

ONEOK INC /NEW/
Form 10-Q
May 01, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

X Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2019.

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

Commission file number 001-13643

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

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

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

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

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

Yes X No ___

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).

Yes X No ___

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer X Accelerated filer ___ Non-accelerated filer ___
Smaller reporting company___ Emerging growth company__

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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. __

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

On April 22, 2019, the Company had 412,756,216 shares of common stock outstanding.

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

The statements in this Quarterly Report that are not historical information, including statements concerning plans and objectives of management for future operations, economic performance or related assumptions, are forward-looking statements. Forward-looking statements may include words such as “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “forecast,” “goal,” “guidance,” “intend,” “may,” “might,” “plan,” “potential,” “project,” “scheduled,” “should,” “will” 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 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 1A, “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, 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 and Ethics, Corporate Governance Guidelines, Director Independence Guidelines, Bylaws and the written charter of our Audit Committee also are available on our website, and we will provide copies of these documents upon request.

In addition to our filings with the SEC and materials posted on our website, we also use social media platforms as additional channels of distribution to reach public investors. Information contained on our website, posted on our

social media accounts, and any corresponding applications, are not incorporated by reference into this report.

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GLOSSARY

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

\$1.5 Billion Term Loan Agreement	The senior unsecured delayed-draw three-year \$1.5 billion term loan agreement dated November 19, 2018
\$2.5 Billion Credit Agreement	ONEOK's \$2.5 billion revolving credit agreement, as amended
AFUDC	Allowance for funds used during construction
Annual Report	Annual Report on Form 10-K for the year ended December 31, 2018
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
CFTC	U.S. Commodity Futures Trading Commission
Clean Air Act	Federal Clean Air Act, as amended
DJ	Denver-Julesburg
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
FERC	Federal Energy Regulatory Commission
GAAP	Accounting principles generally accepted in the United States of America
Intermediate Partnership	ONEOK Partners Intermediate Limited Partnership, a wholly owned subsidiary of ONEOK Partners, L.P.
LIBOR	London Interbank Offered Rate
MBbl/d	Thousand barrels per day
MDth/d	Thousand dekatherms per day
MMBbl	Million barrels
MMBtu	Million British thermal units
MMcf/d	Million cubic feet per day
Moody's	Moody's Investors Service, Inc.
NGL(s)	Natural gas liquid(s)
NGL products	Marketable natural gas liquid purity products, such as ethane, ethane/propane mix, propane, iso-butane, normal butane and natural gasoline
NYMEX	New York Mercantile Exchange
NYSE	New York Stock Exchange
ONEOK	ONEOK, Inc.
ONEOK Partners	ONEOK Partners, L.P.
OPIS	Oil Price Information Service
PHMSA	United States Department of Transportation Pipeline and Hazardous Materials Safety Administration
POP	Percent of Proceeds
Quarterly Report(s)	Quarterly Report(s) on Form 10-Q
Roadrunner	Roadrunner Gas Transmission, LLC, a 50 percent-owned joint venture
S&P	S&P Global Ratings
SCOOP	South Central Oklahoma Oil Province, an area in the Anadarko Basin in Oklahoma
SEC	Securities and Exchange Commission
Series E Preferred Stock	Series E Non-Voting, Perpetual Preferred Stock, par value \$0.01 per share
STACK	Sooner Trend Anadarko Canadian Kingfisher, an area in the Anadarko Basin in Oklahoma

West Texas LPG
WTI
WTLPG
XBRL

West Texas LPG pipeline and Mesquite pipeline
West Texas Intermediate
West Texas LPG Pipeline Limited Partnership
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 March 31,	
	2019	2018
	(Thousands of dollars, except per share amounts)	
Revenues (Note L)		
Commodity sales	\$2,472,959	\$2,820,004
Services	306,999	282,073
Total revenues	2,779,958	3,102,077
Cost of sales and fuel (exclusive of items shown separately below)	1,956,377	2,368,026
Operations and maintenance	207,251	181,181
Depreciation and amortization	114,158	104,237
General taxes	33,490	29,023
Gain on sale of assets	(60) (89
Operating income	468,742	419,699
Equity in net earnings from investments (Note I)	43,481	40,187
Allowance for equity funds used during construction	12,441	230
Other income	9,360	738
Other expense	(3,462) (3,309
Interest expense (net of capitalized interest of \$19,192, and \$2,038, respectively)	(115,420) (115,725
Income before income taxes	415,142	341,820
Income taxes	(77,934) (75,771
Net income	337,208	266,049
Less: Net income attributable to noncontrolling interests	—	1,541
Net income attributable to ONEOK	337,208	264,508
Less: Preferred stock dividends	275	275
Net income available to common shareholders	\$336,933	\$264,233
Basic earnings per common share (Note G)	\$0.82	\$0.65
Diluted earnings per common share (Note G)	\$0.81	\$0.64
Average shares (thousands)		
Basic	412,908	409,676
Diluted	415,233	412,173
See accompanying Notes to Consolidated Financial Statements.		

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ONEOK, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)	Three Months Ended	
	March 31, 2019	2018
	(Thousands of dollars)	
Net income	\$337,208	\$266,049
Other comprehensive income (loss), net of tax		
Unrealized gains (losses) on derivatives, net of tax of \$20,593 and \$(10,312), respectively	(68,944)	34,524
Realized (gains) losses on derivatives recognized in net income, net of tax of \$4,177 and \$(3,578), respectively	(12,171)	11,976
Change in retirement and other postretirement benefit plan liability, net of tax of \$(699) and \$(781), respectively	2,341	2,615
Other comprehensive income (loss) on investments in unconsolidated affiliates, net of tax of \$750 and \$(844), respectively	(2,511)	2,824
Total other comprehensive income (loss), net of tax	(81,285)	51,939
Comprehensive income	255,923	317,988
Less: Comprehensive income attributable to noncontrolling interests	—	1,541
Comprehensive income attributable to ONEOK	\$255,923	\$316,447

See accompanying Notes to Consolidated Financial Statements.

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CONSOLIDATED BALANCE SHEETS

(Unaudited)	March 31, 2019	December 31, 2018
Assets	(Thousands of dollars)	
Current assets		
Cash and cash equivalents	\$27,814	\$11,975
Accounts receivable, net	812,869	818,958
Materials and supplies	163,731	141,174
Natural gas and natural gas liquids in storage	243,223	296,667
Commodity imbalances	38,349	29,050
Other current assets	56,793	100,808
Total current assets	1,342,779	1,398,632
Property, plant and equipment		
Property, plant and equipment	18,887,742	18,030,963
Accumulated depreciation and amortization	3,369,710	3,264,312
Net property, plant and equipment	15,518,032	14,766,651
Investments and other assets		
Investments in unconsolidated affiliates	950,924	969,150
Goodwill and intangible assets	964,167	967,142
Other assets	158,423	130,096
Total investments and other assets	2,073,514	2,066,388
Total assets	\$18,934,325	\$18,231,671

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CONSOLIDATED BALANCE SHEETS
(Continued)

	March 31, 2019	December 31, 2018
(Unaudited)		
Liabilities and equity		
Current liabilities		
Current maturities of long-term debt (Note D)	\$307,650	\$507,650
Accounts payable	1,027,322	1,116,337
Commodity imbalances	120,145	110,197
Accrued interest	113,567	161,377
Finance lease liability	1,809	1,765
Other current liabilities	119,176	211,110
Total current liabilities	1,689,669	2,108,436
Long-term debt, excluding current maturities (Note D)	10,004,341	8,873,334
Deferred credits and other liabilities		
Deferred income taxes	270,751	219,731
Finance lease liability	25,775	26,244
Other deferred credits	501,783	424,383
Total deferred credits and other liabilities	798,309	670,358
Commitments and contingencies (Note J)		
Equity (Note E)		
ONEOK shareholders' equity:		
Preferred stock, \$0.01 par value: authorized and issued 20,000 shares at March 31, 2019, and December 31, 2018	—	—
Common stock, \$0.01 par value: authorized 1,200,000,000 shares, issued 445,016,234 shares and outstanding 412,752,687 shares at March 31, 2019; issued 445,016,234 shares and outstanding 411,532,606 shares at December 31, 2018	4,450	4,450
Paid-in capital	7,527,847	7,615,138
Accumulated other comprehensive loss (Note F)	(269,524)	(188,239)
Retained earnings	—	—
Treasury stock, at cost: 32,263,547 shares at March 31, 2019, and 33,483,628 shares at December 31, 2018	(820,767)	(851,806)
Total equity	6,442,006	6,579,543
Total liabilities and equity	\$18,934,325	\$18,231,671
See accompanying Notes to Consolidated Financial Statements.		

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ONEOK, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)	Three Months Ended	
	March 31, 2019	2018
	(Thousands of dollars)	
Operating activities		
Net income	\$337,208	\$266,049
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	114,158	104,237
Equity in net earnings from investments	(43,481)	(40,187)
Distributions received from unconsolidated affiliates	45,936	41,095
Deferred income taxes	75,994	74,890
Share-based compensation expense	8,607	7,203
Pension and postretirement benefit expense, net of contributions	(12,250)	(8,393)
Allowance for equity funds used during construction	(12,441)	(230)
Gain on sale of assets	(60)	(89)
Changes in assets and liabilities:		
Accounts receivable	6,089	358,733
Natural gas and natural gas liquids in storage	53,444	149,825
Accounts payable	(62,469)	(361,008)
Commodity imbalances, net	649	(39,755)
Accrued interest	(47,810)	(37,784)
Risk-management assets and liabilities	4,362	34,387
Other assets and liabilities, net	(114,330)	(53,652)
Cash provided by operating activities	353,606	495,321
Investing activities		
Capital expenditures (less allowance for equity funds used during construction)	(889,705)	(264,467)
Contributions to unconsolidated affiliates	(1,016)	(147)
Distributions received from unconsolidated affiliates in excess of cumulative earnings	13,527	8,721
Proceeds from sale of assets	12,365	241
Cash used in investing activities	(864,829)	(255,652)
Financing activities		
Dividends paid	(354,203)	(316,408)
Distributions to noncontrolling interests	—	(1,500)
Borrowing (repayment) of short-term borrowings, net	—	(614,673)
Issuance of long-term debt, net of discounts	1,442,782	—
Debt financing costs	(11,663)	—
Repayment of long-term debt	(501,913)	(501,913)
Issuance of common stock	4,784	1,182,117
Other, net	(52,725)	(7,011)
Cash provided by (used in) financing activities	527,062	(259,388)
Change in cash and cash equivalents	15,839	(19,719)
Cash and cash equivalents at beginning of period	11,975	37,193
Cash and cash equivalents at end of period	\$27,814	\$17,474
See accompanying Notes to Consolidated Financial Statements.		

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ONEOK, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited)	ONEOK Shareholders' Equity				
	Common Stock Issued	Preferred Stock Issued	Common Stock	Preferred Stock	Paid-in Capital
	(Shares)		(Thousands of dollars)		
January 1, 2019	445,016,234	20,000	\$4,450	\$	—\$7,615,138
Cumulative effect adjustment for adoption of ASU 2016-02 (Note A)	—	—	—	—	—
Net income	—	—	—	—	—
Other comprehensive income (loss) (Note F)	—	—	—	—	—
Preferred stock dividends - \$13.75 per share (Note E)	—	—	—	—	—
Common stock issued	—	—	—	—	(24,779)
Common stock dividends - \$0.86 per share (Note E)	—	—	—	—	(17,438)
Other	—	—	—	—	(45,074)
March 31, 2019	445,016,234	20,000	\$4,450	\$	—\$7,527,847

(Unaudited)	ONEOK Shareholders' Equity				
	Common Stock Issued	Preferred Stock Issued	Common Stock	Preferred Stock	Paid-in Capital
	(Shares)		(Thousands of dollars)		
January 1, 2018	423,166,234	20,000	\$4,232	\$	—\$6,588,878
Cumulative effect adjustment for adoption of ASUs (a)	—	—	—	—	—
Net income	—	—	—	—	—
Other comprehensive income (loss)	—	—	—	—	—
Preferred stock dividends - \$13.75 per share	—	—	—	—	(275)
Common stock issued	21,850,000	—	218	—	1,169,247
Common stock dividends - \$0.77 per share	—	—	—	—	(11,960)
Distributions to noncontrolling interests	—	—	—	—	—
Contributions from noncontrolling interests	—	—	—	—	—
Other	—	—	—	—	(10,717)
March 31, 2018	445,016,234	20,000	\$4,450	\$	—\$7,735,173

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ONEOK, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Continued)

(Unaudited)	ONEOK Shareholders' Equity			
	Other Comprehensive Loss	Retained Earnings	Treasury Stock	Total Equity
	(Thousands of dollars)			
January 1, 2019	\$(188,239)	\$ —	\$(851,806)	\$6,579,543
Cumulative effect adjustment for adoption of ASU 2016-02 (Note A)	—	(67)	—	(67)
Net income	—	337,208	—	337,208
Other comprehensive income (loss) (Note F)	(81,285)	—	—	(81,285)
Preferred stock dividends - \$13.75 per share (Note E)	—	(275)	—	(275)
Common stock issued	—	—	31,039	6,260
Common stock dividends - \$0.86 per share (Note E)	—	(336,866)	—	(354,304)
Other	—	—	—	(45,074)
March 31, 2019	\$(269,524)	\$ —	\$(820,767)	\$6,442,006

(Unaudited)	ONEOK Shareholders' Equity				Noncontrolling Interests in Consolidated Subsidiaries	Total Equity
	Other Comprehensive Loss	Retained Earnings	Treasury Stock			
	(Thousands of dollars)					
January 1, 2018	\$(188,530)	\$ —	\$(876,713)	\$ 157,485		\$5,685,352
Cumulative effect adjustment for adoption of ASUs (a)	(38,101)	39,803	—	17		1,719
Net income	—	264,508	—	1,541		266,049
Other comprehensive income (loss)	51,939	—	—	—		51,939
Preferred stock dividends - \$13.75 per share	—	—	—	—		(275)
Common stock issued	—	—	13,228	—		1,182,693
Common stock dividends - \$0.77 per share	—	(304,311)	—	—		(316,271)
Distributions to noncontrolling interests	—	—	—	(1,500)		(1,500)
Contributions from noncontrolling interests	—	—	—	10,263		10,263
Other	—	—	—	—		(10,717)
March 31, 2018	\$(174,692)	\$ —	\$(863,485)	\$ 167,806		\$6,869,252

(a) - Includes cumulative effect for adoption of the following: ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)"; ASU 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities"; and ASU 2018-02, "Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income."

See accompanying Notes to Consolidated Financial Statements.

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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 statement of the results for the interim periods presented. All such adjustments are of a normal recurring nature. The 2018 year-end Consolidated Balance Sheet data was derived from our audited Consolidated Financial Statements but does not include all disclosures required by GAAP. Certain reclassifications have been made in the prior-year Consolidated Financial Statements to conform to the current year presentation. These unaudited Consolidated Financial Statements should be read in conjunction with our audited Consolidated Financial Statements in our Annual Report.

Recently Issued Accounting Standards Update - Changes to GAAP are established by the Financial Accounting Standards Board (FASB) in the form of ASUs to the FASB Accounting Standards Codification. We consider the applicability and impact of all ASUs. ASUs not listed below were assessed and determined to be either not applicable or clarifications of ASUs listed below. The following table provides a brief description of recent accounting pronouncements and our analysis of the effects on our financial statements:

Standard	Description	Date of Adoption	Effect on the Financial Statements or Other Significant Matters
Standards that were adopted			
ASU 2016-02, "Leases (Topic 842)"	The standard requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. It also requires qualitative disclosures along with specific quantitative disclosures by lessees and lessors to meet the objective of enabling users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases.	First quarter 2019	We adopted this standard on January 1, 2019, using the modified retrospective method and the optional transition method to record the adoption impact through a cumulative adjustment to equity. We recorded an immaterial cumulative effect for the adoption of the new standard and recorded \$17.5 million of right-of-use assets and \$17.4 million of lease liabilities related to operating leases that were not previously recorded on our Consolidated Balance Sheets. Our finance lease assets and liabilities of \$28.1 million and \$28.0 million, respectively, did not change as a result of adopting this standard. See Note K for additional disclosures.
ASU 2018-07, "Compensation - Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting"	The standard aligns the measurement and classification guidance for share-based payments to nonemployees with the guidance for share-based payments to employees, with certain exceptions.	First quarter 2019	The impact of adopting this standard was not material.
Standards that are not yet adopted			
ASU 2016-13, "Financial	The standard requires a financial asset (or a group of financial assets)	First quarter	We do not expect the adoption of this standard to materially impact us.

<p>Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments”</p>	<p>measured at amortized cost basis to be presented net of the allowance for credit losses to reflect the net carrying value at the amount expected to be collected on the financial asset; and the initial allowance for credit losses for purchased financial assets, including available-for-sale debt securities, to be added to the purchase price rather than being reported as a credit loss expense. The standard simplifies the subsequent measurement of goodwill by eliminating the requirement to calculate the implied fair value of goodwill under step 2. Instead, an entity will recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value. The standard does not change step zero or step 1 assessments.</p>	<p>2020</p> <p>First quarter 2020</p>	<p>We do not expect the adoption of this standard to materially impact us.</p>
<p>ASU 2017-04, “Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment”</p>			

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B. FAIR VALUE MEASUREMENTS

Determining Fair Value - For our fair value measurements, we utilize market prices, third-party pricing services, present value methods and standard option valuation models to determine the price we would receive from the sale of an asset or the transfer of a liability in an orderly transaction at the measurement date. We measure the fair value of a group of financial assets and liabilities consistent with how a market participant would price the net risk exposure at the measurement date.

While many of the contracts in our derivative portfolio are executed in liquid markets where price transparency exists, some contracts are executed in markets for which market prices may exist, but the market may be relatively inactive. This results in limited price transparency that requires management's judgment and assumptions to estimate fair values. For certain transactions, we may utilize modeling techniques using NYMEX-settled pricing data and implied forward LIBOR curves. Inputs into our fair value estimates include commodity-exchange prices, data obtained from third-party pricing services, LIBOR and other liquid money-market instrument rates. Our financial commodity derivatives are generally settled through a NYMEX or Intercontinental Exchange (ICE) clearing broker account with daily margin requirements. We validate our valuation inputs with third-party information and settlement prices from other sources, where available.

We compute the fair value of our derivative portfolio by discounting the projected future cash flows from our derivative assets and liabilities to present value using interest-rate yields to calculate present-value discount factors derived from the implied forward LIBOR yield curve. The fair value of our forward-starting interest-rate swaps is determined using financial models that incorporate the implied forward LIBOR yield curve for the same period as the future interest-rate swap settlements. We consider current market data in evaluating counterparties', as well as our own, nonperformance risk, net of collateral, by using counterparty-specific bond yields. Although we use our best estimates to determine the fair value of the derivative contracts we have executed, the ultimate market prices realized could differ materially from our estimates.

Fair Value Hierarchy - At each balance sheet date, we utilize a fair value hierarchy to classify fair value amounts recognized or disclosed in our financial statements based on the observability of inputs used to estimate such fair value. The levels of the hierarchy are described below:

Level 1 - fair value measurements are based on unadjusted quoted prices for identical securities in active markets.

These balances are comprised predominantly of exchange-traded derivative contracts for natural gas and crude oil.

Level 2 - fair value measurements are based on significant observable pricing inputs, including quoted prices for similar assets and liabilities in active markets and inputs from third-party pricing services supported with corroborative evidence. These balances are comprised of over-the-counter interest-rate derivatives.

Level 3 - fair value measurements are based on inputs that may include one or more unobservable inputs, including internally developed natural gas basis and NGL price curves that incorporate observable and unobservable market data from broker quotes and third-party pricing services. These balances are comprised predominantly of exchange-cleared and over-the-counter derivatives for natural gas basis and NGLs. Our commodity derivatives are generally valued using forward quotes provided by third-party pricing services that are validated with other market data. We believe any measurement uncertainty at March 31, 2019, is immaterial as our Level 3 fair value measurements are based on unadjusted pricing information from broker quotes and third-party pricing services. We do not believe that our Level 3 fair value estimates have a material impact on our results of operations, as our derivatives are accounted for as hedges.

Determining the appropriate classification of our fair value measurements within the fair value hierarchy requires management's judgment regarding the degree to which market data is observable or corroborated by observable market data. We categorize derivatives for which fair value is determined using multiple inputs within a single level, based on the lowest level input that is significant to the fair value measurement in its entirety.

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

March 31, 2019

Level	Level	Total	Netting	Total
1	2	3	(a)	- Net
		-		
		Gross		

(Thousands of dollars)

- Derivative assets
- Commodity contracts
- Financial contracts