

ONEOK INC /NEW/
Form 10-K
February 27, 2008
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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, 2007.

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)

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

74103

(Zip Code)

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 .

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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 if disclosure of delinquent filers pursuant to Item 405 of Registration S-K 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, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer

Accelerated filer

Non-accelerated filer

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, 2007, was \$5.2 billion.

On February 20, 2008, the Company had 104,060,539 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 15, 2008, are incorporated by reference in Part III.

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ONEOK, Inc.

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In this Annual Report on Form 10-K, 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, industry terminology and certain other terms used in this Annual Report on Form 10-K are defined as follows:

AFUDC	Allowance for funds used during construction
APB Opinion	Accounting Principles Board Opinion
ARB	Accounting Research Bulletin
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
Black Mesa Pipeline	Black Mesa Pipeline, Inc.
Btu	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
EITF	Emerging Issues Task Force
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
FIN	FASB Interpretation
Fort Union Gas Gathering	Fort Union Gas Gathering, L.L.C.
GAAP	Generally Accepted Accounting Principles in the United States
Guardian Pipeline	Guardian Pipeline, L.L.C.
Heartland	Heartland Pipeline Company
Intermediate Partnership	ONEOK Partners Intermediate Limited Partnership, formerly known as Northern Border 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
Midwestern Gas Transmission	Midwestern Gas Transmission Company
MMBtu	Million British thermal units
MMcf	Million cubic feet
MMcf/d	Million cubic feet per day
Moody's	Moody's Investors Service, Inc.
NGL(s)	Natural gas liquid(s)
Northern Border Pipeline	Northern Border Pipeline Company
Northern Plains	Northern Plains Natural Gas Company, LLC, now known as ONEOK Partners GP, L.L.C.
NYMEX	New York Mercantile Exchange
NYSE	New York Stock Exchange
OBPI	ONEOK Bushton Processing Inc.
OCC	Oklahoma Corporation Commission
ONEOK	ONEOK, Inc.
ONEOK Leasing Company	ONEOK Leasing Company, L.L.C.
ONEOK Partners	ONEOK Partners, L.P., formerly known as Northern Border Partners, L.P.
ONEOK Partners GP	ONEOK Partners GP, L.L.C., formerly known as Northern Plains Natural Gas Company, LLC, a wholly owned subsidiary of ONEOK, Inc. and the sole general partner of ONEOK Partners, L.P.
Overland Pass Pipeline Company	Overland Pass Pipeline Company LLC

POP

Percent of Proceeds

3

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RRC	Texas Railroad Commission
S&P	Standard & Poor's Rating Group
SEC	Securities and Exchange Commission
Statement	Statement of Financial Accounting Standards
TC PipeLines	TC PipeLines Intermediate Limited Partnership, a subsidiary of TC PipeLines, LP
TransCanada	TransCanada Corporation
Viking Gas Transmission	Viking Gas Transmission Company

The statements in this Annual Report on Form 10-K 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 and other words and terms of similar meaning. Although we believe that our expectations regarding future events are based on reasonable assumptions, we can give no assurance that our goals 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 Forward-Looking Statements, in this Annual Report on Form 10-K for the year ended December 31, 2007.

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PART I.

**ITEM 1. BUSINESS
GENERAL**

ONEOK, Inc., an Oklahoma corporation, was organized on May 16, 1997. On November 26, 1997, we acquired the natural gas business of Westar Energy, Inc. (Westar), formerly Western Resources, Inc., and merged with ONEOK Inc., a Delaware corporation organized in 1933. We are the successor to the company founded in 1906 known as Oklahoma Natural Gas Company.

We purchase, transport, store and distribute natural gas. 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 operation is engaged in wholesale and retail natural gas and trading activities and provides services to customers in many states and Canada. We are the sole general partner and own 45.7 percent of ONEOK Partners, L.P. (NYSE: OKS), a publicly traded limited partnership. ONEOK Partners gathers, processes, stores and transports natural gas in the United States and owns natural gas liquids systems that connect much of the natural gas and NGL supply in the Mid-Continent and Gulf Coast regions with key market centers in Conway, Kansas, Mont Belvieu, Texas, and Chicago, Illinois.

DESCRIPTION OF BUSINESS SEGMENTS

We report operations in the following reportable business segments:

- ONEOK Partners
- Distribution
- Energy Services
- Other

For financial and statistical information regarding our business units by segment, see Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operation. See Note M of the Notes to Consolidated Financial Statements in this Annual Report on Form 10-K for a discussion of sales to unaffiliated customers, operating income and total assets by business segment.

SIGNIFICANT DEVELOPMENTS IN 2007 AND EARLY 2008

In February 2008, ONEOK Partners announced plans to construct a 78-mile natural gas liquids gathering pipeline to connect two natural gas processing plants in the Woodford Shale area in southeast Oklahoma at a cost of approximately \$25 million, excluding AFUDC. The project is currently scheduled for completion in the second quarter of 2008. These two plants are expected to produce approximately 25 MBbl/d of unfractionated NGLs. Until the Arbuckle Pipeline project is completed, the natural gas liquids production will be transported by ONEOK Partners' existing Mid-Continent natural gas liquids pipelines. Upon completion of the Arbuckle Pipeline project, the Woodford Shale natural gas liquids production is expected to be transported to ONEOK Partners' Mont Belvieu, Texas, fractionation facility.

In October 2007, ONEOK Partners completed the acquisition of an interstate natural gas liquids and refined petroleum products pipeline system and related assets from a subsidiary of Kinder Morgan Energy Partners, L.P. (Kinder Morgan) for approximately \$300 million, before working capital adjustments. The system extends from Bushton and Conway, Kansas, to Chicago, Illinois, and transports, stores and delivers a full range of NGL and refined petroleum products. The FERC-regulated system spans 1,627 miles and has a capacity to transport up to 134 MBbl/d. The transaction includes approximately 978 MBbl of owned storage capacity, eight NGL terminals and a 50 percent ownership of Heartland.

In September 2007, ONEOK Partners completed an underwritten public debt offering of \$600 million to finance the assets acquired from Kinder Morgan and to repay outstanding debt under its revolving credit facility agreement (ONEOK Partners Credit Agreement), which was incurred to fund ONEOK Partners' internal growth capital projects.

During 2007, ONEOK Partners began construction on the Overland Pass Pipeline Company joint-venture project with a subsidiary of The Williams Companies, Inc. (Williams). Overland Pass Pipeline Company is building a 760-mile natural gas liquids pipeline from Opal, Wyoming, to the Mid-Continent natural gas liquids market center in Conway, Kansas. The pipeline is designed to transport approximately 110 MBbl/d of unfractionated NGLs, which can be increased to approximately 150 MBbl/d with additional pump facilities. This project has received the required approvals of various state

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and federal regulatory authorities, and ONEOK Partners is constructing the pipeline with start-up currently scheduled for the second quarter 2008.

In March 2007, ONEOK Partners announced that Overland Pass Pipeline Company also plans to construct a 150-mile lateral pipeline with capacity to transport as much as 100 MBbl/d of unfractionated NGLs from the Piceance Basin in Colorado to the Overland Pass Pipeline. Williams announced that it intends to construct a new natural gas processing plant in the Piceance Basin and will dedicate its NGL production from that plant and an existing plant to be transported by the lateral pipeline. This project requires the approval of various state and federal regulatory authorities. Assuming Overland Pass Pipeline Company obtains the required state and federal regulatory approvals, construction of this lateral pipeline is currently expected to begin in late 2008 and be completed during the second quarter of 2009.

In March 2007, ONEOK Partners announced plans to build the 440-mile Arbuckle Pipeline, a natural gas liquids pipeline from southern Oklahoma through northern Texas and continuing on to the Texas Gulf Coast. The Arbuckle Pipeline will have the capacity to transport 160 MBbl/d of unfractionated natural gas liquids and will connect ONEOK Partners' existing Mid-Continent infrastructure and its fractionation facility in Mont Belvieu, Texas, and other Gulf Coast region fractionators. Construction of the pipeline will require permits from various federal, state and local regulatory bodies. Construction is currently expected to begin in mid-2008 and be completed by early 2009.

In March 2007, ONEOK Partners announced the expansion of its Grasslands natural gas processing facility in North Dakota. The Grasslands facility is ONEOK Partners' largest natural gas processing plant in the Williston Basin. The expansion increases processing capacity to approximately 100 MMcf/d from its current capacity of 63 MMcf/d and increases fractionation capacity to approximately 12 MBbl/d from 8 MBbl/d. The expansion project is expected to come on-line in phases, with the final phase currently expected to be on-line in the third quarter of 2008.

In January 2007, Fort Union Gas Gathering announced that it will double its existing gathering pipeline capacity by adding 148 miles of new gathering lines, resulting in approximately 649 MMcf/d of additional capacity in the Powder River basin of Wyoming. ONEOK Partners owns approximately 37 percent of Fort Union Gas Gathering. The expansion will occur in two phases. Phase 1 was placed in service during the fourth quarter of 2007. Phase 2 is currently expected to be in service during the second quarter of 2008.

NARRATIVE DESCRIPTION OF BUSINESS

ONEOK Partners

We own approximately 37.0 million common and Class B limited partner units, and the entire 2 percent general partner interest, which, together, represents a 45.7 percent interest in ONEOK Partners. We receive distributions from ONEOK Partners on our common and Class B units, and our 2 percent general partner interest. See Note R of the Notes to Consolidated Financial Statements in this Annual Report on Form 10-K for discussion of our incentive distribution rights.

Business Strategy - ONEOK Partners' primary business objectives are to generate cash flow sufficient to pay quarterly cash distributions to its unitholders and to increase its quarterly cash distributions over time. ONEOK Partners' ability to maintain and grow its distributions to unitholders depends on the growth of its existing businesses and strategic acquisitions. ONEOK Partners focuses on safe, environmentally sound and compliant operations for its employees, contractors, customers and the public.

ONEOK Partners' focus is on expanding and acquiring assets in the United States related to energy transportation, gathering, processing, fractionation, storage and marketing natural gas and NGLs that will utilize its core competencies, minimize commodity price risk and provide long-term, sustainable and stable cash flow. ONEOK Partners finances its acquisitions and capital expenditures with a mix of operating cash flows, debt and equity.

Segment Description - Effective January 1, 2006, we were required to consolidate ONEOK Partners' operations in our consolidated financial statements under EITF 04-5, "Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights," and we elected to use the prospective method. In April 2006, we sold certain assets comprising our former gathering and processing, natural gas liquids, and pipelines and storage segments to ONEOK Partners for approximately \$3 billion, including \$1.35 billion in cash before adjustments, and approximately 36.5 million Class B limited partner units in ONEOK Partners. These former segments are now included in our ONEOK Partners segment for all periods presented. We own an aggregate 45.7 percent of ONEOK Partners; the remaining interest in ONEOK Partners is reflected as minority interest in income of consolidated subsidiaries on our Consolidated Statements of Income.

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Our ONEOK Partners segment is engaged in the gathering and processing of raw natural gas and fractionation of NGLs primarily in the Mid-Continent and Rocky Mountain regions covering Oklahoma, Kansas, Montana, North Dakota and Wyoming. These operations include the gathering of raw natural gas production from oil and natural gas wells. Through gathering systems, these volumes are aggregated and treated or processed for removal of water vapor, solids and other contaminants and to extract NGLs in order to provide marketable natural gas, commonly referred to as residue gas. When the liquids are separated from the raw natural gas at the processing plants, the liquids are generally in the form of a mixed, unfractionated NGL stream. This stream is then separated by a distillation process, referred to as fractionation, into marketable product components such as ethane, propane, iso-butane, normal butane and natural gasoline (collectively, NGL products). These NGL products can then be stored, transported and marketed to a diverse customer base of end-users. Operating revenue from the gathering and processing business is primarily derived from the following three types of contracts:

Percent of Proceeds (POP) - ONEOK Partners retains a percentage of the NGLs and/or a percentage of the residue gas as payment for gathering, compressing and processing the producer's raw natural gas.

Fee - ONEOK Partners is paid a fee for the services provided such as Btus gathered, compressed and/or processed.

Keep-Whole - ONEOK Partners extracts NGLs from raw natural gas and returns to the producer volumes of residue gas containing the same amount of Btus as the raw natural gas that was originally delivered.

ONEOK Partners also gathers, treats, fractionates, transports and stores NGLs. Its natural gas liquids gathering pipelines deliver unfractionated NGLs gathered from natural gas processing plants located in Oklahoma, Kansas and Texas to its fractionation facilities in Medford, Oklahoma, Hutchinson and Conway, Kansas, and Mont Belvieu, Texas. 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, refineries and propane distributors through ONEOK Partners' distribution pipelines that move NGL products from Oklahoma and Kansas to the market centers in Conway, Kansas, Mont Belvieu, Texas as well as the Midwest markets near Chicago, Illinois.

Operating revenue for the natural gas liquids gathering and fractionation business is primarily derived from the following types of services:

Exchange services - ONEOK Partners gathers and transports unfractionated NGLs to its fractionators, separating them into marketable products and redelivering the purity NGL products to its customers for a fee.

Optimization and marketing - ONEOK Partners uses its asset base, portfolio of contracts and market knowledge to capture location and seasonal price spreads through transactions that optimize the flow of its NGL products between the major market centers in Conway, Kansas, and Mont Belvieu, Texas.

Isomerization - ONEOK Partners converts normal butane to the more valuable iso-butane used by the refining industry to upgrade the octane of motor gasoline.

Storage services - ONEOK Partners stores NGLs.

Transportation - ONEOK Partners transports NGLs under its FERC-regulated tariffs.

ONEOK Partners operates interstate and intrastate natural gas transmission pipelines, natural gas storage facilities and non-processable natural gas gathering facilities. ONEOK Partners also provides natural gas transportation and storage services in accordance with Section 311(a) of the Natural Gas Policy Act. ONEOK Partners' interstate assets transport natural gas through FERC-regulated interstate natural gas pipelines.

ONEOK Partners' pipelines include Midwestern Gas Transmission, Guardian Pipeline, Viking Gas Transmission, OkTex Pipeline Company L.L.C. and a 50 percent interest in Northern Border Pipeline.

ONEOK Partners' intrastate natural gas pipeline assets in Oklahoma have access to the major natural gas producing areas and transport natural gas throughout the state. ONEOK Partners also has access to the major natural gas producing area in south central Kansas. In Texas, its intrastate natural gas pipelines are connected to the major natural gas producing areas in the Texas panhandle and the Permian Basin, and transport natural gas to the Waha Hub, where other pipelines may be accessed for transportation east to the Houston Ship Channel market, north into the Mid-Continent market and west to the California market. ONEOK Partners owns or reserves storage capacity in underground natural gas storage facilities in Oklahoma, Kansas and Texas.

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

Firm service - Customers can reserve a fixed quantity of pipeline or storage capacity for the term of their contract. Under this type of contract, 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.

Interruptible service - Customers with interruptible service transportation and storage agreements may utilize available capacity after firm service requests are satisfied or on an as available basis. Under the interruptible service contract, the customer is not guaranteed use of our pipelines and storage facilities unless excess capacity is available.

Operating income from our ONEOK Partners segment was 54 percent, 53 percent and 49 percent of our consolidated operating income from continuing operations excluding the gain on sale of assets in 2007, 2006 and 2005, respectively. Our ONEOK Partners segment had no single external customer from which it received 10 percent or more of consolidated revenues. Intersegment sales accounted for 11 percent, 13 percent and 19 percent of our ONEOK Partners segment's revenues in 2007, 2006 and 2005, respectively.

Market Conditions and Seasonality - ONEOK Partners' business is affected by the economy, commodity price volatility, and weather. The strength of the economy has a direct relationship on manufacturing and industrial companies' demand for natural gas and NGL products. Volatility in the commodity markets impacts ONEOK Partners' customers' decisions relating to the output of the gas processing plants and the storage activity for natural gas and natural gas liquids. In addition, its intrastate natural gas pipelines and natural gas liquids pipelines and fractionation facilities are affected by operational or market-driven changes in the output of the gas processing plants to which they are connected. Natural gas and NGL output from gas processing plants may increase or decrease affecting the volume of natural gas and NGLs transported through the systems as a result of the gross processing spread, which is the difference between the relative value of the composite price of NGLs to the price of natural gas, primarily ethane to natural gas. In addition, volume delivered through the system may increase or decrease as a result of the relative NGL price between the Mid-Continent and Gulf Coast regions. Natural gas transportation throughput fluctuates due to rainfall that impacts irrigation demand, hot temperatures that affect power generation demand and cold temperatures that affect heating demand.

ONEOK Partners' natural gas assets primarily serve LDCs, large industrial companies, municipalities, irrigation customers, power generation facilities and marketing companies. ONEOK Partners' natural gas and natural gas liquids pipelines compete directly with other intrastate and interstate pipeline companies. Additionally, ONEOK Partners competes directly with other storage facilities. Competition for natural gas transportation services continues to increase as the FERC and state regulatory bodies continue to encourage more competition in the natural gas markets. Factors that affect competition for both natural gas and NGL services are location, market access, current and forward natural gas and NGL prices, fees for services and quality of services provided. ONEOK Partners believes that its pipelines and storage assets enable it to compete effectively.

During 2007, both crude oil and natural gas prices were volatile, with NYMEX crude oil settlement prices ranging from \$51.13 to \$95.10 per Bbl and NYMEX natural gas settlement prices ranging from \$5.43 to \$7.59 per MMBtu.

ONEOK Partners is affected by producer drilling activity, which is sensitive to geological success, as well as availability of capital, commodity prices and regulatory control. The Mid-Continent region is currently experiencing a significant upturn in crude oil and natural gas drilling activity. This resurgence in drilling activity has been driven by increased prices for natural gas and crude oil and by long-term projections of continued demand in the United States natural gas market. However, ONEOK Partners is exposed to volume risk from a competitive and a production standpoint. ONEOK Partners continues to see declines in certain fields that supply its gathering and processing operations, and the possibility exists that volumetric declines may surpass new gas development from future drilling.

The factors that typically affect ONEOK Partners' ability to compete for energy supplies are:

- location of natural gas processing plants relative to its gathering pipelines,
- location of its gathering pipelines relative to its competitors,
- location of its fractionation facilities relative to its competitors,
- efficiency, reliability and costs of operations, including fuel and power consumption,
- available fractionation, pipeline and storage capacity, and
- delivery capabilities to move natural gas and NGL products to its highest value locations.

Despite significant consolidation in the recent past, the United States midstream industry remains relatively fragmented, and ONEOK Partners faces competition from a variety of companies, including major integrated oil companies, major pipeline companies and their affiliated marketing companies, and national and local natural gas gatherers, processors and marketers.

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The factors that typically affect ONEOK Partners' ability to compete for obtaining natural gas supplies for gathering and processing operations are:

- producer drilling activity,
- petrochemical industry's level of capacity utilization and its specific feedstock requirements,
- fees charged under the contract,
- pressures maintained on the gathering systems,
- location of its gathering systems relative to its competitors,
- location of its gathering systems relative to drilling activity,
- efficiency and reliability of the operations, and
- delivery capabilities that exist in each system and plant location.

ONEOK Partners has responded to these industry conditions by making capital investments to improve plant processing and fractionation flexibility and reduce operating costs, selling assets in non-core operating areas and renegotiating unprofitable contracts. The principal goal of the contract renegotiation effort is to eliminate unprofitable contracts and improve margins, primarily during periods when the gross processing spread is negative.

Some of ONEOK Partners' products, such as natural gas and propane used for heating, are subject to seasonality, resulting in more demand during the months of November through March. As a result, prices of these products are typically higher during that time period. Demand has also increased for natural gas in the summer periods as more electric generation is dependent upon natural gas for fuel. Other products, such as ethane, are tied to the petrochemical industry, while iso-butane and natural gasoline are used by the refining industry as blending stocks. As a result, the prices of these products are affected by the economic conditions and demand associated with these various industries.

The main factors that affect ONEOK Partners' margins are:

- natural gas liquid transportation and fractionation volumes and associated fees,
- natural gas transportation and storage volumes,
- weather, both temperature and precipitation,
- fees charged for processing services and storage services, and
- the Mid-Continent and Rocky Mountain natural gas price, crude oil price and the daily average Oil Price Information Service (OPIS) price for its NGL products sold, as well as the relative value on a Btu basis of each of the components to each other.

Government Regulation - The FERC has traditionally maintained that a 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 removing 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. Interstate transmission facilities remain subject to FERC jurisdiction. The FERC has historically distinguished between these two types of facilities, either interstate or intrastate, on a fact-specific basis. ONEOK Partners believes its gathering facilities and operations meet the criteria used by the FERC for non-jurisdictional gathering facility status. ONEOK Partners can transport residue gas from its plants to interstate pipelines in accordance with Section 311(a) of the Natural Gas Policy Act.

Oklahoma and Kansas 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' 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 is a maximum rate that ONEOK Partners can charge its customers in Oklahoma and Kansas.

ONEOK Partners' proprietary natural gas liquids gathering pipelines in both Oklahoma and Kansas are not regulated by the FERC or the states' respective corporation commissions. ONEOK Partners' remaining natural gas liquids gathering and distribution pipelines are interstate pipelines regulated by the FERC and by the United States Department of Transportation's Office of Pipeline Safety (OPS). ONEOK Partners transports unfractionated NGLs and purity NGL products pursuant to filed tariffs.

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Distribution

Business Strategy - Our Distribution segment focuses on safe, environmentally sound and compliant operations for its employees, contractors, customers and the public. Our integrated strategy for our LDCs incorporates a rates and regulatory plan that includes positive relationships with regulators, consistent strategies and synchronized rate case filings. We focus on growth of our rate and customer base through prudent investment in our system while emphasizing cost control. We provide customer choice programs that reduce volumetric sensitivity and create value for our customers.

Segment Description - Our Distribution segment provides natural gas distribution services to over two million customers in Oklahoma, Kansas and Texas through Oklahoma Natural Gas, Kansas Gas Service and Texas Gas Service, respectively. We serve residential, commercial, industrial and transportation customers in all three states. In addition, our distribution companies in Oklahoma and Kansas serve wholesale customers, and in Texas we serve public authority customers, such as cities, governmental agencies and schools.

Our operating results are primarily affected by the number of customers, usage and the ability to establish delivery rates that provide an authorized 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 gas purchased by the respective distribution companies. Substantial fluctuations in natural gas sales can occur from year to year without significantly impacting our gross margin, since the fluctuations in natural gas costs affect natural gas sales and cost of gas by an equivalent amount. Natural gas sales to residential and commercial customers are seasonal, as a substantial portion of natural gas is used principally for heating. Accordingly, the volume of natural gas sales is normally higher during the heating season (November through March) than in other months of the year.

Operating income from our Distribution segment was 21 percent, 16 percent and 21 percent of our consolidated operating income from continuing operations excluding the gain on sale of assets in 2007, 2006 and 2005, respectively. Our Distribution segment had no single external customer from which it received 10 percent or more of consolidated revenues. Intersegment sales accounted for less than one percent of our Distribution segment's revenues in 2007 and 2006, and there were none in 2005.

Natural Gas Supply - The majority of our distribution segment's natural gas supply is provided under contracts from a number of suppliers. These contracts are awarded through a competitive bid process. The remainder of our distribution segment's natural gas supply is purchased from a combination of direct wellhead production, natural gas processing plants, natural gas marketers and production companies.

There is an adequate supply of natural gas available to our utility systems, and we do not anticipate problems with securing additional natural gas supply as needed for our customers. However, if supply shortages occur, Oklahoma Natural Gas rate schedule Order of Curtailment and Kansas Gas Service's rate order Priority of Service provide for first reducing or totally discontinuing gas service to large industrial users and then requesting that residential and commercial customers reduce their gas requirements to an amount essential for public health and safety. Texas Gas Service's gas transportation contracts with interruption provisions require large volume users to purchase their natural gas with the understanding that they may be forced to shut down or switch to alternate sources of energy at times when the gas is needed for higher priority customers. In addition, during times of special supply problems, curtailments of deliveries to customers with firm contracts may be made in accordance with guidelines established by appropriate federal, state and local regulatory agencies.

Market Conditions and Seasonality - Oklahoma Natural Gas, Kansas Gas Service and Texas Gas Service distribute natural gas as public utilities to approximately 87 percent, 70 percent and 14 percent of the distribution markets for Oklahoma, Kansas and Texas, respectively. Natural gas sold to residential and commercial customers, which is used primarily for heating, accounts for approximately 79 and 20 percent of natural gas sales, respectively, in Oklahoma; 71 and 19 percent of natural gas sales, respectively, in Kansas; and 68 and 24 percent of natural gas sales, respectively, in Texas.

A franchise, although nonexclusive, is a utility's right to use the municipal streets, alleys and other public ways for a defined period of time in exchange for a fee. In management's opinion, our franchises contain no unduly burdensome restrictions and are sufficient for the transaction of business in the manner in which it is now conducted.

Under our transportation tariffs, qualifying industrial and commercial customers are able to purchase natural gas from the supplier of their choice and have it transported for a fee by Oklahoma Natural Gas, Kansas Gas Service or Texas Gas Service. Because of increased competition for the transportation of natural gas to commercial and industrial customers, some of these customers may be lost to affiliated or unaffiliated transporters. If our ONEOK Partners segment gained some of this business, it would result in a shift of some revenues from our Distribution segment to our ONEOK Partners segment.

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The natural gas industry is expected to remain highly competitive, resulting from initiatives being pursued by the industry and regulatory agencies that allow industrial and commercial customers increased options for energy supplies and service. We believe that we must maintain a competitive advantage in order to retain our customers and, accordingly, we focus on providing reliable, efficient service and reducing costs.

The 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 the large industrial and commercial customers, and competition continues to impact margins. A portion of transportation services provided by Oklahoma Natural Gas and Kansas Gas Service are at negotiated rates that are generally below the approved transportation tariff rates. Reduced rate transportation service may be negotiated when a competitive pipeline is in proximity or another energy option is available. Increased competition could potentially lower these rates. Industrial sales and transportation service tend to remain relatively constant throughout the year. Texas Gas Service files all negotiated transportation service contracts under a separate, confidential tariff at the RRC.

Natural gas sales to residential and commercial customers are seasonal, as a substantial portion of natural gas is used principally for heating. Accordingly, the volume of natural gas sales is normally higher during the heating season (November through March) than in other months of the year. Tariff rates for Oklahoma Natural Gas, Kansas Gas Service and certain jurisdictions in Texas include a temperature normalization adjustment clause during the heating season, which mitigates the effect of fluctuations in weather. The rate structure for Oklahoma Natural Gas includes billing options for all gas sales customers. Under this rate structure, certain high volume customers pay a higher monthly service charge and a lower per dekatherm delivery charge, while lower usage customers pay a lower monthly service charge coupled with a higher per dekatherm delivery charge. Customers can elect to change billing options to ensure that they are billed under the alternative that best fits their individual usage, but they must remain on the selected option for a full year after the change is made. Additionally, with prior KCC approval, Kansas Gas Service has a natural gas hedging program in place to reduce volatility in the natural gas price paid by consumers. The costs of this program are borne by the Kansas Gas Service customers. Oklahoma Natural Gas was recently authorized by the OCC to implement a natural gas hedge program as a three-year pilot program, with up to \$10 million per year in hedge costs to be recovered from customers. Texas Gas Service also has a natural gas hedging program for certain of its jurisdictions. Approximately 90 percent of Texas Gas Service's revenues are protected from abnormal weather due to a higher customer charge or weather normalization adjustment clauses. Texas Gas Service's weather normalization adjustment clause applies to 96 Texas towns and cities, including Austin and Galveston, to stabilize earnings and neutralize the impact of unusual weather on customers. A higher customer charge is included in the authorized rate design for the jurisdictions of El Paso, north Texas, Rio Grande Valley and Port Arthur to protect customers from abnormal rate fluctuation due to weather.

Government Regulation - Rates charged 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 areas adjacent to the various municipalities and appellate matters are subject to regulatory oversight by the RRC. Natural gas purchase costs are included in the Purchased Gas Adjustment (PGA) clause rate that is billed to customers. Our distribution companies do not make a profit on the cost of gas. Other changes in costs must be recovered through periodic rate adjustments approved by the OCC, KCC, RRC and various municipalities in Texas. See page 43 for a detailed description of our various regulatory initiatives.

Oklahoma Natural Gas has settled all known claims arising out of long-term gas supply contracts containing take-or-pay provisions that purport to require us to pay for volumes of natural gas contracted for but not taken. The OCC has previously authorized recovery of the accumulated settlement costs over a 20-year period expiring in 2014, or approximately \$7.0 million annually, through a combination of a surcharge from customers, revenue from transportation under Section 311(a) of the Natural Gas Policy Act and other intrastate transportation revenues.

Energy Services

Business Strategy - Our Energy Services segment creates value by providing premium services to our customers by delivering physical and risk-management products and services through our network of contracted gas supply, transportation and storage assets. We optimize our storage and transportation capacity through the daily application of market knowledge and effective risk management.

Segment Description - Our Energy Services segment's primary focus is to create value for our customers by delivering physical natural gas products and risk management services through our network of contracted transportation and storage capacity and natural gas supply. These services include meeting our customers' baseload, swing and peaking natural gas commodity requirements on a year-round basis. To provide these bundled services, we lease storage and transportation

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capacity. At December 31, 2007, our total storage capacity under lease was 96 Bcf, with maximum withdrawal capability of 2.4 Bcf/d and maximum injection capability of 1.6 Bcf/d. At December 31, 2007, our transportation capacity was 1.8 Bcf/d. Our contracted storage and transportation capacity connects the major supply and demand centers throughout the United States and Canada. With these contracted assets, our ongoing business strategies include identifying, developing and delivering specialized services and products of value to our customers, which are primarily LDCs, electric utilities, and commercial and industrial end users. Our storage and transportation capacity allows us opportunities to optimize these positions through our application of market knowledge and risk management skills.

We actively manage the commodity price and volatility risks assumed from 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 financially settled transactions such as forward, swap, and option contracts and NYMEX futures and option contracts.

Numerous risk management opportunities and operational strategies exist that can be implemented through the use of storage facilities and transportation capacity. We utilize our industry knowledge and expertise in order to capitalize on opportunities that are provided through market volatility. We utilize our experience to optimize the value of our contracted assets, and we use our risk management and marketing capabilities to both manage risk and to generate additional returns. 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 on Form 10-K for additional information. Additionally, certain non-trading transactions, which are economic hedges of our accrual transactions, such as 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.

Our working capital requirements related to our inventory in storage were as high as \$581.1 million during 2007, but had decreased to \$429.5 million at December 31, 2007. In addition, margin requirements can result in increased working capital requirements. During 2007, our margin requirements with counterparties ranged from zero to \$144.8 million.

Operating income from our Energy Services segment was 25 percent, 31 percent and 31 percent of our consolidated operating income from continuing operations excluding the gain on sale of assets in 2007, 2006 and 2005, respectively. Our Energy Services segment had no single external customer from which it received 10 percent or more of consolidated revenues in 2007, 2006 or 2005. Intersegment sales accounted for 7 percent of our total revenues in 2007, compared with 8 percent in both 2006 and 2005.

Market Conditions and Seasonality - In response to a very competitive marketing environment resulting from deregulation of natural gas markets, our strategy is to concentrate our efforts on providing reliable service during peak demand periods and capture opportunities created by short-term pricing volatility through our leased storage and transportation assets. We focus on building and strengthening supplier and customer relationships to execute our strategy.

Due to seasonality of natural gas consumption, earnings are normally higher during the winter months than the summer months. Our Energy Services segment's margins are subject to fluctuations during the year primarily due to the impact certain seasonal factors have on sales volumes and the price of natural gas. Natural gas sales volumes are typically higher in the winter heating months than in the summer months, reflecting increased demand due to greater heating requirements and, typically, higher natural gas prices. During periods of high natural gas demand, we utilize storage capacity to supplement natural gas supply volumes to meet peak day demand obligations or market needs.

Other

Segment Description - The primary companies in our Other segment include ONEOK Leasing Company and ONEOK Parking Company, L.L.C. Prior to the consolidation of ONEOK Partners as of January 1, 2006, our general partner and limited partner interests held through Northern Plains, now known as ONEOK Partners GP, were included in our Other segment.

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

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In July 2007, ONEOK Leasing Company gave notice of its intent to exercise its option to purchase ONEOK Plaza on or before the end of the current lease term, which is set to expire on September 30, 2009. In addition, ONEOK Leasing Company has entered into a purchase agreement with the owner of ONEOK Plaza that, if certain conditions are met, would accelerate the purchase of the building to a date on or before March 31, 2008, for the total purchase price of approximately \$48 million.

Northern Plains, now known as ONEOK Partners GP, was acquired in November 2004, and we accounted for our 2.73 percent interest in Northern Border Partners, now known as ONEOK Partners, following the equity method during 2005. Effective January 1, 2006, we were required to consolidate ONEOK Partners. See Significant Accounting Policies in Note A of the Notes to Consolidated Financial Statements in this Annual Report on Form 10-K for additional information.

Our Other segment had no single external customer from which it received 10 percent or more of consolidated revenues.

ENVIRONMENTAL AND SAFETY MATTERS

Information about our environmental matters is included in Note K of the Notes to Consolidated Financial Statements in this Annual Report on Form 10-K.

Pipeline Safety - We are subject to United States Department of Transportation integrity management regulations. The Pipeline Safety Improvement Act requires pipeline companies to perform integrity assessments on segments of a pipeline that pass through densely populated areas or near specifically identified sites that are designated as high consequence areas. To our knowledge, we are substantially in compliance with all material requirements associated with the various regulations.

Air and Water Emissions - The federal Clean Air Act and 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 federal 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 and remediation of pollutants discharged in United States water.

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 who 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.

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. After receiving these reports, Homeland Security will identify which sites are required to implement minimum security measures. Homeland Security is in the initial stages of implementing this rule, and the extent to which the rule will require us to undertake additional expenditures for site security is uncertain at this point.

Climate Change - Our environmental and climate change strategy focuses on taking steps to minimize the impact of our operations on the environment. These strategies include: (i) maintaining an accurate greenhouse gas emissions inventory, (ii) improving the efficiency of our various pipeline and gas processing facilities, (iii) following developing technologies for emission control, (iv) following developing technologies to capture carbon dioxide to keep it from reaching the atmosphere, and (v) analyzing options for future energy investment.

Currently, operating entities within ONEOK Partners participate in the gathering and processing and the transmission sectors of the EPA's Natural Gas STAR Program to voluntarily reduce methane emissions. Although they already utilize many of the identified best practices, it is anticipated that our LDCs will soon formally join the STAR Program's distribution sector. In addition, we continue to focus on reducing methane loss through expanded implementation of best practices across our operations and analyzing options for additional emission reductions, including (i) closing older facilities and routing products to more efficient facilities, (ii) self-imposing permit limits at facilities where operationally feasible, (iii) utilizing electric motors on select compressor applications, and (iv) utilizing methods to limit the release of methane gas during pipeline maintenance and operations.

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We employed 4,555 people at January 31, 2008, including 730 people employed by Kansas Gas Service who were subject to collective bargaining contracts. We had no other union employees. Effective January 1, 2007, the employees represented by Gas Workers Metal Trades of the United Association of Journeyman and Apprentices of the Plumbing and Pipefitting Industry of the United States and Canada agreed to representation by the United Steelworkers of America. The following table sets forth our contracts with unions at January 31, 2008.

Union	Employees	Contract Expires
United Steelworkers of America	412	June 30, 2009
International Union of Operating Engineers	13	June 30, 2009
International Brotherhood of Electrical Workers	305	June 30, 2010

EXECUTIVE OFFICERS

All executive officers are elected at the annual meeting of our Board of Directors and serve for a period of one year or until successors are 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
David L. Kyle Chairman of the Board of Directors	55	2007 to present 2000 to 2006
		Chairman of the Board of Directors Chairman of the Board of Directors, President and Chief Executive Officer
John W. Gibson Chief Executive Officer and Member of the Board of Directors	55	1995 to present 2007 to present 2006 to present 2006 2005 to 2006 2000 to 2005
		Member of the Board of Directors Chief Executive Officer Member of the Board of Directors President and Chief Operating Officer of ONEOK Partners, L.P. President, ONEOK Energy Companies President, Energy
Jim Kneale		