SPOTLIGHT

A Joint Venture by
RBN Energy and East Daley Capital

ONEOK

ONEOK Partners

No Sleep Till Bushton

- **ONEOK Partners (OKS) has a strong portfolio of fee-based businesses that offer stability in today's weak commodity price environment.**
- **Approximately 87% of ONEOK's operating income is generated from the company's involvement in U.S natural gas processing and NGL markets, and that percentage could increase over the next five years.**
- **ONEOK's Bakken exposure amplifies its performance both to the upside and downside through its entire value chain.**
- **ONEOK has been transitioning its Gathering and Processing (G&P) contracts to a more fee-based model creating more stability in earnings and cash flow starting in 2016.**
- **ONEOK's purchase of West Texas LPG gets the company a toe-hold in the prolific Permian Basin, which offsets declines in the Barnett Shale.**
- **The outlook implied by this analysis suggest that total ONEOK operating income could grow from $1.1 billion in 2015 to $1.6 billion in 2020, an increase of 48% over the period for a compound annual growth rate (CAGR) of 8.2%.**

ONEOK is a major U.S. energy midstream company. ONEOK, Inc. (OKE) and its Master Limited Partnership (MLP), ONEOK Partners (OKS) own and operate one of the largest natural gas liquids (NGL) networks in the U.S., including gathering and long-line pipelines, natural gas processing plants, fractionators, storage and pipeline distribution systems. The company also operates natural gas transmission pipelines, natural gas storage facilities and provides a range of energy services to energy markets. ONEOK focuses on the Rocky Mountain, West Texas and Mid-Continent regions, and has a very strong position in the Bakken.

Like most midstream MLPs, ONEOK's share price has dropped by more than 50% since mid-2014. Although most of ONEOK's revenues are not directly impacted by lower crude and natural gas prices, huge cuts in producer drilling activity, production declines and narrower price differentials all have negative implications for the company. Nevertheless, ONEOK has a strong portfolio of fee-based businesses and is well positioned in some of the most attractive producing basins in the U.S.

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ONEOK's performance in the coming months and years will be based on how the company's assets can be – and will be -- employed to navigate today's extremely volatile energy markets.

This report addresses this key issue utilizing a fundamental analysis of ONEOK's businesses, examining each piece of the company's operations from the ground up, including throughput volumes, rates charged to customers, regulatory considerations, and new development projects. The analysis is then summarized into an outlook for each of ONEOK's three operating divisions: Natural Gas Gathering and Processing (G&P), Natural Gas Liquids (NGL), and Natural Gas Pipelines (NG Pipe).

1.1 Fundamental Analysis Highlights

Approximately 87% of ONEOK's operating income is generated from the company's involvement in U.S natural gas processing and NGL markets, and that percentage is expected to increase over the next five years. ONEOK's physical assets leverage its G&P activities in the Bakken, which have been and continue to be the growth engine for the company. Natural gas processed in the company's Rockies operations (which includes the Bakken) has increased from just over 200 MMcf/d in Q1 2013 to approximately 685 MMcf/d in Q3 2015. Continued NGL production growth and other factors could push ONEOK Rockies gas processed up to 1.2 Bcf/d by 2021. Consequently, G&P net margin could increase from $144 million in Q3 2015 to more than $220 million in five years. Almost all of that growth would be derived from the Bakken, which could increase from about two-thirds of G&P net margin today to almost 80% in five years.

However, the implications of this growth in Bakken volume go well beyond ONEOK's G&P sector. NGL barrels from G&P gas processing activities feed ONEOK's much larger NGL division (72% of operating income in Q3 2015), which transports, fractionates, stores and markets NGLs handled by the company. NGL throughput on ONEOK's Bakken pipeline moves to its Overland Pass joint venture pipe, which further transports the barrels to the company's Mid-Continent operations in and around Conway and Bushton, KS. The Bushton location, referenced in the title of this report is the de-facto demarcation point between ONEOK's northern and southern operations.

Once the barrels reach the greater Conway/Bushton hub, ONEOK has the option to market the volumes into the Mid-Continent region or to move Bakken barrels, together with barrels gathered and produced from its significant Mid-Continent operation on its pipelines that transport NGLs south to the Gulf Coast. Over the past few years, ONEOK has developed the largest, most flexible system in the U.S. to facilitate such NGL north-south transportation movements, and to handle the barrels once they arrive at the company's Mont Belvieu, Texas fractionation and storage facilities. Two of those pipelines, Sterling I and II are running at about 70% of capacity today but could fill to capacity over the next five years, primarily due to additional volumes from the Bakken. These volumes can be expected to feed ONEOK's Mont Belvieu fractionators, along with additional volumes from the Mid-Continent and the company's recently acquired West Texas LPG system.

Additional improvements in company operations are likely to come from the smaller Natural Gas pipeline unit.

The outlook implied by this analysis suggests that total ONEOK operating income would grow from $1.1 billion in 2015 to $1.6 billion in 2020, an increase of 48% over the period for a compound annual growth rate (CAGR) of 8.2%. By far the fastest growing business segment within this outlook is G&P, up a total of 128% or a CAGR of 18% over the next 5 years followed by the NGL segment with a CAGR of 7% and natural gas pipelines with only 2% CAGR. Consequently, G&P would increase from 14% of total operating income in 2015 to 21% in 2020, while natural gas pipelines would decrease from 13% in 2015 to 10% in 2020. In absolute dollar terms, the operating income growth implied by this analysis is more than $520 million, with NGL providing $315 million, G&P providing $190 million and Natural Gas pipelines adding about $15 million.

1.2 ONEOK Initiatives

ONEOK is responding to today’s difficult market environment through a number of initiatives.

In the G&P sector, the company has struggled during the recent downdraft in oil prices as earnings and cash flow have been slashed due to their reliance on contracts with gas processing customers that base the fees they pay ONEOK in part on the prices realized for NGLs. With NGL prices down in sympathy with crude, gas processing margins (the price spreads between NGLs and natural gas) have been reduced. To address this exposure to processing margins the company is transitioning its G&P portfolio away from commodity indexed contracts towards fixed fee arrangements. This removes a significant level of commodity price risk from the company’s natural gas processing business, adding more stability to cash flow and earnings streams. To date, ONEOK’s initiative to more fee-based contracts has yielded impressive results.

As described above, ONEOK’s operating income is highly levered to Bakken oil and gas production volumes. Since 2010, the company has allocated approximately 85% of its G&P capital spending to the Rocky Mountain region (which includes the Bakken), and a similar percentage is planned going forward. The danger is that if current low crude oil prices are sustained, drilling and completion activity could further slow, eventually reducing crude oil, natural gas and NGL production. Such reductions in Bakken volumes not only impact ONEOK’s G&P operations, but also have the potential to permeate through its entire value chain. However, ONEOK appears to have a strong footprint in the Bakken giving it some protection from the downdraft in oil prices.

ONEOK’s Mid-Continent operation needs growth from new regional shale plays to offset production declines from mature oil and gas fields. However, although ONEOK’s footprint in the region captures volumes in the Cana shale play, they are not gathering much production in the cheaper SCOOP play (where drilling continues at low prices) and this will limit their potential in the Mid-Continent until energy prices recover.

ONEOK may also suffer declines in volumes on the NGL Arbuckle Pipeline that runs from Southern Oklahoma through the Barnett shale in North Texas to Mont Belvieu, because Barnett Shale production has declined with the rig count - slashed by 95% since early 2011. This was one factor that compelled ONEOK in October 2014 to acquire a controlling interest in West Texas LPG, which includes 2,600 miles of NGL gathering pipelines extending from the Permian Basin in southeastern New Mexico (where drilling continues in the sweet spot Delaware basin) to East Texas and Mont Belvieu. West Texas LPG is the lowest cost NGL pipeline leaving the Permian Basin and OKS should be able to lower the pipeline’s cost to EBITDA from 20x at time of purchase to a management guided 7-8x with rate increases and expansions.

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For more information on group subscriptions, send an email to info@rbnenergy.com or call 888-613-8874.

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2. Spotlight Reports from RBN Energy and East Daley Capital

2.1 What is Spotlight

Spotlight reports provide a deep dive into the fundamentals that shape the outlook for midstream energy companies. In each report we "*Spotlight*" a midstream energy firm, usually one operating within an MLP structure. Our goal is to provide a comprehensive, fundamental based view of our Spotlight companies based on a bottoms-up analysis of their assets and operations. We tear apart their asset structure to reveal what volumes are flowing, what rates are (and can be) charged, how they are exposed to commodity price risk, how their assets fit together, and what aspects of their operations provide competitive advantages in today's extremely volatile energy marketplace.

2.2 Who is creating Spotlight?

Spotlight is a joint venture of RBN Energy, LLC and East Daley Capital Advisors, Inc. We have joined together with the support of Oil & Gas Financial Analytics, LLC to provide a comprehensive, detailed insight into the companies we select for our analysis. We use publically available data, combined with the deep experience of our combined teams to get to the answers that can be overlooked in the more high-level assessments that are in the marketplace today. Instead of such a high-level approach, we get into the micro-level detail, integrating fundamentals data, market data and company data in a comprehensive model that provides a clear picture of the company and its prospects.

As with all energy fundamental analysis, Spotlight reports rely on estimates and approximations of volumes, throughputs and fees. No non-public data from the subject company or any other source has been used in the preparation of this report.

East Daley Capital Advisors, Inc. is an energy assets research firm bringing greater transparency to the energy financial market. In addition to using top-level financial data to predict a company's performance, East Daley is first-to-market with an asset-driven information service that provides comprehensive, bottoms-up, asset-level intelligence fueled by commodity fundamentals. East Daley is based in Centennial, CO.

RBN is a leading energy consultancy providing analysis and advisory services, best known for its rock-music themed Daily Energy Post, a blog that goes deep into the details about energy market trends, the mechanics of how energy markets function and the workings of economic and operational energy models. RBN is based in Houston, Texas.

2.3 How can I get Spotlight?

Spotlight is available to RBN Backstage Pass subscribers for no additional charge. Non-subscribers may purchase individual company Spotlight reports separately. For more information about Spotlight, go to rbnenergy.com/spotlight.