain certain financial ratios, which limit the amount of additional indebtedness we can incur, as described in the “Liquidity and Capital Resources” section of Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operation. These restrictions could result in higher costs of borrowing and impair our ability to generate additional cash. Future financing agreements we may enter into may contain similar or more restrictive covenants.

If we are unable to meet our debt-service obligations, we could be forced to restructure or refinance our indebtedness, seek additional equity capital or sell assets. We may be unable to obtain financing or sell assets on satisfactory terms, or at all.

We are subject to comprehensive energy regulation by governmental agencies, and the recovery of our costs is dependent on regulatory action.

We are subject to comprehensive regulation by several federal, state and municipal utility regulatory agencies, which significantly influences our operating environment and our ability to recover our costs from utility customers. The utility regulatory authorities in Oklahoma, Kansas and Texas regulate many aspects of our utility operations, including customer service and the rates that we can charge customers. Federal, state and local agencies also have jurisdiction over many of our other activities, including regulation by the FERC of our storage and interstate pipeline assets. The profitability of our regulated operations is dependent on our ability to pass through costs related to providing energy and other commodities to our customers by filing periodic rate cases. The regulatory environment applicable to our regulated businesses could impair our ability to recover costs historically absorbed by our customers.

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We are unable to predict the impact that the future regulatory activities of these agencies will have on our operating results. Changes in regulations or the imposition of additional regulations could have an adverse impact on our business, financial condition and results of operations. Further, the results of our LDCs' operations could be impacted negatively if the cost recovery mechanisms authorized by our rate cases do not function as anticipated.

The adoption and implementation of new statutory and regulatory requirements for derivative transactions could have an adverse impact on our ability to hedge risks associated with our business and increase the working capital requirements to conduct these activities.

In July 2010, the Dodd-Frank Act was enacted, which provides for new statutory and regulatory requirements for certain swap transactions. Certain financial transactions will be required to be cleared on exchanges, and cash collateral will be required for these transactions. However, the Dodd-Frank Act provides for a potential exemption from these clearing and cash collateral requirements for commercial end-users and includes a number of defined terms that will be used in determining how this exemption applies to particular derivative transactions and to the parties to those transactions. Additionally, the Dodd-Frank Act calls for various regulatory agencies, including the SEC and the CFTC, to establish regulations for implementation of many of the provisions of the act. It also requires the CFTC to establish new position trading limits.

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 costs of doing so may increase as a result of the new legislation. We may also incur additional costs associated with our compliance with the new regulations and anticipated additional record-keeping, reporting and disclosure obligations. These requirements could affect adversely the 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 will likely be passed on to customers, which could decrease the benefits of hedging to us and could reduce our profitability and liquidity.

The volatility of natural gas prices may impact negatively LDC customers' perception of natural gas.

Natural gas costs are passed through to the customers of our LDCs based on the actual cost of the natural gas purchased by the particular LDC. Substantial fluctuations in natural gas prices can occur from year to year. Sustained periods of high natural gas prices or of pronounced natural gas price volatility may impact negatively our LDC customers' perception of natural gas, which could lead to customers selecting other energy alternatives, such as electricity, and to difficulties in the rate-making process. Additionally, high natural gas prices may cause customers to conserve more and may also impact adversely our accounts receivable collections, resulting in higher bad-debt expense.

Our business is subject to regulatory oversight and potential penalties.

The natural gas industry historically has been subject to heavy state and federal regulation that extends to many aspects of our businesses and operations, including:

- rates, operating terms and conditions of service;
- the types of services we may offer our customers;
  - construction of new facilities;
- the integrity, safety and security of facilities and operations;
- acquisition, extension or abandonment of services or facilities;
  - reporting and information posting requirements;
  - maintenance of accounts and records; and
- relationships with affiliate companies involved in all aspects of the natural gas and energy businesses.

Compliance with these requirements can be costly and burdensome. Future changes to laws, regulations and policies in these areas may impair our ability to compete for business or to recover costs and may increase the cost and burden of operations.

We cannot guarantee that state or federal regulators will authorize any projects or acquisitions that we may propose in the future. Moreover, there can be no guarantee that, if granted, any such authorizations will be made in a timely manner or will be free from potentially burdensome conditions.

Failure to comply with all applicable state or federal statutes, rules and regulations and orders, could bring substantial penalties and fines. For example, under the Energy Policy Act of 2005, the FERC has civil penalty authority under the Natural Gas Act to impose penalties for current violations of up to \$1.0 million per day for each violation.

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Finally, we cannot give any assurance regarding future state or federal regulations under which we will operate or the effect such regulations could have on our business, financial condition and results of operations.

Demand for services of our Natural Gas Distribution and Energy Services segments and for certain of ONEOK Partners' products is highly weather sensitive and seasonal.

The demand for natural gas in our Natural Gas Distribution, Energy Services and ONEOK Partners' segments and for certain of ONEOK Partners' products, such as propane, is weather sensitive and seasonal, with a significant portion of revenues derived from sales for heating during the winter months. Weather conditions influence directly the volume of, among other things, natural gas and propane delivered to customers. Deviations in weather from normal levels and the seasonal nature of certain of our segments' business can create large variations in earnings and short-term cash requirements.

Compliance with environmental regulations that we are subject to may be difficult and costly.

We are subject to multiple environmental laws and regulations affecting many aspects of present and future operations, including air emissions, water quality, wastewater discharges, solid and hazardous wastes and hazardous material and substance management. These laws and regulations generally require us to obtain and comply with a wide variety of environmental registrations, licenses, permits, inspections and other approvals. Failure to comply with these laws, regulations, permits and licenses 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 substance occurs from our lines or facilities in the process of transporting natural gas or NGLs or at any facility that we own, operate or otherwise use, we could be held jointly and severally liable for all resulting liabilities, including investigation and clean-up costs, which could affect materially our results of operations and cash flows. In addition, emission controls required under the federal Clean Air Act and other similar federal and state laws could require unexpected capital expenditures at our facilities. In addition, the EPA 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 three 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. 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, particularly if those costs are not fully recoverable from customers, could have a material adverse effect on our business, financial condition and results of operations. For further discussion on this topic, see Note Q of the Notes to Consolidated Financial Statements in this Annual Report.

We are subject to risks that could limit our access to capital, thereby increasing our costs and affecting adversely our results of operations.

We have grown rapidly in the past as a result of acquisitions. Future acquisitions may require additional capital. If we are not able to access capital at competitive rates, our strategy of enhancing the earnings potential of our existing assets, including through acquisitions of complementary assets or businesses, will be affected adversely. A number of factors could affect adversely our ability to access capital, including: (i) general economic conditions; (ii) capital market conditions; (iii) market prices for natural gas, NGLs and other hydrocarbons; (iv) the overall health of the energy and related industries; (v) our ability to maintain our investment-grade credit ratings; and (vi) our capital structure. Much of our business is capital intensive, and achievement of our long-term growth targets is dependent, at least in part, upon our ability to access capital at rates and on terms we determine to be attractive. If our ability to access capital becomes constrained significantly, our interest costs will likely increase and our financial condition and future results of operations could be harmed significantly.

Energy efficiency and technological advances may affect the demand for natural gas and affect adversely our operating results.

The national trend toward increased conservation and technological advances, including installation of improved insulation and the development of more efficient furnaces and other heating devices, may decrease the demand for natural gas by residential customers. More strict conservation measures in the future or technological advances in heating, conservation, energy generation or other devices could affect adversely our operations.

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The cost of providing pension and postretirement health care benefits to eligible employees and qualified retirees is subject to changes in pension fund values and changing demographics and may increase.

We have a defined benefit pension plan for certain employees and postretirement welfare plans that provide postretirement medical and life insurance benefits to certain employees who retire with at least five years of service. The cost of providing these benefits to eligible current and former employees is subject to changes in the market value of our pension and postretirement benefit plan assets, changing demographics, including longer life expectancy of plan participants and their beneficiaries and changes in health care costs. For further discussion of our defined benefit pension plan, see Note M of the Notes to Consolidated Financial Statements in this Annual Report.

Any sustained declines in equity markets and reductions in bond yields may have a material adverse effect on the value of our pension and postretirement benefit plan assets. In these circumstances, additional cash contributions to our pension plans may be required.

Our business could be affected adversely by strikes or work stoppages by our unionized employees.

As of January 31, 2012, 694 of our 4,795 employees were represented by collective bargaining units under collective bargaining agreements. We are involved periodically in discussions with collective bargaining units representing some of our employees to negotiate or renegotiate labor agreements. We cannot predict the results of these negotiations, including whether any failure to reach new agreements will have a negative effect on our business, financial condition and results of operations or whether we will be able to reach any agreement with the collective bargaining units. Any failure to reach agreement on new labor contracts might result in a work stoppage. Any future work stoppage could, depending on the operations and the length of the work stoppage, have a material adverse effect on our business, financial condition and results of certain operations.

We may face significant costs to comply with the regulation of greenhouse gas emissions.

Greenhouse gas emissions originate primarily from combustion engine exhaust, heater exhaust and fugitive methane gas emissions. Various federal and state legislative proposals have been introduced to regulate the emission of greenhouse gases, particularly carbon dioxide and methane, and the United States Supreme Court has ruled that carbon dioxide is a pollutant subject to regulation by the EPA. In addition, there have been international efforts seeking legally binding reductions in emissions of greenhouse gases.

We believe it is possible that future governmental legislation and/or regulation may require us either to limit greenhouse gas emissions from our operations or to purchase allowances for such emissions that are actually attributable to our distribution customers or attributable to NGL customers of ONEOK Partners. However, we cannot predict precisely what form these future regulations will take, the stringency of the regulations, or when they will become effective. Several legislative bills have been introduced in the United States Congress that would require carbon dioxide emission reductions. Previously considered proposals have included, among other things, limitations on the amount of greenhouse gases that can be emitted (so called "caps") together with systems of emissions allowances. This system could require us to reduce emissions, even though the technology is not currently available for efficient reduction, or to purchase allowances for such emissions. Emissions also could be taxed independently of limits.

In addition to activities on the federal level, state and regional initiatives could also lead to the regulation of greenhouse gas emissions sooner and/or independent of federal regulation. These regulations could be more stringent than any federal regulation or legislation that is adopted.



Future legislation and/or regulation designed to reduce greenhouse gas emissions could make some of our activities uneconomic to maintain or operate. Further, we may not be able to pass on the higher costs to our customers or recover all costs related to complying with greenhouse gas regulatory requirements. Our future results of operations, cash flows or financial condition could be adversely affected if such costs are not recovered through regulated rates or otherwise passed on to our customers.

We continue to monitor legislative and regulatory developments in this area. Although the regulation of greenhouse gas emissions may have a material impact on our operations and rates, we are unable to quantify the potential costs of the impacts at this time.

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We do not hedge fully against commodity price changes, time differentials or locational differentials. This could result in decreased revenues and increased costs, thereby resulting in lower margins and adversely affecting our results of operations.

Certain of our nonregulated and regulated businesses are exposed to market risk and the impact of market price fluctuations of natural gas, NGLs and crude oil. Market risk refers to the risk of loss of cash flows and future earnings arising from adverse changes in commodity prices. Our Energy Services segment's primary exposures arise from seasonal and locational price differentials and our ability to execute hedges. Our ONEOK Partners segment's primary exposures arise from the value of the NGL and natural gas it receives in exchange for the natural gas gathering and processing services it provides; the differentials between commodity prices with respect to its keep-whole contracts and the differentials between NGL and natural gas prices and their impact on our natural gas and NGL transportation, fractionation and exchange throughputs; the differentials between the individual NGL products; differentials between NGL prices at different locations; the seasonal differentials impacting the volume of natural gas and NGLs stored; and the fuel costs and the value of the retained fuel in-kind in ONEOK Partners' natural gas pipelines and storage operations. Our ONEOK Partners and Energy Services segments are also exposed to the risk of changing prices or the cost of transportation resulting from purchasing natural gas or NGLs at one location and selling it at another (referred to as basis risk). To minimize the risk from market price fluctuations of natural gas, NGLs and crude oil, we use physical forward transactions and commodity derivative instruments such as futures contracts, swaps and options to manage market risk of existing or anticipated purchases and sales of natural gas, NGLs and crude oil. We adhere to policies and procedures that monitor our exposure to market risk from open positions. However, we do not hedge fully against commodity price changes, and therefore, we retain some exposure to market risk. Accordingly, any adverse changes to commodity prices could result in decreased revenue and/or increased costs.

Our Natural Gas Distribution segment uses storage to minimize the volatility of natural gas costs for our customers by storing natural gas in periods of low demand for consumption in peak demand periods. In addition, various natural gas supply contracts allow us the option to convert index-based purchases to fixed prices. Also, we use derivative instruments to hedge the cost of anticipated natural gas purchases during the winter heating months to protect customers from upward volatility in the market price of natural gas.

Federal, state and local jurisdictions may challenge our tax return positions.

The positions taken in our federal and state tax return filings require significant judgments, use of estimates and the interpretation and application of complex tax laws. Significant judgment is also required in assessing the timing and amounts of deductible and taxable items. Despite management's belief that our tax return positions are fully supportable, certain positions may be successfully challenged by federal, state and local jurisdictions.

Although we control ONEOK Partners, we may have conflicts of interest with ONEOK Partners that could subject us to claims that we have breached our fiduciary duty to ONEOK Partners and its unitholders.

We are the sole general partner and own 42.8 percent of ONEOK Partners. Conflicts of interest may arise between us and ONEOK Partners and its unitholders. In resolving these conflicts, we may favor our own interests and the interests of our affiliates over the interests of ONEOK Partners and its unitholders as long as the resolution does not conflict with the ONEOK Partners' partnership agreement or our fiduciary duties to ONEOK Partners and its unitholders.

We are subject to physical and financial risks associated with climate change.

There is a growing belief that emissions of greenhouse gases may be linked to global climate change. Climate change creates physical and financial risk. Our customers' energy needs vary with weather conditions, primarily temperature

and humidity. For residential customers, heating and cooling represent their largest energy use. To the extent weather conditions may be affected by climate change, customers' energy use could increase or decrease depending on the duration and magnitude of any changes. Increased energy use due to weather changes may require us to invest in more pipelines and other infrastructure to serve increased demand. A decrease in energy use due to weather changes may affect our financial condition, through decreased revenues. Extreme weather conditions in general require more system backup, adding to costs, and can contribute to increased system stresses, including service interruptions. Weather conditions outside of our operating territory could also have an impact on our revenues. Severe weather impacts our operating territories primarily through hurricanes, thunderstorms, tornadoes and snow or ice storms. To the extent the frequency of extreme weather events increases, this could increase our cost of providing service. We may not be able to pass on the higher costs to our customers or recover all the costs related to mitigating these physical risks. To the extent financial markets view climate change and emissions of greenhouse gases as a financial risk, this could affect negatively our ability to access capital markets or cause us to receive less favorable terms and conditions in future financings. Our business could be affected by the potential for lawsuits against greenhouse gas emitters, based on links drawn between greenhouse gas emissions and climate change.

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Both our and ONEOK Partners' operations are subject to operational hazards and unforeseen interruptions, which could affect materially and adversely our and ONEOK Partners' business and for which neither we nor ONEOK Partners may be insured adequately.

Our and ONEOK Partners' operations are subject to all of the risks and hazards typically associated with the operation of natural gas and natural gas liquids gathering, transportation and distribution pipelines, storage facilities and processing and fractionation plants. Operating risks include, but are not limited to, leaks, pipeline ruptures, the breakdown or failure of equipment or processes, and the performance of pipeline facilities below expected levels of capacity and efficiency. Other operational hazards and unforeseen interruptions include adverse weather conditions, accidents, explosions, fires, the collision of equipment with our or ONEOK Partners' pipeline facilities (for example, this may occur if a third party were to perform excavation or construction work near our or ONEOK Partners' facilities) and catastrophic events such as tornados, hurricanes, earthquakes, floods or other similar events beyond our or ONEOK Partners' control. It is also possible that our or ONEOK Partners' facilities could be direct targets or indirect casualties of an act of terrorism. A casualty occurrence might result in injury or loss of life, extensive property damage or environmental damage. Liabilities incurred and interruptions to the operations of our or ONEOK Partners' pipelines or other facilities caused by such an event could reduce revenues generated by us or ONEOK Partners and increase expenses, thereby impairing our or ONEOK Partners' ability to meet our respective obligations. Insurance proceeds may not be adequate to cover all liabilities or expenses incurred or revenues lost, and neither we nor ONEOK Partners are fully insured against all risks inherent in our respective businesses.

As a result of market conditions, premiums and deductibles for certain insurance policies can increase substantially, and, in some instances, certain insurance may become unavailable or available only for reduced amounts of coverage. Consequently, neither we nor ONEOK Partners may be able to renew existing insurance policies or purchase other desirable insurance on commercially reasonable terms, if at all. If either we or ONEOK Partners were to incur a significant liability for which either we or ONEOK Partners was not insured fully, it could have a material adverse effect on our or ONEOK Partners' financial position and results of operations. Further, the proceeds of any such insurance may not be paid in a timely manner and may be insufficient if such an event were to occur.

Our use of financial instruments to hedge market risk may result in reduced income.

We utilize financial instruments to mitigate our exposure to commodity price and interest-rate fluctuations. Hedging arrangements that are used to reduce our exposure to commodity price fluctuations may limit the benefit we would otherwise receive if market prices for natural gas, crude oil and NGLs exceed the stated price in the hedge instrument for these commodities. Hedging instruments that are used to reduce our exposure to interest-rate fluctuations could expose us to risk of financial loss where we have contracted for variable-rate swap instruments to hedge fixed-rate instruments and the variable rate exceeds the fixed rate. In addition, these hedging arrangements may limit the benefit we would otherwise receive if we had contracted for fixed-rate swap agreements to hedge variable-rate instruments and the variable rate falls below the fixed rate.

A failure in our operational systems or cyber security attacks on any of our facilities, or those of third parties, may affect adversely our financial results.

Our businesses are dependent upon our operational systems to process a large amount of data and complex transactions. If any of our financial, operational, or other data processing systems fail or have other significant shortcomings, our financial results could be affected adversely. Our financial results could also be affected adversely if an employee causes our operational systems to fail, either as a result of inadvertent error or by deliberately tampering with or manipulating our operational systems. In addition, dependence upon automated systems may further increase the risk that operational system flaws, employee tampering or manipulation of those systems will result in losses that are difficult to detect.

Due to increased technology advances, we have become more reliant on technology to help increase efficiency in our businesses. We use computer programs to help run our financial and operations sectors, and this may subject our business to increased risks. Any future cyber security attacks that affect our facilities, our customers and any financial data could have a material adverse on our businesses. In addition, cyber attacks on our customer and employee data may result in a financial loss and may impact negatively our reputation.

Third-party systems on which we rely could also suffer operational system failure. Any of these occurrences could disrupt one or more of our businesses, result in potential liability or reputational damage or otherwise have an adverse affect on our financial results.

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Increases in interest rates could affect adversely our business.

We use both fixed- and variable-rate debt, and we are exposed to market risk due to the floating interest rates on our short-term borrowings. From time to time we use interest-rate derivatives to hedge interest obligations on specific debt issuances, including anticipated debt issuances. These hedges may be ineffective, and our results of operations, cash flows and financial position could be affected adversely by significant increases in interest rates above current levels.

We do not own all of the land on which our pipelines and facilities are located, and we lease certain facilities and equipment, which could disrupt our operations.

We do not own all of the land on which certain of our pipelines and facilities are located, and are, therefore, subject to the risk of increased costs to maintain necessary land use. We obtain the rights to construct and operate certain of our pipelines and related facilities on land owned by third parties and governmental agencies for a specific period of time. Our loss of these rights, through our inability to renew right-of-way contracts on acceptable terms or increased costs to renew such rights, could have a material adverse effect on our financial condition, results of operations and cash flows.

A shortage of skilled labor may make it difficult for us to maintain labor productivity and competitive costs, which could affect operations and cash flows available for distribution.

Our operations require skilled and experienced workers with proficiency in multiple tasks. In recent years, a shortage of workers trained in various skills associated with the midstream energy business has caused us to conduct certain operations without full staff, thus hiring outside resources, which may decrease productivity and increase costs. This shortage of trained workers is the result of experienced workers reaching retirement age, and increased competition for workers in certain areas, combined with the difficulty of attracting new workers to the midstream energy industry. This shortage of skilled labor could continue over an extended period. If the shortage of experienced labor continues or worsens, it could have an adverse impact on labor productivity and costs and our ability to expand production in the event there is an increase in the demand for our products and services, which could adversely affect operations and cash flows available for distribution to unitholders.

Pipeline-integrity programs and repairs may impose significant costs and liabilities.

Pursuant to a United States Department of Transportation rule, pipeline operators are required to develop integrity-management programs for intrastate and interstate natural gas and natural gas liquids pipelines that could affect high-consequence areas in the event of a release of product. As defined by applicable regulations, high-consequence areas include areas near the route of a pipeline with high population densities, facilities occupied by persons of limited mobility or indoor or outdoor areas where at least twenty people gather periodically. The rule requires operators to identify to pipeline segments that could impact a high-consequence area; improve data collection, integration and characterization of threats applicable to each segment, implement preventive and mitigating actions, perform ongoing assessments of pipeline integrity and repair and remediate as necessary. These testing programs could cause us and ONEOK Partners to incur significant capital and operating expenditures to make repairs or remediate, as well as initiate preventive or mitigating actions that are determined to be necessary.

We are subject to strict regulations at many of our facilities regarding employee safety, and failure to comply with these regulations could affect adversely financial results.

The workplaces associated with our facilities are subject to the requirements of OSHA and comparable state statutes that regulate the protection of the health and safety of workers. The failure to comply with OSHA requirements or

general industry standards, including keeping adequate records or occupational exposure to regulated substances could expose us to civil or criminal liability, enforcement actions, and regulatory fines and penalties and could have a material adverse effect on our business, financial position, results of operations and cash flow.

Measurement adjustments on our pipeline system can be impacted materially by changes in estimation, type of commodity and other factors.

Natural gas and natural gas liquids measurement adjustments occur as part of the normal operating conditions associated with our assets. The quantification and resolution of measurement adjustments are complicated by several factors including: (1) the significant quantities (i.e., thousands) of measurement meters that we use throughout our natural gas systems; (2) varying qualities of natural gas in the streams gathered and processed and the mixed nature of NGLs gathered and fractionated through ONEOK Partners' systems; and (3) variances in measurement that are inherent in metering technologies. Each of these factors may contribute to measurement adjustments that can occur on our systems, which could affect negatively our earnings and cash flows.

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ADDITIONAL RISK FACTORS RELATED TO ONEOK PARTNERS' BUSINESS

The volatility of natural gas, crude oil and NGL prices could affect adversely ONEOK Partners' cash flow.

A significant portion of ONEOK Partners' revenues are derived from the sale of commodities that are received as payment for natural gas gathering and processing services, for the transportation and storage of natural gas, and for the sale of purity NGL products in ONEOK Partners' natural gas liquids business. Commodity prices have been volatile and are likely to continue to be so in the future. The prices ONEOK Partners receives for its commodities are subject to wide fluctuations in response to a variety of factors beyond ONEOK Partners' control, including, but not limited to, the following:

- overall domestic and global economic conditions;
- relatively minor changes in the supply of, and demand for, domestic and foreign energy;
  - market uncertainty;
- the availability and cost of third-party transportation, natural gas processing and natural gas liquids fractionation capacity;
  - the level of consumer product demand;
- geopolitical conditions impacting supply and demand for natural gas, NGLs and crude oil;
  - weather conditions;
  - domestic and foreign governmental regulations and taxes;
    - the price and availability of alternative fuels;
    - speculation in the commodity futures markets;
  - overall domestic and global economic conditions;
- the price of natural gas, crude oil, NGL and liquefied natural gas imports and exports;
  - the effect of worldwide energy conservation measures; and
- the impact of new supplies, new pipelines, processing and fractionation facilities on location price differentials.

These external factors and the volatile nature of the energy markets make it difficult to estimate reliably future prices of commodities and the impact commodity price fluctuations have on our customers and their need for our services. As commodity prices decline, ONEOK Partners is paid less for its commodities, thereby reducing its cash flow. In addition, production could also decline.

ONEOK Partners' inability to develop and execute growth projects and acquire new assets could result in reduced cash distributions to its unitholders and to ONEOK.

ONEOK Partners' primary business objectives are to generate cash flow sufficient to pay quarterly cash distributions to unitholders and to increase quarterly cash distributions over time. ONEOK Partners' ability to maintain and grow its distributions to unitholders, including ONEOK, depends on the growth of its existing businesses and strategic acquisitions. Accordingly, if ONEOK Partners is unable to implement business development opportunities and finance such activities on economically acceptable terms, its future growth will be limited, which could adversely impact its and our results of operations and cash flows.

Growing ONEOK Partners' business by constructing new pipelines and plants or making modifications to its existing facilities subjects ONEOK Partners to construction risks and supply risks should adequate natural gas or NGL supplies be unavailable upon completion of the facilities.

One of the ways ONEOK Partners intends to grow its business is through the construction of new pipelines and new gathering, processing, storage and fractionation facilities and through modifications to ONEOK Partners' existing pipelines and existing gathering, processing, storage and fractionation facilities. The construction and modification of pipelines and gathering, processing, storage and fractionation facilities may require significant capital expenditures,



which may exceed ONEOK Partners' estimates, and involves numerous regulatory, environmental, political, legal and weather-related uncertainties. Construction projects in ONEOK Partners' industry may increase demand for labor, materials and rights of way, which, may, in turn, impact ONEOK Partners' costs and schedule. If ONEOK Partners undertakes these projects, it may not be able to complete them on schedule or at the budgeted cost. Additionally, ONEOK Partners' revenues may not increase immediately upon the expenditure of funds on a particular project. For instance, if ONEOK Partners builds a new pipeline, the construction will occur over an extended period of time, and ONEOK Partners will not receive any material increases in revenues until after completion of the project. ONEOK Partners may have only limited natural gas or NGL supplies committed to these facilities prior to their construction. Additionally, ONEOK Partners may construct facilities to capture anticipated future growth in production in a region in which anticipated production growth does not materialize. ONEOK Partners may also rely on estimates of proved reserves in its decision to construct new pipelines and facilities, which

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may prove to be inaccurate because there are numerous uncertainties inherent in estimating quantities of proved reserves. As a result, new facilities may not be able to attract enough natural gas or NGLs to achieve ONEOK Partners' expected investment return, which could affect materially and adversely ONEOK Partners' results of operations and financial condition.

If the level of drilling and production in the Mid-Continent, Rocky Mountain, Texas and Gulf Coast regions declines substantially near its assets, ONEOK Partners' volumes and revenue could decline.

ONEOK Partners' ability to maintain or expand its businesses depends largely on the level of drilling and production by third parties in the Mid-Continent, Rocky Mountain, Texas and Gulf Coast regions. Drilling and production are impacted by factors beyond ONEOK Partners' control, including:

- demand and prices for natural gas, NGLs and crude oil;
- producers' finding and developing costs of reserves;
- producers' desire and ability to obtain necessary permits in a timely and economic manner;
- natural gas field characteristics and production performance;
- surface access and infrastructure issues; and
- capacity constraints on natural gas, crude oil and natural gas liquids pipelines from the producing areas and ONEOK Partners' facilities.

If production from the Western Canada Sedimentary Basin remains flat or declines, and demand for natural gas from the Western Canada Sedimentary Basin is greater in market areas other than the Midwestern United States, demand for ONEOK Partners' interstate gas transportation services could decrease significantly.

ONEOK Partners depends on natural gas supply from the Western Canada Sedimentary Basin for some of ONEOK Partners' interstate pipelines, primarily Viking Gas Transmission and ONEOK Partners' investment in Northern Border Pipeline, that transport Canadian natural gas from the Western Canada Sedimentary Basin to the Midwestern United States market area. If demand for natural gas increases in Canada or other markets not served by ONEOK Partners' interstate pipelines and/or production remains flat or declines, demand for transportation service on ONEOK Partners' interstate natural gas pipelines could decrease significantly, which could impact adversely ONEOK Partners' results of operations and cash flows available for distributions.

ONEOK Partners' regulated pipelines' transportation rates are subject to review and possible adjustment by federal and state regulators.

Under the Natural Gas Act, which is applicable to interstate natural gas pipelines, and the Interstate Commerce Act, which is applicable to crude oil and natural gas liquids pipelines, ONEOK Partners' interstate transportation rates, which are regulated by the FERC, must be just and reasonable and not unduly discriminatory.

Shippers may protest ONEOK Partners' pipeline tariff filings, and the FERC and/or state regulatory agencies may investigate tariff rates. Further, the FERC may order refunds of amounts collected under newly filed rates that are determined by the FERC to be in excess of a just and reasonable level. In addition, shippers may challenge by complaint the lawfulness of tariff rates that have become final and effective. The FERC and/or state regulatory agencies may also investigate tariff rates absent shipper complaint. Any finding that approved rates exceed a just and reasonable level on the natural gas pipelines would take effect prospectively. In a complaint proceeding challenging natural gas liquids pipeline rates, if the FERC determines existing rates exceed a just and reasonable level, it could require the payment of reparations to complaining shippers for up to two years prior to the complaint. Any such action by the FERC or a comparable action by a state regulatory agency could affect adversely ONEOK Partners' pipeline businesses' ability to charge rates that would cover future increases in costs, or even to continue to collect rates that cover current costs and provide for a reasonable return. We can provide no assurance that ONEOK Partners'

pipeline systems will be able to recover all of their costs through existing or future rates.

ONEOK Partners' regulated pipeline companies have recorded certain assets that may not be recoverable from its customers.

Accounting policies for FERC-regulated companies permit certain assets that result from the regulated ratemaking process to be recorded on ONEOK Partners' balance sheet that could not be recorded under GAAP for nonregulated entities. ONEOK Partners considers factors such as regulatory changes and the impact of competition to determine the probability of future recovery of these assets. If ONEOK Partners determines future recovery is no longer probable, ONEOK Partners would be required to write off the regulatory assets at that time.

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ONEOK Partners' operations are subject to federal and state laws and regulations relating to the protection of the environment, which may expose it to significant costs and liabilities.

The risk of incurring substantial environmental costs and liabilities is inherent in ONEOK Partners' business. ONEOK Partners' operations are subject to extensive federal, state and local laws and regulations governing the discharge of materials into, or otherwise relating to the protection of, the environment. Examples of these laws include:

- the Clean Air Act and analogous state laws that impose obligations related to air emissions;
- the Clean Water Act and analogous state laws that regulate discharge of waste water from ONEOK Partners' facilities to state and federal waters;
- the federal CERCLA and analogous state laws that regulate the cleanup of hazardous substances that may have been released at properties currently or previously owned or operated by ONEOK Partners or locations to which ONEOK Partners has sent waste for disposal;
  - the federal Resource Conservation and Recovery Act and analogous state laws that impose requirements for the handling and discharge of solid and hazardous waste from ONEOK Partners' facilities; and
- the EPA has issued a rule on air-quality standards, known as RICE NESHAP, with a compliance date in 2013.

Various federal and state governmental authorities, including the EPA, have the power to enforce compliance with these laws and regulations and the permits issued under them. Violators are subject to administrative, civil and criminal penalties, including civil fines, injunctions or both. Joint and several, strict liability may be incurred without regard to fault under the CERCLA, Resource Conservation and Recovery Act and analogous state laws for the remediation of contaminated areas.

There is an inherent risk of incurring environmental costs and liabilities in ONEOK Partners' business due to its handling of the products it gathers, transports, processes and stores, air emissions related to its operations, past industry operations and waste disposal practices, some of which may be material. Private parties, including the owners of properties through which ONEOK Partners' pipeline systems pass, may have the right to pursue legal actions to enforce compliance as well as to seek damages for noncompliance with environmental laws and regulations or for personal injury or property damage arising from ONEOK Partners' operations. Some sites ONEOK Partners operates are located near current or former third-party hydrocarbon storage and processing operations, and there is a risk that contamination has migrated from those sites to ONEOK Partners' sites. In addition, increasingly strict laws, regulations and enforcement policies could increase significantly ONEOK Partners' compliance costs and the cost of any remediation that may become necessary, some of which may be material. Additional information is included under Item 1, Business under "Environmental and Safety Matters" and in Note Q of the Notes to Consolidated Financial Statements in this Annual Report.

ONEOK Partners' insurance may not cover all environmental risks and costs or may not provide sufficient coverage in the event an environmental claim is made against ONEOK Partners. ONEOK Partners' business may be affected materially and adversely by increased costs due to stricter pollution-control requirements or liabilities resulting from noncompliance with required operating or other regulatory permits. New environmental regulations might also materially adversely affect ONEOK Partners' products and activities, and federal and state agencies could impose additional safety requirements, all of which could affect materially ONEOK Partners' profitability.

In the competition for customers, ONEOK Partners may have significant levels of uncontracted or discounted capacity on its natural gas and natural gas liquids pipelines, processing, fractionation and storage assets.

ONEOK Partners' natural gas and natural gas liquids pipelines, processing, fractionation and storage assets compete with other pipelines, processing, fractionation and storage facilities for natural gas and NGL supplies delivered to the markets it serves. As a result of competition, at any given time ONEOK Partners may have significant levels of uncontracted or discounted capacity on its pipelines, processing, fractionation and in its storage assets, which could

have a material adverse impact on ONEOK Partners' results of operations.

ONEOK Partners is exposed to the credit risk of its customers or counterparties, and its credit risk management may not be adequate to protect against such risk.

ONEOK Partners is subject to the risk of loss resulting from nonpayment and/or nonperformance by ONEOK Partners' customers or counterparties. ONEOK Partners' customers or counterparties may experience rapid deterioration of their financial condition as a result of changing market conditions or financial difficulties that could impact their creditworthiness or ability to pay ONEOK Partners for its services. ONEOK Partners assesses the creditworthiness of its customers or counterparties and obtains collateral as it deems appropriate. If ONEOK Partners fails to assess adequately the creditworthiness of existing or future customers or counterparties, unanticipated deterioration in their creditworthiness and any resulting nonpayment and/or nonperformance could adversely impact ONEOK Partners' results of operations. In

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addition, if any of ONEOK Partners' customers or counterparties files for bankruptcy protection, this could have a material negative impact on ONEOK Partners' results of operations.

Any reduction in ONEOK Partners' credit ratings could affect materially and adversely its business, financial condition, liquidity and results of operations.

ONEOK Partners' senior unsecured long-term debt has been assigned an investment-grade rating by Moody's of "Baa2" (Stable) and by S&P of "BBB" (Stable); however, we cannot provide assurance that any of its current ratings will remain in effect for any given period of time or that a rating will not be lowered or withdrawn entirely by a rating agency if, in its judgment, circumstances in the future so warrant. Specifically, if Moody's or S&P were to downgrade ONEOK Partners' long-term debt rating, particularly below investment grade, its borrowing costs would increase, which would affect adversely its financial results, and its potential pool of investors and funding sources could decrease. Ratings from credit agencies are not recommendations to buy, sell or hold ONEOK Partners' securities. Each rating should be evaluated independently of any other rating.

An event of default may require ONEOK Partners to offer to repurchase certain of its senior notes or may impair its ability to access capital.

The indentures governing ONEOK Partners' senior notes include 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 ONEOK Partners' outstanding senior notes to declare those senior notes immediately due and payable in full. ONEOK Partners may not have sufficient cash on hand to repurchase and repay any accelerated senior notes, which may cause ONEOK Partners to borrow money under its credit facilities or seek alternative financing sources to finance the repurchases and repayment. ONEOK Partners could also face difficulties accessing capital or its borrowing costs could increase, impacting its ability to obtain financing for acquisitions or capital expenditures, to refinance indebtedness and to fulfill its debt obligations.

ONEOK Partners has adopted certain valuation methodologies that may result in a shift of income, gain, loss and deduction between the general partner and the unitholders. The IRS may challenge this treatment, which could adversely affect the value of its limited partner units.

When ONEOK Partners issues additional units or engages in certain other transactions, ONEOK Partners determines the fair market value of its assets and allocates any unrealized gain or loss attributable to its assets to the capital accounts of its unitholders and its general partner. ONEOK Partners' methodology may be viewed as understating the value of its assets. In that case, there may be a shift of income, gain, loss and deduction between certain unitholders and the general partner, which may be unfavorable to such unitholders. Moreover, under ONEOK Partners' current valuation methods, subsequent purchasers of common units may have a greater portion of their Internal Revenue Code Section 743(b) adjustment allocated to ONEOK Partners' tangible assets and a lesser portion allocated to ONEOK Partners' intangible assets. The IRS may challenge ONEOK Partners' valuation methods or ONEOK Partners' allocation of the Section 743(b) adjustment attributable to ONEOK Partners' tangible and intangible assets, and allocations of income, gain, loss and deduction between the general partner and certain of ONEOK Partners' unitholders.

A successful IRS challenge to these methods or allocations could affect adversely the amount of taxable income or loss being allocated to ONEOK Partners' unitholders. It also could affect the amount of gain from ONEOK Partners unitholders' sale of common units and could have a negative impact on the value of the common units or result in audit adjustments to ONEOK Partners unitholders' tax returns without the benefit of additional deductions.

ONEOK Partners' treatment of a purchaser of common units as having the same tax benefits as the seller could be challenged, resulting in a reduction in value of the common units.

Because ONEOK Partners cannot match transferors and transferees of common units, ONEOK Partners is required to maintain the uniformity of the economic and tax characteristics of these units in the hands of the purchasers and sellers of these units. ONEOK Partners does so by adopting certain depreciation conventions that do not conform to all aspects of existing United States Treasury regulations. A successful IRS challenge to these conventions could affect adversely the tax benefits to a unitholder of ownership of the common units and could have a negative impact on their value or result in audit adjustments to ONEOK Partners unitholders' tax returns.

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Increased regulation of exploration and production activities, including hydraulic fracturing, could result in reductions or delays in drilling and completing new oil and natural gas wells, which could impact adversely ONEOK Partners' revenues by decreasing the volumes of unprocessed natural gas transported on its or its joint ventures natural gas pipelines.

The natural gas industry is relying increasingly on natural gas supplies from unconventional sources, such as shale, tight sands and coal-bed methane gas. Natural gas extracted from these sources frequently requires hydraulic fracturing, which involves the pressurized injection of water, sand, and chemicals into the geologic formation to stimulate natural gas production. Recently, there have been initiatives at the federal and state levels to regulate or otherwise restrict the use of hydraulic fracturing, and several states have adopted regulations that impose more stringent permitting, disclosure and well-completion requirements on hydraulic fracturing operations. Legislation or regulations placing restrictions on hydraulic fracturing activities could impose operational delays, increased operating costs and additional regulatory burdens on exploration and production operators, which could reduce their production of unprocessed natural gas and, in turn, adversely affect ONEOK Partners' revenues and results of operations by decreasing the volumes of unprocessed natural gas gathered, treated, processed and transported on ONEOK Partners' or its joint ventures' natural gas pipelines, several of which gather unprocessed natural gas from areas where the use of hydraulic fracturing is prevalent.

Continued development of new supply sources could impact demand.

The discovery of nontraditional natural gas production areas nearer to certain of the market areas that we serve may compete with natural gas originating in production areas connected to our systems. For example, the Marcellus Shale in Pennsylvania, New York, West Virginia and Ohio, may cause natural gas in supply areas connected to our systems to be diverted to markets other than our traditional market areas and may affect capacity utilization adversely on our pipeline systems and our ability to renew or replace existing contracts at rates sufficient to maintain current revenues and cash flows. In addition, supply volumes from these nontraditional natural gas production areas may compete with and displace volumes from the Mid-Continent, Rocky Mountains and Canadian supply sources in certain of our markets. The displacement of natural gas originating in supply areas connected to our pipeline systems by these new supply sources that are closer to the end-use markets could result in lower transportation revenues, which could have a material adverse impact on our business, financial condition, results of operations and cash flows.

An impairment of goodwill, long-lived assets, including intangible assets, and equity-method investments could reduce our earnings.

Goodwill is recorded when the purchase price of a business exceeds the fair market value of the tangible and separately measurable intangible net assets. GAAP require us to test goodwill and intangible assets with indefinite useful lives for impairment on an annual basis or when events or circumstances occur indicating that goodwill might be impaired. Long-lived assets, including intangible assets with finite useful lives, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For the investments we account for under the equity method, the impairment test considers whether the fair value of the equity investment as a whole, not the underlying net assets, has declined and whether that decline is other than temporary. If we determine that an impairment is indicated, we would be required to take an immediate noncash charge to earnings with a correlative effect on equity and balance sheet leverage as measured by debt to total capitalization.

A court may use fraudulent conveyance considerations to avoid or subordinate ONEOK Partners Intermediate Limited Partnership's guarantee of certain of ONEOK Partners' senior notes.

Various applicable fraudulent conveyance laws have been enacted for the protection of creditors. A court may use fraudulent conveyance laws to subordinate or avoid the guarantee of certain of ONEOK Partners' senior notes issued



by ONEOK Partners Intermediate Limited Partnership. It is also possible that under certain circumstances, a court could hold that the direct obligations of the Intermediate Partnership could be superior to the obligations under that guarantee.

A court could avoid or subordinate the Intermediate Partnership's guarantee of certain of ONEOK Partners' senior notes in favor of the Intermediate Partnership's other debts or liabilities to the extent that the court determined either of the following were true at the time the Intermediate Partnership issued the guarantee:

- the Intermediate Partnership incurred the guarantee with the intent to hinder, delay or defraud any of its present or future creditors or the Intermediate Partnership contemplated insolvency with a design to favor one or more creditors to the total or partial exclusion of others; or
- the Intermediate Partnership did not receive fair consideration or reasonable equivalent value for issuing the guarantee and, at the time it issued the guarantee, the Intermediate Partnership:
  - was insolvent or rendered insolvent by reason of the issuance of the guarantee;

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- was engaged or about to engage in a business or transaction for which its remaining assets constituted unreasonably small capital; or
- intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they matured.

The measure of insolvency for purposes of the foregoing will vary depending upon the law of the relevant jurisdiction. Generally, however, an entity would be considered insolvent for purposes of the foregoing if:

- the sum of its debts, including contingent liabilities, were greater than the fair saleable value of all of its assets at a fair valuation;
- the present fair saleable value of its assets was less than the amount that would be required to pay its probable liability on its existing debts, including contingent liabilities, as they become absolute and mature; or
  - it could not pay its debts as they become due.

Among other things, a legal challenge of the Intermediate Partnership's guarantee of certain of ONEOK Partners' senior notes on fraudulent conveyance grounds may focus on the benefits, if any, realized by the Intermediate Partnership as a result of ONEOK Partners' issuance of such senior notes. To the extent the Intermediate Partnership's guarantee of certain of ONEOK Partners' senior notes is avoided as a result of fraudulent conveyance or held unenforceable for any other reason, the holders of such senior notes would cease to have any claim in respect of the guarantee.

ONEOK Partners may be unable to cause its joint ventures to take or not to take certain actions unless some or all of its joint-venture participants agree.

ONEOK Partners participates in several joint ventures. Due to the nature of some of these arrangements, each participant in these joint ventures has made substantial investments in the joint venture and, accordingly, has required that the relevant charter documents contain certain features designed to provide each participant with the opportunity to participate in the management of the joint venture and to protect its investment, as well as any other assets which may be substantially dependent on or otherwise affected by the activities of that joint venture. These participation and protective features customarily include a corporate governance structure that requires at least a majority-in-interest vote to authorize many basic activities and requires a greater voting interest (sometimes up to 100 percent) to authorize more significant activities. Examples of these more significant activities are large expenditures or contractual commitments, the construction or acquisition of assets, borrowing money or otherwise raising capital, transactions with affiliates of a joint-venture participant, litigation and transactions not in the ordinary course of business, among others. Thus, without the concurrence of joint-venture participants with enough voting interests, ONEOK Partners may be unable to cause any of its joint ventures to take or not to take certain actions, even though those actions may be in the best interest of ONEOK Partners or the particular joint venture.

Moreover, any joint-venture owner generally may sell, transfer or otherwise modify its ownership interest in a joint venture, whether in a transaction involving third parties or the other joint-venture owners. Any such transaction could result in ONEOK Partners being required to partner with different or additional parties.

ONEOK Partners' operating cash flow is derived partially from cash distributions it receives from its unconsolidated affiliates.

ONEOK Partners' operating cash flow is derived partially from cash distributions it receives from its unconsolidated affiliates, as discussed in Note O of the Notes to Consolidated Financial Statements. The amount of cash that ONEOK Partners' unconsolidated affiliates can distribute principally depends upon the amount of cash flow these affiliates generate from their respective operations, which may fluctuate from quarter to quarter. ONEOK Partners does not have any direct control over the cash distribution policies of its unconsolidated affiliates. This lack of control may contribute to ONEOK Partners' not having sufficient available cash each quarter to continue paying distributions at its current levels.

Additionally, the amount of cash that ONEOK Partners has available for cash distribution depends primarily upon its cash flow, including cash flow from financial reserves and working capital borrowings, and is not solely a function of profitability, which will be affected by noncash items such as depreciation, amortization and provisions for asset impairments. As a result, ONEOK Partners may be able to make cash distributions during periods when it records losses and may not be able to make cash distributions during periods when it records net income.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

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ITEM 2. PROPERTIES

DESCRIPTION OF PROPERTIES

ONEOK Partners

Property - Our ONEOK Partners segment owns the following assets:

- approximately 10,300 miles and 5,600 miles of natural gas gathering pipelines in the Mid-Continent and Rocky Mountain regions, respectively;
- nine natural gas processing plants, with approximately 645 MMcf/d of processing capacity, in the Mid-Continent region, and five natural gas processing plants, with approximately 215 MMcf/d of processing capacity, in the Rocky Mountain region;
- approximately 24 MBbl/d of natural gas liquids fractionation capacity at various natural gas processing plants in the Mid-Continent and Rocky Mountain regions;
- approximately 1,500 miles of FERC-regulated interstate natural gas pipelines with approximately 3.1 Bcf/d of peak transportation capacity;
- approximately 5,600 miles of intrastate natural gas gathering and state-regulated intrastate transmission pipelines with approximately 3.4 Bcf/d of peak transportation capacity;
  - approximately 51.7 Bcf of total active working natural gas storage capacity;
- approximately 2,500 miles of natural gas liquids gathering pipelines with peak gathering capacity of approximately 629 MBbl/d;
- approximately 160 miles of natural gas liquids distribution pipelines with approximately 66 MBbl/d of peak transportation capacity;
- two natural gas liquids fractionators with approximately 260 MBbl/d of combined operating capacity, which are located in Oklahoma and Kansas;
- a natural gas liquids fractionator with operating capacity of 150 MBbl/d located at the Bushton facility in Kansas, portion of which prior to June 30, 2011, was leased through an affiliate;
- 80-percent ownership interest in one natural gas liquids fractionator in Texas with ONEOK Partners' proportional share of operating capacity of approximately 128 MBbl/d;
- interest in one natural gas liquids fractionator in Kansas with ONEOK Partners' proportional share of operating capacity of approximately 11 MBbl/d;
  - one isomerization unit in Kansas with 9 MBbl/d of operating capacity;
- six natural gas liquids storage facilities and other leased facilities in Oklahoma, Kansas and Texas with approximately 23.2 MMBbl of total operating underground NGL storage capacity;
- approximately 780 miles of FERC-regulated natural gas liquids gathering pipelines with approximately 213 MBbl/d of peak capacity;
- approximately 3,500 miles of FERC-regulated natural gas liquids and refined petroleum products distribution pipelines with approximately 708 MBbl/d of peak capacity;
  - eight natural gas liquids product terminals in Missouri, Nebraska, Iowa and Illinois; and
- above- and below-ground storage facilities associated with its FERC-regulated natural gas liquids pipeline operations in Iowa, Illinois, Nebraska and Kansas with 978 MBbl of combined operating capacity.

ONEOK Partners owns or leases five underground natural gas storage facilities in Oklahoma, three underground natural gas storage facilities in Kansas and three underground natural gas storage facilities in Texas. One of its natural gas storage facilities in Kansas has been idle since 2001. In compliance with a KDHE order, ONEOK Partners began injecting brine into that facility in the first quarter of 2007 in order to ensure the long-term integrity of the idled facility. ONEOK Partners expects to complete the injection process by the end of 2012. Monitoring of the facility and review of the data for the geo-engineering studies are ongoing, in compliance with a KDHE order while ONEOK Partners evaluates the alternatives for the facility. Following the testing of the gathered data, ONEOK Partners

expects that the facility will be returned to storage service, although most likely for a product other than natural gas. The return to service will require KDHE approval. It is possible, however, that testing could reveal that it is not safe to return the facility to service or that the KDHE will not grant the required permits to resume service.

Utilization - The utilization rates for ONEOK Partners' various assets for 2011 and 2010 were as follows:

- natural gas processing plants were approximately 71 percent and 69 percent utilized, respectively;
- natural gas pipelines were approximately 83 percent and 87 percent subscribed, respectively, and storage facilities were fully subscribed both years;
- non-FERC-regulated natural gas liquids pipelines were approximately 71 percent and 56 percent subscribed, respectively;

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- average contracted natural gas liquids storage volumes were approximately 63 percent and 64 percent of storage capacity, respectively;
  - natural gas liquids fractionators were approximately 89 percent and 93 percent utilized, respectively;
- FERC-regulated natural gas liquids gathering pipelines were approximately 97 percent and 70 percent utilized, respectively; and
- FERC-regulated natural gas liquids distribution pipelines were approximately 65 percent and 63 percent utilized, respectively.

ONEOK Partners calculates utilization on its assets using a weighted-average approach, adjusting for the dates that assets were placed in service. The utilization rate of ONEOK Partners' FERC-regulated natural gas liquids gathering pipelines reflect Overland Pass Pipeline and its related lateral pipelines until Overland Pass Pipeline Company was deconsolidated in September 2010. The utilization rate of ONEOK Partners' fractionation facilities reflects leased capacity and the approximate proportional capacity associated with ONEOK Partner's ownership interests.

### Natural Gas Distribution

Property - We own approximately 18,600 miles of pipeline and other natural gas distribution facilities in Oklahoma; approximately 12,800 miles of pipeline and other natural gas distribution facilities in Kansas; and approximately 9,800 miles of pipeline and other natural gas distribution facilities in Texas. In addition, we have 39.3 Bcf of natural gas storage capacity under lease with maximum withdrawal capacity of approximately 1.0 Bcf/d.

### Energy Services

Property - Our total natural gas storage capacity under lease is 75.6 Bcf, with maximum withdrawal capability of 2.4 Bcf/d and maximum injection capability of 1.3 Bcf/d. At December 31, 2011, our natural gas transportation capacity was 1.2 Bcf/d, of which 1.1 Bcf/d was contracted under long-term natural gas transportation contracts. Our contracted storage and transportation capacity connects major supply and demand centers throughout the United States and into Canada. We have 22 different storage leases throughout the United States.

### Other

Property - We own the 17-story ONEOK Plaza office building, with approximately 517,000 square feet of net rentable space, and an associated parking garage.

## ITEM 3. LEGAL PROCEEDINGS

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"). Plaintiffs brought suit on May 28, 1999, against us and our division, Oklahoma Natural Gas, four subsidiaries of ONEOK Partners, Mid-Continent Market Center, L.L.C., ONEOK Field Services Company, L.L.C., ONEOK WesTex Transmission, L.L.C. and ONEOK Hydrocarbon, L.P. (formerly Koch Hydrocarbon, LP, successor to Koch Hydrocarbon Company), as well as approximately 225 other defendants. Plaintiffs sought class certification for their claims for monetary damages, alleging that the defendants had underpaid gas producers and royalty owners throughout the United States by intentionally understating both the volume and the heating content of purchased gas. After extensive briefing and a hearing, the Court refused to certify the class sought by plaintiffs. Plaintiffs then filed an amended petition limiting the purported class to gas producers and royalty owners in Kansas, Colorado and Wyoming and limiting the claim to undermeasurement of volumes. On September 18, 2009, the Court denied the plaintiffs' motions for class certification, which, in effect, limits the named plaintiffs to pursuing individual claims against only those defendants who purchased or measured their gas. The

plaintiffs' motion for reconsideration of the Court's denial of class certification was denied on March 31, 2010. This case continues but is now limited to the individual claims of the two named plaintiffs.

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"). This action was filed by the plaintiffs on May 12, 2003, after the Court denied class status in Boles I. Plaintiffs are seeking monetary damages based upon a claim that 21 groups of defendants, including us and our division, Oklahoma Natural Gas, four subsidiaries of ONEOK Partners, Mid-Continent Market Center, L.L.C., ONEOK Field Services Company, L.L.C., ONEOK WestTex Transmission, L.L.C. and ONEOK Hydrocarbon, L.P. (formerly Koch Hydrocarbon, LP, successor to Koch Hydrocarbon Company), intentionally underpaid gas producers and royalty owners by understating the heating content of purchased gas in Kansas, Colorado and Wyoming. Boles II has been consolidated with Boles I for the determination of whether either or both cases may be certified properly as class actions. On September 18, 2009, the Court denied the

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plaintiffs' motions for class certification, which, in effect, limits the named plaintiffs to pursuing individual claims against only those defendants who purchased or measured their gas. The plaintiffs' motion for reconsideration of the Court's denial of class certification was denied on March 31, 2010. This case continues but is now limited to the individual claims of the two named plaintiffs.

Gas Index Pricing Litigation: We, ONEOK Energy Services Company, L.P. ("OESC") and one other affiliate are defending, either individually or together, against the following lawsuits that claim damages resulting from the alleged market manipulation or false reporting of prices to gas index publications by us and others: Sinclair Oil Corporation v. ONEOK Energy Services Corporation, L.P., et al. (filed in the United States District Court for the District of Wyoming in September 2005, transferred to MDL-1566 in the United States District Court for the District of Nevada); Reorganized FLI, Inc. (formerly J.P. Morgan Trust Company) v. ONEOK, Inc., et al. (filed in the District Court of Wyandotte County, Kansas, in October 2005, transferred to MDL-1566 in the United States District Court for the District of Nevada); Learjet, Inc., et al. v. ONEOK, Inc., et al. (filed in the District Court of Wyandotte, Kansas, in November 2005, transferred to MDL-1566 in the United States District Court for the District of Nevada); Breckenridge Brewery of Colorado, LLC, et al. v. ONEOK, Inc., et al. (filed in the District Court of Denver County, Colorado, in May 2006, transferred to MDL-1566 in the United States District Court for the District of Nevada); Arandell Corporation, et al. v. Xcel Energy, Inc., et al. (filed in the Circuit Court for Dane County, Wisconsin, in December 2006, transferred to MDL-1566 in the United States District Court for the District of Nevada); Heartland Regional Medical Center, et al. v. ONEOK, Inc., et al. (filed in the Circuit Court of Buchanan County, Missouri, in March 2007, transferred to MDL-1566 in the United States District Court for the District of Nevada); NewPage Wisconsin System v. CMS Energy Resource Management Company, et al. (filed in the Circuit Court for Wood County, Wisconsin, in March 2009, transferred to MDL-1566 in the United States District Court for the District of Nevada and now consolidated with the Arandell case). In each of these lawsuits, the plaintiffs allege that we, OESC and one other affiliate and approximately ten other energy companies and their affiliates engaged in an illegal scheme to inflate natural gas prices by providing false information to gas price index publications. All of the complaints arise out of a CFTC investigation into and reports concerning false gas price index-reporting or manipulation in the energy marketing industry during the years from 2000 to 2002.

On July 18, 2011, the trial court granted judgments in favor of ONEOK, Inc., OESC and other unaffiliated entities in the following cases: Reorganized FLI, Learjet, Arandell, Heartland, and NewPage. A final judgment in favor of all defendants was also granted in the Breckenridge case. The court also granted a final judgment in favor of OESC on all state law claims asserted in the Sinclair case. The plaintiffs in those cases have appealed the judgments entered by the trial court to the United States Court of Appeals for the Ninth Circuit. All of the appeals have been consolidated for briefing purposes by the Ninth Circuit. On August 18, 2011, the trial court entered an order approving a stipulation by the plaintiffs and our affiliate, Kansas Gas Marketing Company ("KGMC"), for a dismissal without prejudice of the plaintiffs' claims against KGMC in the Learjet and Heartland cases.

ITEM 4.

MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND  
5. ISSUER PURCHASES OF EQUITY SECURITIES

MARKET INFORMATION AND HOLDERS



Our common stock is listed on the NYSE under the trading symbol “OKE.” The corporate name ONEOK is used in newspaper stock listings. The following table sets forth the high and low closing prices of our common stock for the periods indicated:

	Year Ended December 31, 2011		Year Ended December 31, 2010	
	High	Low	High	Low
First Quarter	\$ 66.88	\$ 55.38	\$ 47.15	\$ 40.62
Second Quarter	\$ 74.01	\$ 64.23	\$ 50.72	\$ 42.00
Third Quarter	\$ 75.95	\$ 59.31	\$ 47.91	\$ 42.29
Fourth Quarter	\$ 86.70	\$ 64.21	\$ 55.69	\$ 45.64

At February 14, 2012, there were 14,583 holders of record of our 103,893,790 outstanding shares of common stock.

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## DIVIDENDS

The following table sets forth the quarterly dividends declared and paid per share of our common stock during the periods indicated:

	Years Ended December 31,		
	2011	2010	2009
First Quarter	\$ 0.52	\$ 0.44	\$ 0.40
Second Quarter	\$ 0.52	\$ 0.44	\$ 0.40
Third Quarter	\$ 0.56	\$ 0.46	\$ 0.42
Fourth Quarter	\$ 0.56	\$ 0.48	\$ 0.42
Total	\$ 2.16	\$ 1.82	\$ 1.64

In January 2012, we declared a dividend of \$0.61 per share (\$2.44 per share on an annualized basis) for the fourth quarter of 2011, which was paid on February 14, 2012, to shareholders of record as of January 31, 2012.

## ISSUER PURCHASES OF EQUITY SECURITIES

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

Period	Total Number of Shares Purchased (a)	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
October 1-31, 2011	6,660	\$ 28.15	-	
November 1-30, 2011	5,744	\$ 18.10	-	
December 1-31, 2011	-	-	-	
Total	12,404	\$ 23.49	-	\$ 450,000,000(b)

(a) - Includes shares withheld pursuant to attestation of ownership and deemed tendered to us in connection with the exercise

of stock options under the ONEOK, Inc. Long-Term Incentive Plan.

(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 limitation that purchases will not exceed

\$300 million in any one calendar year. The program will terminate upon the completion of the repurchase of \$750 million of

common stock or on December 31, 2013, whichever occurs first.

## EMPLOYEE STOCK AWARD PROGRAM

Under our Employee Stock Award Program, we issued, for no monetary consideration, to all eligible employees one share of our common stock when the per-share closing price of our common stock on the NYSE was for the first time at or above \$26 per share. Shares issued to employees under this program during 2011 totaled 147,847, and compensation expense related to the Employee Stock Award Plan was \$16.0 million. For 2010, the number of shares issued under this program was immaterial, and there were no shares issued in 2009.

The total number of shares of our common stock available for issuance under this program was 300,000. During 2011, the number of shares of our common stock available for distribution under this program was met. Shareholder approval is required for further stock awards to be issued under the program. The shares issued under this program have not been registered under the Securities Act, in reliance upon the position taken by the SEC (see Release No. 6188, dated February 1, 1980) that the issuance of shares to employees pursuant to a program of this kind does not require registration under the Securities Act. See Note L of the Notes to Consolidated Financial Statements in this Annual Report for additional information.

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## PERFORMANCE GRAPH

The following performance graph compares the performance of our common stock with the S&P 500 Index and the S&P Utilities Index during the period beginning on December 31, 2006, and ending on December 31, 2011. The graph assumes a \$100 investment in our common stock and in each of the indices at the beginning of the period and a reinvestment of dividends paid on such investments throughout the period.

Value of \$100 Investment Assuming Reinvestment of Dividends  
at December 31, 2006, and at the End of Every Year Through December 31,  
2011,  
Among ONEOK, Inc., The S&P 500 Index and The S&P Utilities Index

	Cumulative Total Return Years Ended December 31,				
	2007	2008	2009	2010	2011
ONEOK, Inc.	\$106.90	\$72.16	\$116.45	\$150.65	\$242.74
S&P 500 Index	\$105.49	\$66.47	\$84.06	\$96.74	\$98.76
S&P Utilities Index (a)	\$119.36	\$84.75	\$94.87	\$100.08	\$119.98

(a) - The Standard & Poors Utilities Index is comprised of the following companies: AES Corp.; AGL Resource, Inc.; Ameren Corp.; American Electric Power Co., Inc.; Centerpoint Energy, Inc.; CMS Energy Corp.; Consolidated Edison, Inc.; Constellation Energy Group, Inc.; Dominion Resources, Inc.; DTE Energy Co.; Duke Energy Corp.; Edison International; Entergy Corp.; Exelon Corp.; FirstEnergy Corp.; Integrys Energy Group, Inc.; NextEra Energy, Inc.; NiSource, Inc.; Northeast Utilities; NRG Energy, Inc.; Pepco Holdings, Inc.; PG&E Corp.; Pinnacle West Capital Corp.; PPL Corp.; Progress Energy, Inc.; Public Service Enterprise Group, Inc.; SCANA Corp.; Sempra Energy; Southern Co.; TECO Energy, Inc.; Wisconsin Energy Corp.; and Xcel Energy, Inc.

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## ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth our selected financial data for each of the periods indicated:

	Years Ended December 31,				
	2011	2010	2009	2008	2007
	(Millions of dollars except per share amounts)				
Revenues	\$14,805.8	\$12,678.8	\$10,805.8	\$15,514.3	\$12,936.9
Income from continuing operations	\$757.5	\$540.1	\$483.7	\$595.0	\$493.1
Income from continuing operations attributable to ONEOK	\$358.4	\$333.4	\$297.9	\$306.4	\$299.9
Net income attributable to ONEOK	\$360.6	\$334.6	\$305.5	\$311.9	\$304.9
Total assets	\$13,696.6	\$12,499.2	\$12,827.7	\$13,126.1	\$11,062.0
Long-term debt, including current maturities	\$4,893.9	\$4,329.8	\$4,602.2	\$4,230.8	\$4,635.5
Earnings per share - continuing operations					
Basic	\$3.42	\$3.14	\$2.83	\$2.94	\$2.79
Diluted	\$3.34	\$3.09	\$2.80	\$2.91	\$2.74
Earnings per share - total					
Basic	\$3.44	\$3.15	\$2.90	\$2.99	\$2.84
Diluted	\$3.36	\$3.10	\$2.87	\$2.95	\$2.79
Dividends declared per common share	\$2.16	\$1.82	\$1.64	\$1.56	\$1.40

The financial information of ONEOK Energy Marketing Company is reflected as discontinued operations in this Annual Report. All prior periods presented have been recast to reflect the discontinued operations. See Note B of The Notes to Consolidated Financial Statements in this Annual Report for additional information on our discontinued operations.

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with our audited consolidated financial statements and the Notes to Consolidated Financial Statements in this Annual Report.

## RECENT DEVELOPMENTS

The following discussion highlights some of our planned activities, recent achievements and significant issues affecting us. Please refer to the "Financial Results and Operating Information," and "Liquidity and Capital Resources" sections of Management's Discussion and Analysis of Financial Condition and Results of Operation and our consolidated financial statements and Notes to Consolidated Financial Statements for additional information.

Growth Projects - Drilling rig counts are higher compared with 2010, and related development activities continue to progress in many regions of ONEOK Partners' operations. Increasing natural gas and NGL production resulting from these activities and higher petrochemical industry demand for NGL products have required additional capital investments to increase the capacity of the infrastructure to bring these commodities from supply basins to market. In response to this increased production and demand for NGL products, ONEOK Partners is investing approximately \$2.7 billion to \$3.3 billion in capital projects to meet the needs of oil and natural gas producers in the Bakken Shale, the Cana-Woodford Shale, the Granite Wash and Mississippian Lime areas, and to provide additional NGL infrastructure in the Rocky Mountain, Mid-Continent and Gulf Coast regions that will enhance its ability to distribute NGL products to meet the increasing petrochemical industry and NGL export demand. When completed, these

projects are anticipated to provide additional earnings and cash flows. See discussion of ONEOK Partners' growth projects in the "Financial Results and Operating Information" section for our ONEOK Partners segment.

Stock Repurchase Program - In 2011, we repurchased approximately 4.3 million shares of our common stock for approximately \$300 million pursuant to an accelerated stock repurchase agreement. This stock repurchase was part of our three-year stock repurchase program to buy up to \$750 million of our common stock that was authorized by our Board of Directors in October 2010.

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**Dividends/Distributions** - During 2011, we paid dividends totaling \$2.16 per share, an increase of approximately 18.7 percent over the \$1.82 per share paid during 2010. We declared a quarterly dividend of \$0.61 per share (\$2.44 per share on an annualized basis) in January 2012, an increase of approximately 17.3 percent over the \$0.52 declared in January 2011. During 2011, ONEOK Partners paid cash distributions totaling \$2.325 per unit, an increase of approximately 4.3 percent over the \$2.23 per unit paid during 2010. ONEOK Partners paid total cash distributions to us in 2011 of \$333 million, which includes \$197 million resulting from our limited-partner interest and \$136 million related to our general-partner interest. A cash distribution from ONEOK Partners of \$0.61 per unit (\$2.44 per unit on an annualized basis) was declared in January 2012, an increase of approximately 7.0 percent over the \$0.57 declared in January 2011.

**Credit Agreements** - In April 2011, ONEOK entered into the ONEOK 2011 Credit Agreement, which is a \$1.2 billion revolving credit facility scheduled to expire in April 2016. In August 2011, ONEOK Partners entered into the ONEOK Partners 2011 Credit Agreement, which is a \$1.2 billion revolving credit facility scheduled to expire in August 2016.

**Debt Issuance and Maturities** - In January 2011, ONEOK Partners completed an underwritten public offering of \$1.3 billion of senior notes, consisting of \$650 million of 3.25-percent senior notes due 2016 and \$650 million of 6.125-percent senior notes due 2041. The net proceeds from the offering of approximately \$1.28 billion were used to repay amounts outstanding under ONEOK Partners' commercial paper program, to repay \$225 million of ONEOK Partners' senior notes that matured in March 2011 and for general partnership purposes, including capital expenditures.

In 2011, ONEOK repaid \$400 million of maturing senior notes and redeemed \$90.5 million of 6.4-percent senior notes with available cash and short-term borrowings.

In January 2012, we completed an underwritten public offering of \$700 million of 4.25-percent senior notes due 2022. The net proceeds from the offering, after deducting underwriting discounts and offering expenses, of approximately \$693.9 million were used to repay amounts outstanding under our \$1.2 billion commercial paper program and for general corporate purposes, which may include one or more of the following: the repurchase of our common stock, the purchase of additional common units of ONEOK Partners and the payment of dividends.

**Unit Split** - In July 2011, ONEOK Partners completed a two-for-one split of our common and Class B units by a distribution of one unit for each unit outstanding and held by unitholders of record on June 30, 2011. In July 2011, ONEOK Partners' partnership agreement was amended to adjust the formula for distributing available cash among the general partner and limited partners to reflect the unit split. As a result of this unit split, we have adjusted all unit and per-unit amounts contained herein to be presented on a post-split basis.

**Stock Split** - On February 15, 2012, our Board of Directors authorized a two-for-one split of our common stock, subject to shareholder approval of a proposal to increase the number of authorized shares of our common stock to 600 million from 300 million. The proposal will be voted on at our 2012 annual meeting of shareholders on May 23, 2012.

**Retail Marketing Sale** - In December 2011, we entered into a definitive agreement to sell ONEOK Energy Marketing Company to Constellation Energy Group, Inc. for \$22.5 million plus working capital. The transaction closed on February 1, 2012. As a result, we expect to recognize a pre-tax gain of approximately \$20 million to \$23 million in the first quarter of 2012. The financial information of ONEOK Energy Marketing Company is reflected as discontinued operations in this Annual 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	Years Ended December 31,			Variances 2011 vs. 2010		Variances 2010 vs. 2009	
	2011	2010	2009	Increase (Decrease)		Increase (Decrease)	
	(Millions of dollars)						
Revenues	\$ 14,805.8	\$ 12,678.8	\$ 10,805.8	\$ 2,127.0	17 %	\$ 1,873.0	17 %
Cost of sales and fuel	12,425.4	10,616.6	8,807.8	1,808.8	17 %	1,808.8	21 %
Net margin	2,380.4	2,062.2	1,998.0	318.2	15 %	64.2	3 %
Operating costs	908.3	830.9	831.0	77.4	9 %	(0.1 )	(0 %)
Depreciation and amortization	312.2	307.2	288.9	5.0	2 %	18.3	6 %
Gain (loss) on sale of assets	(1.0 )	18.6	4.8	(19.6 )	*	13.8	*
Operating income	\$ 1,158.9	\$ 942.7	\$ 882.9	\$ 216.2	23 %	\$ 59.8	7 %
Equity earnings from investments	\$ 127.2	\$ 101.9	\$ 72.7	\$ 25.3	25 %	\$ 29.2	40 %
Interest expense	\$ (297.0 )	\$ (292.2 )	\$ (300.8 )	\$ 4.8	2 %	\$ (8.6 )	(3 %)
Net income	\$ 759.7	\$ 541.3	\$ 491.2	\$ 218.4	40 %	\$ 50.1	10 %
Net income attributable to noncontrolling interests	\$ 399.2	\$ 206.7	\$ 185.8	\$ 192.5	93 %	\$ 20.9	11 %
Net income attributable to ONEOK	\$ 360.6	\$ 334.6	\$ 305.5	\$ 26.0	8 %	\$ 29.1	10 %
Capital expenditures	\$ 1,336.1	\$ 582.7	\$ 791.2	\$ 753.4	*	\$ (208.5 )	(26 %)

\* Percentage change is greater than 100 percent.

2011 vs. 2010 - NGL and condensate prices were higher while natural gas prices decreased during 2011, compared with 2010. These changes in commodity prices had a direct impact on our revenues and cost of sales and fuel.

Operating income increased 23 percent in 2011 reflecting higher results from our ONEOK Partners segment, offset partially by lower operating income from our Distribution and Energy Services segments. Our ONEOK Partners segment's operating income significantly increased due primarily to more favorable NGL location differentials and higher NGL volumes gathered and fractionated, offset partially by the deconsolidation of Overland Pass Pipeline in September 2010 in its natural gas liquids business and lower natural gas transportation margins due to narrower natural gas price location differentials in its natural gas pipelines business.

Our Natural Gas Distribution segment's operating income decreased 12 percent in 2011 due to increased operating costs.

Our Energy Services segment's operating income decreased significantly in 2011 due primarily to lower transportation margins and storage and marketing margins, net of hedging activities.

Operating costs increased in 2011 due primarily to higher short-term incentive and share-based compensation and other labor and benefit costs for all segments and higher materials and outside services expenses in our ONEOK Partners segment.

Gain (loss) on sale of assets decreased from 2010, which reflected a \$16.3 million gain on the sale of a 49-percent interest of Overland Pass Pipeline Company.

Equity earnings from investments increased in 2011, compared with the same period last year, due to the impact of accounting for Overland Pass Pipeline Company as an equity method investment beginning in September 2010 and increased contracted capacity on Northern Border Pipeline.

Net income attributable to noncontrolling interests, primarily reflects the portion of ONEOK Partners that we do not own and reflects higher earnings in our ONEOK Partners segment during 2011.

Capital expenditures increased during 2011 due primarily to the growth projects in ONEOK Partners' natural gas gathering and processing and natural gas liquids businesses.

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2010 vs. 2009 - Commodity prices were generally higher during 2010, compared with 2009, which had a direct impact on our revenues and cost of sales and fuel. Our operating results include the benefits from a full year of ONEOK Partners' more than \$2.0 billion of completed growth projects that were placed in service in 2009.

Operating income increased 7 percent in 2010, when compared with 2009, reflecting higher NGL volumes, higher contracted natural gas transportation capacity, an increase in natural gas processing volumes, higher natural gas and NGL storage margins and a gain on the sale of a 49-percent ownership interest in Overland Pass Pipeline Company in our ONEOK Partners segment. These increases were offset partially by ONEOK Partners' lower NGL optimization margins. Our Distribution segment benefited from new rates in Oklahoma that increased fixed fees and lowered our volumetric sensitivity, providing more consistent revenues each month. Our Energy Services segment's results were consistent with the prior year, with higher realized seasonal storage price differentials and marketing margins offset by lower realized Mid-Continent-to-Gulf Coast transportation margins and lower premium-services margins.

Operating costs increased due primarily to the recognition of previously deferred integrity-management costs in our Natural Gas Distribution segment that are now being recovered through rates, offset partially by lower than estimated ad valorem taxes in our ONEOK Partners segment and lower legal-related costs in our Energy Services segment.

Our results were also favorably impacted by increased equity earnings from investments in our ONEOK Partners segment. The overall increase was due primarily to increased contracted capacity on Northern Border Pipeline, which benefited from wider natural gas price differentials between the markets it serves, and as a result of accounting for ONEOK Partners' 50-percent investment in Overland Pass Pipeline Company as an equity investment beginning September 2010.

More information regarding our results of operations is provided in the following discussion of operating results for each of our segments.

### ONEOK Partners

Growth Projects - Natural gas gathering and processing business - ONEOK Partners' natural gas gathering and processing business is investing approximately \$950 million to \$1.1 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 - ONEOK Partners projects in this basin include three 100 MMcf/d natural gas processing facilities: the Garden Creek plant in eastern McKenzie County, North Dakota, and the Stateline I and II plants in western Williams County, North Dakota. ONEOK Partners has multi-year supply commitments and acreage dedications for all the capacity of the Garden Creek and Stateline I plants and for approximately 75 percent of the Stateline II plant's capacity. In addition, ONEOK Partners will expand and upgrade its existing gathering and compression infrastructure and add new well connections associated with these plants. The Garden Creek plant, which was placed in service in December 2011, and related infrastructure projects are expected to cost approximately \$350 million to \$415 million, excluding AFUDC. The Stateline I plant, which is expected to be in service by the third quarter of 2012, and related infrastructure projects are expected to cost approximately \$300 million to \$355 million, excluding AFUDC. The Stateline II plant, which is expected to be in service during the first half of 2013, and related infrastructure projects are expected to cost approximately \$260 million to \$305 million, excluding AFUDC.

Horizontal wells drilled in the Williston Basin are economically justified by producers primarily by crude oil economics. Accordingly, ONEOK Partners' growth in this area is expected to shift our supply exposure from natural gas production economics toward crude oil production economics. In addition, ONEOK Partners expects its

commodity price exposure to increase particularly to NGLs and natural gas, as equity volumes increase under its POP contracts with its customers in the Williston Basin.

Cana-Woodford Shale projects - In 2010, ONEOK Partners completed projects totaling approximately \$38 million in the Cana-Woodford Shale development in Oklahoma, which included the connection of its western Oklahoma natural gas gathering system to its Maysville natural gas processing facility in central Oklahoma, as well as new well connections to gather and process additional Cana-Woodford Shale natural gas volumes.

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. These wells tend to produce at higher initial volumes; however, they generally have higher initial decline rates than conventional vertical wells, but the decline curves flatten out. These wells are expected to have long-lasting reserves. ONEOK Partners expects the routine growth capital needed to connect to new wells and expand its infrastructure to be higher compared with its previous experience.

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Natural gas liquids business - The growth strategy in ONEOK Partners' natural gas liquids business is focused around the oil and natural gas drilling activity in shale and other resource plays from the Rocky Mountain region through the Mid-Continent region down into Texas. Increasing 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 to increase the capacity of its infrastructure to bring these commodities from supply basins to market. ONEOK Partners' natural gas liquids business is investing approximately \$1.7 billion to \$2.2 billion through 2014. This investment will accommodate the gathering and fractionation of growing NGL supplies from the shale and other resource plays across ONEOK Partners' asset base and alleviate infrastructure constraints between the Mid-Continent and Texas Gulf Coast regions that will enhance its ability to distribute NGL products to meet the increasing petrochemical industry and NGL export demand in the Gulf Coast. ONEOK Partners' supply commitments from producers and natural gas processors associated with these growth projects will provide incremental and long-term fee-based earnings to its NGL business. Over time, these growing fee-based volumes will fill a portion of the capacity used in 2011 to capture the price differentials between the Mid-Continent and Gulf Coast market centers. In addition, we believe the 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' MB-2 fractionator and Sterling III pipeline, begin to alleviate constraints impacting NGL prices and the location price differential 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. 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 plans to construct a 75-MBbl/d fractionator, MB-2, near ONEOK Partners' storage facility in Mont Belvieu, Texas. The Texas Commission on Environmental Quality (TCEQ) has approved the permit application to build this fractionator. Construction of the MB-2 fractionator began in June 2011 and is expected to be completed in mid-2013. The cost of the MB-2 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. The fractionator can be expanded to 125 MBbl/d to accommodate additional NGL volumes from the Arbuckle Pipeline and the Sterling I, II and III pipelines.

Bakken Pipeline and related projects - ONEOK Partners plans to build a 525- to 615-mile natural gas liquids pipeline, the Bakken Pipeline, to transport unfractionated NGLs from the Williston Basin to the Overland Pass Pipeline. The Bakken Pipeline initially will have the capacity to transport up to 60 MBbl/d of unfractionated NGL production and

can be expanded to 110 MBbl/d with additional pump stations. 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 are estimated to be \$450 million to \$550 million, excluding AFUDC.

NGL supply commitments for the Bakken Pipeline will be anchored by NGL production from ONEOK Partners' natural gas processing plants in the Williston Basin. Following receipt of all necessary permits, construction of the 12-inch diameter pipeline is expected to begin in the second quarter of 2012 and be in service during the first half of 2013.

The unfractionated NGLs from the Bakken 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' anticipated share of the costs for this project is estimated to be \$35 million to \$40 million, excluding AFUDC.

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**Bushton Fractionator Expansion** - To accommodate the additional volume from the Bakken Pipeline, ONEOK Partners is investing \$110 million to \$140 million, excluding AFUDC, to expand and upgrade its existing fractionation capacity at Bushton, Kansas, increasing its capacity to 210 MBbl/d from 150 MBbl/d. This project is expected to be in service during the fourth quarter of 2012.

**Cana-Woodford Shale and Granite Wash projects** - ONEOK Partners plans to invest approximately \$197 million to \$257 million, excluding AFUDC, in its existing Mid-Continent infrastructure, primarily in the Cana-Woodford Shale and Granite Wash areas. These investments will expand ONEOK Partners' ability 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.

These investments include constructing more than 230 miles of natural gas liquids pipelines that will expand its existing Mid-Continent natural gas liquids gathering system in the Cana-Woodford Shale and Granite Wash areas. The pipelines will connect to three new third-party natural gas processing facilities that are under construction and to three existing third-party natural gas processing facilities that are being expanded. Additionally, ONEOK Partners will install additional pump stations on the Arbuckle Pipeline to increase its capacity to 240 MBbl/d. When completed, these projects are expected to add, through multi-year supply contracts, approximately 75 to 80 MBbl/d of unfractionated NGL, to ONEOK Partners' existing natural gas liquids gathering systems. These projects are expected to be completed early in the second quarter of 2012 and cost approximately \$180 million to \$240 million, excluding AFUDC.

In 2010, ONEOK Partners invested approximately \$17 million to increase the accessibility of new NGL supply to the Arbuckle Pipeline and Mont Belvieu fractionation facilities.

**Sterling I Pipeline Expansion** - In 2011, ONEOK Partners installed seven additional pump stations at a cost of 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 58.

**Selected Financial Results and Operating Information** - ONEOK Partners' 2011 and 2010 operating results reflect increases in NGL volumes gathered, fractionated and sold in its natural gas liquids business and natural gas volumes processed in the Williston Basin in its natural gas gathering and processing business. ONEOK Partners expects continued development of the reserves in the Bakken Shale and Three Forks formations in the Williston Basin and in the Cana-Woodford Shale and Granite Wash areas in Oklahoma and Texas, as drilling activities increase in these areas.

The following table sets forth certain selected financial results for our ONEOK Partners segment for the periods indicated:

Financial Results	Years Ended December 31,			Variances 2011 vs. 2010			Variances 2010 vs. 2009		
	2011	2010	2009	Increase (Decrease)			Increase (Decrease)		
	(Millions of dollars)								
Revenues	\$ 11,322.6	\$ 8,675.9	\$ 6,474.5	\$ 2,646.7	31	%	\$ 2,201.4	34	%
Cost of sales and fuel	9,745.2	7,531.0	5,355.2	2,214.2	29	%	2,175.8	41	%

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Net margin	1,577.4	1,144.9	1,119.3	432.5	38 %	25.6	2 %
Operating costs	459.4	403.5	411.3	55.9	14 %	(7.8 )	(2 %)
Depreciation and amortization	177.5	173.7	164.1	3.8	2 %	9.6	6 %
Gain (loss) on sale of assets	(1.0 )	18.6	2.7	(19.6 )	*	15.9	*
Operating income	\$ 939.5	\$ 586.3	\$ 546.6	\$ 353.2	60 %	\$ 39.7	7 %
Equity earnings from investments	\$ 127.2	\$ 101.9	\$ 72.7	\$ 25.3	25 %	\$ 29.2	40 %
Interest expense	\$ (223.1 )	\$ (204.3 )	\$ (206.0 )	\$ 18.8	9 %	\$ (1.7 )	(1 %)
Capital expenditures	\$ 1,063.4	\$ 352.7	\$ 615.7	\$ 710.7	*	\$ (263.0 )	(43 %)

\* Percentage change is greater than 100 percent.



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2011 vs. 2010 - Net margin increased due primarily to the following:

- an increase of \$363.6 million in optimization and marketing margins in ONEOK Partners' natural gas liquids business due primarily to the following:
  - an increase of \$335.2 million from more favorable NGL price differentials and additional fractionation and transportation capacity available for optimization activities between the Conway, Kansas, and Mont Belvieu, Texas, NGL market centers; and
  - an increase of \$28.4 from higher marketing volumes and more favorable margins on NGL products marketed;
- an increase of \$32.6 million due to higher net realized NGL and condensate prices in ONEOK Partners' natural gas gathering and processing business;
- an increase of \$32.5 million from higher NGL volumes gathered and fractionated in Texas and the Mid-Continent and Rocky Mountain regions, excluding the impact of the September 2010 deconsolidation of Overland Pass Pipeline Company, and contract renegotiations for higher fees associated with ONEOK Partners' NGL exchange services activities, offset partially by higher costs associated with NGL volumes fractionated by third parties in its natural gas liquids business;
- an increase of \$26.4 million related to higher isomerization margins resulting from wider price differentials between normal butane and iso-butane and higher isomerization volumes in ONEOK Partners' natural gas liquids business;
- an increase of \$19.4 million due to higher natural gas volumes processed in the Williston Basin and western Oklahoma resulting from increased drilling activity, offsetting reduced drilling activity in certain parts of Kansas and weather-related outages during the first quarter in ONEOK Partners' natural gas gathering and processing business;
- an increase of \$12.4 million due to higher storage margins as a result of contract renegotiations in ONEOK Partners' natural gas liquids business; and
- an increase of \$8.8 million due to favorable changes in contract terms in ONEOK Partners' natural gas gathering and processing business; offset partially by
- a decrease of \$42.8 million due to the deconsolidation of Overland Pass Pipeline Company, which is now accounted for under the equity method in ONEOK Partners' natural gas liquids business;
- a decrease of \$12.5 million from lower natural gas transportation margins due to narrower natural gas price location differentials that decreased contracted transportation capacity on Midwestern Gas Transmission and interruptible transportation volumes across ONEOK Partners' pipelines in its natural gas pipelines business; and
- a decrease of \$8.2 million due to lower natural gas volumes gathered as a result of continued production declines and reduced drilling activity by producers in the Powder River Basin in ONEOK Partners' natural gas gathering and processing business.

Operating costs increased due primarily to the following:

- an increase of \$35.7 million in higher labor and employee-related costs associated with incentive and benefit plans, which includes higher share-based compensation costs resulting from common stock awarded to employees as part of ONEOK's stock award program and the appreciation in ONEOK's share price, affecting all of ONEOK Partners' businesses;
- an increase of \$9.4 million from higher materials and outside services expenses associated primarily with scheduled maintenance at fractionation, pipeline and storage facilities in ONEOK Partners' natural gas liquids business; and
- an increase of \$5.0 million due to higher ad valorem taxes associated with the completed capital projects in all of ONEOK Partners' businesses; offset partially by
- a decrease of \$5.4 million due to the deconsolidation of Overland Pass Pipeline Company, which is now accounted for under the equity method of accounting in ONEOK Partners' natural gas liquids business.

Gain (loss) on sale of assets decreased due to the \$16.3 million gain on the sale of a 49-percent interest of Overland Pass Pipeline Company recorded in 2010.

Equity earnings include Overland Pass Pipeline Company in ONEOK Partners' natural gas liquids business, which it began accounting for under the equity method of accounting in September 2010. Equity earnings from investments increased due primarily to increased contracted capacity on Northern Border Pipeline in ONEOK Partners' natural gas pipelines business. Northern Border Pipeline benefited from wider natural gas price location differentials between the markets it serves, which resulted in a significant increase in its capacity being sold in 2011. Substantially all of Northern Border Pipeline's long-haul capacity has been contracted through March 2013.

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Capital expenditures increased due primarily to the growth projects in ONEOK Partners' natural gas gathering and processing and natural gas liquids businesses.

Previously, ONEOK Partners had a Processing and Services Agreement with us and OBPI, under which we contracted for all of OBPI's rights, including all of the capacity of the Bushton Plant, reimbursing OBPI for all costs associated with the operation and maintenance of the Bushton Plant and its obligations under equipment leases covering portions of the Bushton Plant. In April 2011, pursuant to its rights under the Processing and Services Agreement, ONEOK Partners directed OBPI to give notice of intent to exercise the purchase option for the leased equipment pursuant to the terms of the equipment leases. On June 30, 2011, through a series of transactions, we sold OBPI to ONEOK Partners, and OBPI closed the purchase option and terminated the equipment leases. The total amount paid by ONEOK Partners to complete the transactions was approximately \$94.2 million, which included the reimbursement to us of obligations related to the Processing and Services Agreement.

2010 vs. 2009 - Net margin increased due primarily to the following:

- an increase of \$51.4 million due to higher NGL volumes gathered, fractionated and transported, primarily associated with the completion of the Arbuckle Pipeline and Piceance and D-J Basin lateral pipelines, as well as new NGL supply connections in ONEOK Partners' natural gas liquids business;
- an increase of \$14.4 million due to higher storage margins, primarily as a result of contract renegotiations in ONEOK Partners' natural gas pipelines and natural gas liquids businesses;
- an increase of \$9.1 million due to increased Williston Basin volumes in ONEOK Partners' natural gas gathering and processing business; and
- an increase of \$8.7 million from higher natural gas transportation margins from an increase in contracted capacity on Midwestern Gas Transmission, Viking Gas Transmission's Fargo lateral pipeline and the incremental margin from the Guardian Pipeline expansion and extension project in ONEOK Partners' natural gas pipelines business; offset partially by
- a decrease of \$34.7 million related to lower optimization margins due to limited NGL fractionation and transportation capacity available for optimization activities between the Mid-Continent and Gulf Coast NGL market centers until September 2010 and less favorable NGL price differentials in ONEOK Partners' natural gas liquids business;
- a decrease of \$7.8 million due to decreased volumes processed and sold in western Oklahoma and Kansas as a result of natural production declines, operational outages and a period of ethane rejection in ONEOK Partners' natural gas gathering and processing business;
  - a decrease of \$6.5 million from selling ONEOK Partners' Lehman Brothers bankruptcy claims in 2009; and
- a decrease of \$6.3 million due to lower natural gas volumes gathered as a result of natural production declines and reduced drilling activity by its customers in the Powder River Basin in ONEOK Partners' natural gas gathering and processing business.

Operating costs decreased due primarily to a decrease of \$8.2 million due to lower than estimated ad valorem taxes associated with ONEOK Partners' capital projects completed in 2009 in its natural gas liquids business.

Depreciation and amortization expense increased primarily as a result of ONEOK Partners' capital projects completed in 2009 in its natural gas liquids and natural gas pipelines businesses, offset partially by the deconsolidation of Overland Pass Pipeline Company in the third quarter of 2010 in ONEOK Partners' natural gas liquids business.

Gain (loss) on sale of assets increased due primarily to the gain on sale of a 49-percent ownership interest in Overland Pass Pipeline Company in ONEOK Partners' natural gas liquids business.

Equity earnings from investments increased due primarily to increased contracted capacity on Northern Border Pipeline due to wider natural gas price differentials in ONEOK Partners' natural gas pipelines business and equity

earnings from ONEOK Partners' investment in Overland Pass Pipeline Company, which was deconsolidated in September 2010.

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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	2011	2010	2009
Natural gas gathering and processing business (a)			
Natural gas gathered (BBtu/d)	1,030	1,067	1,123
Natural gas processed (BBtu/d) (b)	713	674	658
NGL sales (MBbl/d)	48	44	43
Residue gas sales (BBtu/d)	317	286	291
Realized composite NGL net sales price (\$/gallon) (c)	\$ 1.08	\$ 0.94	\$ 0.90
Realized condensate net sales price (\$/Bbl) (c)	\$ 82.56	\$ 63.81	\$ 78.35
Realized residue gas net sales price (\$/MMBtu) (c)	\$ 5.47	\$ 5.58	\$ 3.55
Realized gross processing spread (\$/MMBtu) (c)	\$ 8.17	\$ 6.41	\$ 6.63
Natural gas pipelines business (a)			
Natural gas transportation capacity contracted (MDth/d)	5,373	5,616	5,507
Transportation capacity subscribed	83 %	87 %	86 %
Average natural gas price			
Mid-Continent region (\$/MMBtu)	\$ 3.88	\$ 4.17	\$ 3.28
Natural gas liquids business			
NGL sales (MBbl/d)	497	457	408
NGLs fractionated (MBbl/d) (d)	537	512	481
NGLs transported-gathering lines (MBbl/d) (a) (e)	436	440	372
NGLs transported-distribution lines (MBbl/d) (a)	473	468	459
Conway-to-Mont Belvieu OPIS average price differential			
Ethane (\$/gallon)	\$ 0.28	\$ 0.10	\$ 0.11

(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) - 2010 and 2009 volume information includes 62 and 69 MBbl/d, respectively, related to Overland Pass Pipeline Company, which was deconsolidated in September 2010.

2011 vs. 2010 - Natural gas gathered decreased in 2011, compared with 2010, due to continued production declines and reduced drilling activity, primarily in the Powder River Basin in Wyoming and certain parts of Kansas, and weather-related outages in the first quarter of 2011, offset partially by increased drilling activity in the Williston Basin and western Oklahoma.

Natural gas processed and residue gas sales increased in 2011, compared with 2010, due to an increase in drilling activity in the Williston Basin and western Oklahoma, offsetting reduced drilling activity and natural production declines in Kansas and weather-related outages in the first quarter of 2011.

Natural gas transportation capacity contracted decreased due primarily to lower contracted capacity on Midwestern Gas Transmission due to narrower natural gas price location differentials between the markets we serve.

NGLs gathered and fractionated, excluding the impact of the September 2010 deconsolidation of Overland Pass Pipeline Company, increased due primarily to increased throughput through existing connections in Texas and the Mid-Continent and Rocky Mountain regions, and new supply connections in the Mid-Continent and Rocky Mountain regions. In the second quarter 2011, additional Gulf Coast fractionation capacity became available through our 60 MBbl/d fractionation service agreement with Targa Resources Partners.

NGLs transported on distribution lines increased due primarily to increased volumes of NGL products transported on our North System pipeline to Midwest markets and our Sterling I pipeline expansion discussed above.

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2010 vs. 2009 - Natural gas gathered decreased in 2010, compared with 2009, due to continued production declines and reduced drilling activity, primarily in the Powder River Basin in Wyoming and certain parts of western Oklahoma and Kansas, offset partially by increased drilling activity in the Williston Basin.

Natural gas processed increased during 2010, compared with 2009, due to an increase in drilling activity in the Williston Basin, offsetting reduced drilling activity and natural production declines in Kansas, and reduced drilling activity in certain parts of western Oklahoma.

Natural gas transportation capacity contracted increased due primarily to increased capacity on Midwestern Gas Transmission due to a new interconnection with the Rockies Express Pipeline, Viking Gas Transmission's Fargo lateral and Guardian Pipeline expansion and extension projects completed in 2009.

NGLs gathered, fractionated and distributed increased primarily due to new connections and increased production associated with the completion of the Arbuckle Pipeline, Piceance Lateral and D-J Basin lateral pipelines.

ONEOK Partners' natural gas pipelines business primarily serves end-users, such as natural gas distribution companies and electric-generation companies, that require natural gas to operate their businesses regardless of price or location price differentials. The development of shale gas and other resource plays has continued to increase available natural gas supply and has caused natural gas prices to decrease and locational and seasonal price differentials to narrow. As additional supply is developed, ONEOK Partners expects producers to demand incremental services in the future to transport their production to market. The abundance of shale gas supply and new regulations on emissions from coal-fired electric-generation plants also may increase the demand for our services from electric-generation companies if they were to convert to a natural gas fuel source. Conversely, demand from certain customers that are focused on capturing location or seasonal natural gas price differentials may decrease in the future due to narrowing price differentials. Overall, we expect our fee-based earnings to remain relatively stable in the future as the development of shale and other resource plays continue.

Natural Gas Distribution

In December 2011, we entered into a definitive agreement to sell ONEOK Energy Marketing Company to Constellation Energy Group, Inc. for \$22.5 million plus working capital. The transaction closed on February 1, 2012. As a result, we expect to recognize a pre-tax gain of approximately \$20 million to \$23 million in the first quarter of 2012. The financial information of ONEOK Energy Marketing Company is reflected as discontinued operations in this Annual Report. All prior periods presented have been recast to reflect the discontinued operations.

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

Financial Results	Years Ended December 31,			Variances 2011 vs. 2010			Variances 2010 vs. 2009		
	2011	2010	2009	Increase (Decrease)			Increase (Decrease)		
	(Millions of dollars)								
Gas sales	\$ 1,492.5	\$ 1,687.4	\$ 1,708.8	\$ (194.9 )	(12 %)	\$ (21.4 )	(1 %)		
Transportation revenues	90.9	91.5	87.6	(0.6 )	(1 %)	3.9	4 %		
Cost of gas	869.5	1,062.5	1,122.9	(193.0 )	(18 %)	(60.4 )	(5 %)		
Net margin, excluding other revenues	713.9	716.4	673.5	(2.5 )	(0 %)	42.9	6 %		
Other revenues	37.9	38.5	42.5	(0.6 )	(2 %)	(4.0 )	(9 %)		
Net margin	751.8	754.9	716.0	(3.1 )	(0 %)	38.9	5 %		
Operating costs	422.0	398.8	384.1	23.2	6 %	14.7	4 %		
Depreciation and amortization	132.2	131.0	122.6	1.2	1 %	8.4	7 %		
Gain (loss) on sale of assets	-	-	0.5	-	0 %	(0.5 )	(100 %)		
Operating income	\$ 197.6	\$ 225.1	\$ 209.8	\$ (27.5 )	(12 %)	\$ 15.3	7 %		
Capital expenditures	\$ 242.6	\$ 215.6	\$ 157.5	\$ 27.0	13 %	\$ 58.1	37 %		

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

Net Margin, Excluding Other Revenues	Years Ended December 31			Variances 2011 vs. 2010			Variances 2010 vs. 2009		
	2011	2010	2009	Increase (Decrease)			Increase (Decrease)		
	(Millions of dollars)								
Gas sales									
Regulated									
Residential	\$ 510.5	\$ 509.1	\$ 473.8	\$ 1.4	0 %	\$ 35.3	7 %		
Commercial	105.5	108.9	105.1	(3.4 )	(3 %)	3.8	4 %		
Industrial	2.4	2.2	2.5	0.2	9 %	(0.3 )	(12 %)		
Wholesale/public authority	4.6	4.7	4.5	(0.1 )	(2 %)	0.2	4 %		
Net margin on gas sales	623.0	624.9	585.9	(1.9 )	(0 %)	39.0	7 %		
Transportation margin	90.9	91.5	87.6	(0.6 )	(1 %)	3.9	4 %		
Net margin, excluding other revenues	\$ 713.9	\$ 716.4	\$ 673.5	\$					