

ONEOK INC /NEW/
Form 10-Q
August 06, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2014.

OR

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

Commission file number 001-13643

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

Oklahoma
(State or other jurisdiction of
incorporation or organization)

73-1520922
(I.R.S. Employer Identification No.)

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

74103
(Zip Code)

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

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

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

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

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

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

On July 29, 2014, the Company had 208,002,586 shares of common stock outstanding.

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ONEOK, Inc.

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

The statements in this Quarterly Report that are not historical information, including statements concerning plans and objectives of management for future operations, economic performance or related assumptions, are forward-looking statements. Forward-looking statements may include words such as “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “believe,” “should,” “goal,” “forecast,” “guidance,” “could,” “may,” “continue,” “might,” “potential,” “scheduled” and other words of similar meaning. Although we believe that our expectations regarding future events are based on reasonable assumptions, we can give no assurance that such expectations or assumptions will be achieved. Important factors that could cause actual results to differ materially from those in the forward-looking statements are described under Part I, Item 2, Management’s Discussion and Analysis of Financial Condition and Results of Operations “Forward-Looking Statements,” in this Quarterly Report and under Part I, Item IA, “Risk Factors,” in our Annual Report.

INFORMATION AVAILABLE ON OUR WEBSITE

We make available, free of charge, on our website (www.oneok.com) copies of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, amendments to those reports filed or furnished to the SEC pursuant to Section 13(a) or 15(d) of the Exchange Act and reports of holdings of our securities filed by our officers and directors under Section 16 of the Exchange Act as soon as reasonably practicable after filing such material electronically or otherwise furnishing it to the SEC. Copies of our Code of Business Conduct, Corporate Governance Guidelines and Director Independence Guidelines are also available on our website, and we will provide copies of these documents upon request. Our website and any contents thereof are not incorporated by reference into this report.

We also make available on our website the Interactive Data Files required to be submitted and posted pursuant to Rule 405 of Regulation S-T.

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GLOSSARY

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

AFUDC	Allowance for funds used during construction
Annual Report	Annual Report on Form 10-K for the year ended December 31, 2013
ASU	Accounting Standards Update
Bbl	Barrels, 1 barrel is equivalent to 42 United States gallons
Bbl/d	Barrels per day
BBtu/d	Billion British thermal units per day
Bcf	Billion cubic feet
Btu	British thermal units, a measure of the amount of heat required to raise the temperature of one pound of water one degree Fahrenheit
CFTC	Commodities Futures Trading Commission
Clean Air Act	Federal Clean Air Act, as amended
Clean Water Act	Federal Water Pollution Control Act Amendments of 1972, as amended
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
DOT	United States Department of Transportation
EBITDA	Earnings before interest expense, income taxes, depreciation and amortization
EPA	United States Environmental Protection Agency
Exchange Act	Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
GAAP	Accounting principles generally accepted in the United States of America
Intermediate Partnership	ONEOK Partners Intermediate Limited Partnership, a wholly owned subsidiary of ONEOK Partners, L.P.
LIBOR	London Interbank Offered Rate
MBbl/d	Thousand barrels per day
MDth/d	Thousand dekatherms per day
MMBbl	Million barrels
MMBtu	Million British thermal units
MMBtu/d	Million British thermal units per day
MMcf/d	Million cubic feet per day
Moody's	Moody's Investors Service, Inc.
Natural Gas Policy Act	Natural Gas Policy Act of 1978, as amended
NGL(s)	Natural gas liquid(s)
NGL products	Marketable natural gas liquids purity products, such as ethane, ethane/propane mix, propane, iso-butane, normal butane and natural gasoline
NYMEX	New York Mercantile Exchange
NYSE	New York Stock Exchange
ONE Gas	ONE Gas, Inc.
ONEOK	ONEOK, Inc.
ONEOK Credit Agreement	ONEOK's \$300 million Amended and Restated Revolving Credit Agreement dated January 31, 2014
ONEOK Partners	ONEOK Partners, L.P.
ONEOK Partners Credit Agreement	ONEOK Partners' \$1.7 billion Amended and Restated Revolving Credit Agreement dated January 31, 2014

ONEOK Partners GP	ONEOK Partners GP, L.L.C., a wholly owned subsidiary of ONEOK and the
OPIS	sole general partner of ONEOK Partners
Partnership Agreement	Oil Price Information Service
	Third Amended and Restated Agreement of Limited Partnership of ONEOK Partners, L.P., as amended
PHMSA	United States Department of Transportation Pipeline and Hazardous Materials
POP	Safety Administration
	Percent of Proceeds

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Quarterly Report(s)	Quarterly Report(s) on Form 10-Q
S&P	Standard & Poor's Ratings Services
SCOOP	South Central Oklahoma Oil Province
SEC	Securities and Exchange Commission
Securities Act	Securities Act of 1933, as amended
XBRL	eXtensible Business Reporting Language

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ONEOK, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)	Three Months Ended		Six Months Ended	
	June 30, 2014	2013	June 30, 2014	2013
	(Thousands of dollars, except per share amounts)			
Revenues				
Commodity sales	\$2,715,109	\$2,447,411	\$5,521,838	\$4,646,205
Services	351,773	321,573	708,340	640,734
Total revenues	3,066,882	2,768,984	6,230,178	5,286,939
Cost of sales and fuel	2,571,402	2,356,226	5,224,071	4,503,074
Net margin	495,480	412,758	1,006,107	783,865
Operating expenses				
Operations and maintenance	153,323	108,906	280,049	230,311
Depreciation and amortization	72,127	58,883	139,541	114,166
General taxes	18,699	16,859	41,084	36,589
Total operating expenses	244,149	184,648	460,674	381,066
Gain (loss) on sale of assets	(16	) 279	(1	) 320
Operating income	251,315	228,389	545,432	403,119
Equity earnings from investments (Note K)	25,435	26,421	59,094	52,276
Allowance for equity funds used during construction	1,253	5,656	12,224	14,743
Other income	3,213	2,734	4,622	8,356
Other expense	(1,392	) (380	) (26,926	) (1,881
Interest expense (net of capitalized interest of \$11,375, \$11,359, \$27,143 and \$23,964, respectively)	(88,751	) (66,120	) (183,652	) (130,606
Income before income taxes	191,073	196,700	410,794	346,007
Income taxes	(42,313	) (42,923	) (57,297	) (81,727
Income from continuing operations	148,760	153,777	353,497	264,280
Income (loss) from discontinued operations, net of tax (Note B)	(8,009	) (74,282	) (6,235	) (19,080
Net income	140,751	79,495	347,262	245,200
Less: Net income attributable to noncontrolling interests	79,161	78,576	192,157	131,760
Net income attributable to ONEOK	\$61,590	\$919	\$155,105	\$113,440
Amounts attributable to ONEOK:				
Income from continuing operations	\$69,599	\$75,201	\$161,340	\$132,520
Income (loss) from discontinued operations	(8,009	) (74,282	) (6,235	) (19,080
Net income	\$61,590	\$919	\$155,105	\$113,440
Basic earnings per share:				
Income from continuing operations (Note I)	\$0.33	\$0.36	\$0.77	\$0.64
Income (loss) from discontinued operations	(0.04	) (0.36	) (0.03	) (0.09
Net income	\$0.29	\$—	\$0.74	\$0.55
Diluted earnings per share:				
Income from continuing operations (Note I)	\$0.33	\$0.36	\$0.77	\$0.63
Income (loss) from discontinued operations	(0.04	) (0.36	) (0.03	) (0.09
Net income	\$0.29	\$—	\$0.74	\$0.54
Average shares (thousands)				
Basic	209,403	206,143	209,267	205,811

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Diluted	210,516	208,874	210,337	209,166
Dividends declared per share of common stock	\$0.56	\$0.36	\$0.96	\$0.72

See accompanying Notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE
INCOME

(Unaudited)	Three Months Ended		Six Months Ended	
	June 30, 2014	2013	June 30, 2014	2013
	(Thousands of dollars)			
Net income	\$ 140,751	\$ 79,495	\$ 347,262	\$ 245,200
Other comprehensive income (loss), net of tax				
Unrealized gains (losses) on energy marketing and risk-management assets/liabilities, net of tax of \$3,596, \$(13,840), \$13,824 and \$(9,882), respectively	(28,920	) 53,289	(78,846	) 39,637
Realized (gains) losses in net income, net of tax of \$(1,202), \$2,614, \$(14,219) and \$(2,081), respectively	7,511	(3,390	) 45,038	3,905
Unrealized holding gains (losses) on available-for-sale securities, net of tax of \$25, \$(168), \$37 and \$(130), respectively	(37	) 268	(113	) 206
Change in pension and postretirement benefit plan liability, net of tax of \$(1,356), \$4,340, \$(3,923) and \$9,048, respectively	2,033	(6,882	) 5,884	(14,344
Total other comprehensive income (loss), net of tax	(19,413	) 43,285	(28,037	) 29,404
Comprehensive income	121,338	122,780	319,225	274,604
Less: Comprehensive income attributable to noncontrolling interests	62,962	110,678	158,649	156,336
Comprehensive income attributable to ONEOK	\$ 58,376	\$ 12,102	\$ 160,576	\$ 118,268
See accompanying Notes to Consolidated Financial Statements.				

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CONSOLIDATED BALANCE SHEETS

(Unaudited)	June 30, 2014	December 31, 2013
Assets		
Current assets		
Cash and cash equivalents	\$358,560	\$145,565
Accounts receivable, net	1,097,008	1,109,510
Natural gas and natural gas liquids in storage	335,116	188,286
Commodity imbalances	93,070	80,481
Other current assets	118,545	133,010
Assets of discontinued operations (Note B)	57,356	747,872
Total current assets	2,059,655	2,404,724
Property, plant and equipment		
Property, plant and equipment	11,737,291	10,970,256
Accumulated depreciation and amortization	1,866,627	1,738,302
Net property, plant and equipment	9,870,664	9,231,954
Investments and other assets		
Investments in unconsolidated affiliates (Note K)	1,212,408	1,229,838
Goodwill and intangible assets	1,018,679	1,024,562
Other assets	193,032	224,353
Assets of discontinued operations (Note B)	30,100	3,626,050
Total investments and other assets	2,454,219	6,104,803
Total assets	\$14,384,538	\$17,741,481

See accompanying Notes to Consolidated Financial Statements.

Table of ContentsONEOK, Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS
(Continued)

(Unaudited)	June 30, 2014	December 31, 2013
Liabilities and equity	(Thousands of dollars)	
Current liabilities		
Current maturities of long-term debt	\$ 10,650	\$ 10,650
Notes payable (Note E)	—	564,462
Accounts payable	1,271,539	1,273,102
Commodity imbalances	207,456	213,577
Accrued interest	105,099	109,099
Other current liabilities	190,289	103,752
Liabilities of discontinued operations (Note B)	66,138	455,688
Total current liabilities	1,851,171	2,730,330
Long-term debt, excluding current maturities (Note F)	7,196,988	7,753,657
Deferred credits and other liabilities		
Deferred income taxes	1,253,099	1,146,562
Other deferred credits	237,468	217,522
Liabilities of discontinued operations (Note B)	52,481	1,048,230
Total deferred credits and other liabilities	1,543,048	2,412,314
Commitments and contingencies (Note M)		
Equity (Note G)		
ONEOK shareholders' equity:		
Common stock, \$0.01 par value:		
authorized 600,000,000 shares; issued 245,811,180 shares and outstanding 207,999,517 shares at June 30, 2014; issued 245,811,180 shares and outstanding 206,618,877 shares at December 31, 2013	2,458	2,458
Paid-in capital	1,503,582	1,433,600
Accumulated other comprehensive loss (Note H)	(113,127)	(121,987)
Retained earnings	225,423	2,020,815
Treasury stock, at cost: 37,811,663 shares at June 30, 2014, and 39,192,303 shares at December 31, 2013	(961,911)	(997,035)
Total ONEOK shareholders' equity	656,425	2,337,851
Noncontrolling interests in consolidated subsidiaries	3,136,906	2,507,329
Total equity	3,793,331	4,845,180
Total liabilities and equity	\$ 14,384,538	\$ 17,741,481
See accompanying Notes to Consolidated Financial Statements.		

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ONEOK, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)	Six Months Ended	
	June 30, 2014	2013
	(Thousands of dollars)	
Operating activities		
Net income	\$347,262	\$245,200
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	150,895	182,076
Charges attributable to exit activities	1,739	113,780
Equity earnings from investments	(59,094)	(52,276)
Distributions received from unconsolidated affiliates	61,200	51,546
Deferred income taxes	57,191	68,468
Share-based compensation expense	17,288	19,018
Pension and postretirement benefit expense, net of contributions	12,729	5,187
Allowance for equity funds used during construction	(12,224)	(14,743)
Loss (gain) on sale of assets	1	(320)
Other	—	(3,658)
Changes in assets and liabilities:		
Accounts receivable	17,504	190,633
Natural gas and natural gas liquids in storage	(40,122)	82,018
Accounts payable	(3,426)	(63,954)
Commodity imbalances, net	(15,830)	(57,885)
Settlement of exit activities liabilities	(25,728)	—
Accrued interest	(4,129)	(1,843)
Other assets and liabilities, net	31,051	25,034
Cash provided by operating activities	536,307	788,281
Investing activities		
Capital expenditures (less allowance for equity funds used during construction)	(822,201)	(1,060,333)
Acquisition	(14,000)	—
Contributions to unconsolidated affiliates	(1,063)	(4,558)
Distributions received from unconsolidated affiliates	16,449	17,958
Proceeds from sale of assets	319	3,333
Cash used in investing activities	(820,496)	(1,043,600)
Financing activities		
Borrowing (repayment) of notes payable, net	(564,462)	16,830
Issuance of ONE Gas, Inc. debt, net of discounts	1,199,994	—
ONE Gas, Inc. long-term debt financing costs	(9,663)	—
Repayment of debt	(553,855)	(3,888)
Issuance of common stock	9,166	6,002
Issuance of common units, net of issuance costs	878,765	15,942
Dividends paid	(199,684)	(147,982)
Cash of ONE Gas, Inc. at separation	(60,000)	—
Distributions to noncontrolling interests	(206,342)	(181,522)
Cash provided by (used in) financing activities	493,919	(294,618)
Change in cash and cash equivalents	209,730	(549,937)
Change in cash and cash equivalents included in discontinued operations	3,265	247
Change in cash and cash equivalents included in continuing operations	212,995	(549,690)

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Cash and cash equivalents at beginning of period	145,565	579,578
Cash and cash equivalents at end of period	\$358,560	\$29,888
See accompanying Notes to Consolidated Financial Statements.		

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ONEOK, Inc. and Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Unaudited)	ONEOK Shareholders' Equity			Accumulated Other Comprehensive Income (Loss)
	Common Stock Issued	Common Stock	Paid-in Capital	
	(Shares)	(Thousands of dollars)		
January 1, 2014	245,811,180	\$2,458	\$1,433,600	\$(121,987)
Net income	—	—	—	—
Other comprehensive income (loss)	—	—	—	5,471
Common stock issued	—	—	(21,220)	—
Common stock dividends - \$0.96 per share	—	—	—	—
Issuance of common units of ONEOK Partners	—	—	127,125	—
Distribution of ONE Gas to shareholders (Note B)	—	—	—	3,389
Distributions to noncontrolling interests	—	—	—	—
Other	—	—	(35,923)	—
June 30, 2014	245,811,180	\$2,458	\$1,503,582	\$(113,127)

See accompanying Notes to Consolidated Financial Statements.

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ONEOK, Inc. and Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Continued)

(Unaudited)	ONEOK Shareholders' Equity			Noncontrolling Interests in Consolidated Subsidiaries	Total Equity
	Retained Earnings	Treasury Stock			
	(Thousands of dollars)				
January 1, 2014	\$2,020,815	\$ (997,035)	\$2,507,329	\$4,845,180	
Net income	155,105	—	192,157	347,262	
Other comprehensive income (loss)	—	—	(33,508)	(28,037)	
Common stock issued	—	35,124	—	13,904	
Common stock dividends - \$0.96 per share	(199,684)	—	—	(199,684)	
Issuance of common units of ONEOK Partners	—	—	677,270	804,395	
Distribution of ONE Gas to shareholders (Note B)	(1,750,813)	—	—	(1,747,424)	
Distributions to noncontrolling interests	—	—	(206,342)	(206,342)	
Other	—	—	—	(35,923)	
June 30, 2014	\$225,423	\$ (961,911)	\$3,136,906	\$3,793,331	

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ONEOK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Our accompanying unaudited consolidated financial statements have been prepared pursuant to the rules and regulations of the SEC. These statements have been prepared in accordance with GAAP and reflect all adjustments that, in our opinion, are necessary for a fair presentation of the results for the interim periods presented. All such adjustments are of a normal recurring nature. The 2013 year-end consolidated balance sheet data was derived from our audited financial statements but does not include all disclosures required by GAAP. These unaudited consolidated financial statements should be read in conjunction with our audited consolidated financial statements in our Annual Report.

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

Organization and Nature of Operations - We are the sole general partner and own limited partner units of ONEOK Partners (NYSE: OKS), which together represent an aggregate 38.5 percent interest in ONEOK Partners at June 30, 2014. On January 31, 2014, we completed the separation of our natural gas distribution business into a stand-alone publicly traded company called ONE Gas. On March 31, 2014, we completed the accelerated wind down of our energy services business. The results of operations for our former natural gas distribution and energy services businesses have been classified as discontinued operations for all periods presented. Following the ONE Gas separation and wind down of our energy services business, our primary source of income and cash flow is generated from our investment in ONEOK Partners. See Note B for additional information.

Unless indicated otherwise, the information in the Notes to the Consolidated Financial Statements relates to our continuing operations.

Change in Reportable Segments - Following the separation of our natural gas distribution business into ONE Gas and wind down of our energy services business, our chief operating decision maker reviews the financial performance of each of the three businesses of ONEOK Partners on a regular basis to assess the performance of, and allocate resources to, ONEOK Partners. As a result, our reportable segments have changed to reflect the three business segments of ONEOK Partners, which include the following:

- the Natural Gas Gathering and Processing segment, which gathers, treats and processes natural gas;
- the Natural Gas Liquids segment, which gathers, treats, fractionates and transports NGLs and stores, markets and distributes NGL products; and
- the Natural Gas Pipelines segment, which operates regulated interstate and intrastate natural gas transmission pipelines and natural gas storage facilities.

We have reflected the change in reporting segments for all periods presented. See Note N for additional information.

Income Taxes - Deferred income taxes are recorded for the difference between the financial statement and income tax basis of assets and liabilities and carryforward items, based on income tax laws and rates existing at the time the temporary differences are expected to reverse. Deferred tax liabilities and deferred income tax expense were reduced by \$34.6 million in the first quarter 2014 due to a reduction in our estimate of the effective state income tax rate to reflect a change in the mix of taxable income in the states in which we now operate, resulting from the separation of our former natural gas distribution business and the wind down of our energy services business. We also recorded a valuation allowance of \$8.2 million in the first quarter 2014 for state tax credits as it is more likely than not that we will not be able to utilize these credits as a result of the separation of our former natural gas distribution business and

the wind down of our energy services business. Together, these adjustments resulted in a net \$26.4 million reduction in deferred tax liabilities and deferred income tax expense.

Recently Issued Accounting Standards Update - In April 2014, the FASB issued ASU 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity," which alters the definition of a discontinued operation to include only asset disposals that represent a strategic shift with a major effect on an entity's operations and financial results. The amendments also require more extensive disclosures about a discontinued operation's assets, liabilities, income, expenses and cash flows. This guidance will be effective for interim and annual periods for all assets that are disposed of or classified as being held for sale in fiscal years that begin on or after December 15, 2014. We will adopt this guidance beginning in the first quarter 2015, and we are evaluating the impact on us.

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In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers,” which outlines the principles an entity must apply to measure and recognize revenue for entities that enter into contracts to provide goods or services to their customers. The core principle is that an entity should recognize revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer. The amendments also require more extensive disaggregated revenue disclosures in interim and annual financial statements. This update will be effective for interim and annual periods that begin on or after December 15, 2016, with either retrospective application for all periods presented or retrospective application with a cumulative effect adjustment. We will adopt this guidance beginning in the first quarter 2017, and we are evaluating the impact on us.

B. DISCONTINUED OPERATIONS

Separation of ONE Gas - On January 31, 2014, we completed the separation of ONE Gas. ONE Gas consists of ONEOK’s former natural gas distribution business that includes Kansas Gas Service, Oklahoma Natural Gas and Texas Gas Service. ONEOK shareholders of record at the close of business on January 21, 2014, retained their shares of ONEOK stock and received one share of ONE Gas stock for every four shares of ONEOK stock owned in a transaction that was tax-free to ONEOK and its shareholders. ONE Gas shares were distributed following the close of business on January 31, 2014. We retained no ownership interest in ONE Gas. On the date of the separation, ONE Gas consisted of approximately \$4.3 billion of assets, \$2.6 billion of liabilities and \$1.7 billion of equity. Excluding cash of ONE Gas at separation, the separation was accounted for as a noncash activity. These balances include certain estimates expected to be finalized in 2014.

Wind Down of Energy Services Business - On March 31, 2014, we completed the accelerated wind down of our energy services business. We executed an agreement in the first quarter 2014 to release a nonaffiliated, third-party natural gas storage contract to a third party, resulting in a noncash charge of \$1.7 million. All of the remaining natural gas transportation and storage contracts not previously released or assigned expired on their own terms on or before March 31, 2014. Our energy services business continued to serve its contracted premium-services until these remaining contracts expired on or before March 31, 2014. Our energy services business was classified as discontinued operations, effective at the close of business March 31, 2014, when substantially all operations ceased.

The following table summarizes the change in our liability related to released capacity contracts for the period indicated:

	Six Months Ended June 30, 2014 (Millions of dollars)
Beginning balance	\$122.0
Noncash charges	1.7
Settlements	(25.7)
Accretion	1.1
Ending balance	\$99.1

We expect future cash payments associated with previously released transportation and storage capacity from the wind down of our energy services business on an after-tax basis to be approximately \$60 million, with approximately \$15 million paid in the remainder of 2014, \$23 million in 2015, \$11 million in 2016 and \$11 million over the period 2017 through 2023.

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Results of Operations of Discontinued Operations - The results of operations for our former natural gas distribution and energy services businesses have been reported as discontinued operations for all periods presented. The tables below provide selected financial information reported in discontinued operations in the Consolidated Statements of Income:

	Three Months Ended June 30, 2014			Six Months Ended June 30, 2014		
	Natural Gas Distribution	Energy Services	Total	Natural Gas Distribution	Energy Services	Total
	(Thousands of dollars)					
Revenues	\$—	\$—	\$—	\$287,249	\$353,404	\$640,653
Cost of sales and fuel	—	—	—	190,893	364,648	555,541
Net margin	—	—	—	96,356	(11,244)	85,112
Operating costs	1,416	(a) 1,395	(c) 2,811	60,847	(a) 4,522	65,369
Depreciation and amortization	—	—	—	11,035	319	11,354
Operating income (loss)	(1,416)	(1,395)	(2,811)	24,474	(16,085)	8,389
Other income (expense), net	—	—	—	(888)	(7)	(895)
Interest expense, net	—	—	—	(4,592)	(413)	(5,005)
Income taxes	(5,745)	(b) 547	(5,198)	(16,415)	7,691	(8,724)
Income (loss) from discontinued operations, net	\$(7,161)	\$(848)	\$(8,009)	\$2,579	\$(8,814)	\$(6,235)

(a) - Includes approximately \$1.3 million and \$23.0 million for the three and six months ended June 30, 2014, respectively, of costs related to the ONE Gas separation.

(b) - Reflects revision of estimates for income taxes related to the ONE Gas separation.

(c) - Represents primarily accretion expense.

	Three Months Ended June 30, 2013			Six Months Ended June 30, 2013		
	Natural Gas Distribution	Energy Services	Total	Natural Gas Distribution	Energy Services	Total
	(Thousands of dollars)					
Revenues	\$311,606	\$359,984	\$671,590	\$947,537	\$830,179	\$1,777,716
Cost of sales and fuel	133,163	497,799	630,962	517,420	967,320	1,484,740
Net margin	178,443	(137,815)	40,628	430,117	(137,141)	292,976
Operating costs	104,382	3,479	107,861	217,785	8,367	226,152
Depreciation and amortization	32,904	68	32,972	67,771	139	67,910
Operating income (loss)	41,157	(141,362)	(100,205)	144,561	(145,647)	(1,086)
Other income (expense), net	(44)	17	(27)	575	45	620
Interest expense, net	(15,163)	(448)	(15,611)	(30,469)	(1,093)	(31,562)
Income taxes	(10,513)	52,074	41,561	(40,801)	53,749	12,948
Income (loss) from discontinued operations, net	\$15,437	\$(89,719)	\$(74,282)	\$73,866	\$(92,946)	\$(19,080)

Prior to the ONE Gas separation, natural gas sales and transportation and storage services provided to our former natural gas distribution business by ONEOK Partners were \$14.3 million for the three months ended June 30, 2013, and \$7.5 million and \$28.1 million for the six months ended June 30, 2014 and 2013, respectively. Prior to February 1, 2014, these revenues and related costs were eliminated in consolidation. Beginning February 1, 2014, these revenues represent third-party transactions with ONE Gas and are not eliminated in consolidation, as such sales and services have continued subsequent to the separation and are expected to continue in future periods.

Prior to the completion of the energy services wind down, natural gas sales and transportation and storage services provided to our energy services business by ONEOK Partners were \$77.0 million for the three months ended June 30, 2013, and \$46.0 million and \$145.9 million for the six months ended June 30, 2014 and 2013, respectively. While these transactions were eliminated in consolidation in previous periods, they are reflected now as affiliate transactions and not eliminated in consolidation as these transactions have continued with third parties.

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Statement of Financial Position of Discontinued Operations - The following table presents the carrying value of assets and liabilities of our former natural gas distribution and energy services businesses included in assets and liabilities of discontinued operations in the Consolidated Balance Sheets for the period presented:

	December 31, 2013		Total
	Natural Gas Distribution	Energy Services	
	(Thousands of dollars)		
Assets			
Cash and cash equivalents	\$3,535	\$213	\$3,748
Accounts receivable, net	368,214	87,315	455,529
Natural gas and natural gas liquids in storage	166,128	62,663	228,791
Other current assets	30,328	29,476	59,804
Net property, plant and equipment	3,065,272	279	3,065,551
Goodwill	157,953	—	157,953
Other assets	402,161	385	402,546
Total assets	\$		