

OGE ENERGY CORP.
Form 10-Q
May 03, 2012

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

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2012

☐ 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: 1-12579

OGE ENERGY CORP.

(Exact name of registrant as specified in its charter)

Oklahoma

(State or other jurisdiction of
incorporation or organization)

73-1481638

(I.R.S. Employer
Identification No.)

321 North Harvey

P.O. Box 321

Oklahoma City, Oklahoma 73101-0321

(Address of principal executive offices)

(Zip Code)

405-553-3000

(Registrant's telephone number, including area code)

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. R Yes ☒ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). R Yes ☒ No

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

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

Large accelerated filer ☐ R

Accelerated filer ☐ £

Non-accelerated filer ☐ £ (Do not check if a smaller reporting company)

Smaller reporting company ☐ £

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

☐ Yes ☐ R No

At March 31, 2012, there were 98,591,411 shares of common stock, par value \$0.01 per share, outstanding.

OGE ENERGY CORP.

FORM 10-Q

FOR THE QUARTER ENDED MARCH 31, 2012

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GLOSSARY OF TERMS

The following is a glossary of frequently used abbreviations that are found throughout this Form 10-Q.

Abbreviation	Definition
2011 Form 10-K	Annual Report on Form 10-K for the year ended December 31, 2011
APSC	Arkansas Public Service Commission
ArcLight group	Bronco Midstream Holdings, LLC, Bronco Midstream Holdings II, LLC, collectively
Atoka	Atoka Midstream LLC joint venture
BART	Best Available Retrofit Technology
Company	OGE Energy, collectively with its subsidiaries
Cordillera	Cordillera Energy Partners III, LLC
Crossroads	OG&E's Crossroads wind farm in Dewey County, Oklahoma
Dry Scrubbers	Dry flue gas desulfurization units with Spray Dryer Absorber
EBITDA	Earnings before Interest, Taxes, Depreciation and Amortization
Enogex	OGE Holdings, collectively with its subsidiaries
Enogex LLC	Enogex LLC, collectively with its subsidiaries
Enogex Holdings	Enogex Holdings LLC, the parent company of Enogex LLC and a majority-owned subsidiary of OGE Holdings
EPA	U.S. Environmental Protection Agency
FERC	Federal Energy Regulatory Commission
GAAP	Accounting principles generally accepted in the United States
MMBtu	Million British thermal unit
MMcf/d	Million cubic feet per day
MW	Megawatt
MWH	Megawatt-hour
NGLs	Natural gas liquids
NOX	Nitrogen oxide
NYMEX	New York Mercantile Exchange
OCC	Oklahoma Corporation Commission
OER	OGE Energy Resources LLC, wholly-owned subsidiary of Enogex LLC
Off-system sales	Sales to other utilities and power marketers
OG&E	Oklahoma Gas and Electric Company
OGE Holdings	OGE Enogex Holdings, LLC, wholly-owned subsidiary of OGE Energy and parent company of Enogex Holdings
Oxbow	Oxbow Midstream, LLC
Pension Plan	Qualified defined benefit retirement plan
PRM	Price risk management
SIP	State implementation plan
SO ₂	Sulfur dioxide
System sales	Sales to OG&E's customers
TBtu/d	Trillion British thermal units per day

FORWARD-LOOKING STATEMENTS

Except for the historical statements contained herein, the matters discussed in this Form 10-Q, including those matters discussed in "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations," are forward-looking statements that are subject to certain risks, uncertainties and assumptions. Such forward-looking statements are intended to be identified in this document by the words "anticipate", "believe", "estimate", "expect", "intend", "objective", "plan", "possible", "potential", "project" and similar expressions. Actual results may vary materially from those expressed in forward-looking statements. In addition to the specific risk factors discussed in "Item 1A. Risk Factors" in the Company's 2011 Form 10-K and "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" herein, factors that could cause actual results to differ materially from the forward-looking statements include, but are not limited to:

- general economic conditions, including the availability of credit, access to existing lines of credit, access to the commercial paper markets, actions of rating agencies and their impact on capital expenditures;
- the ability of the Company and its subsidiaries to access the capital markets and obtain financing on favorable terms;
- prices and availability of electricity, coal, natural gas and NGLs, each on a stand-alone basis and in relation to each other as well as the processing contract mix between percent-of-liquids, percent-of-proceeds, keep-whole and fixed-fee;
- business conditions in the energy and natural gas midstream industries;
- competitive factors including the extent and timing of the entry of additional competition in the markets served by the Company;
- unusual weather;
- availability and prices of raw materials for current and future construction projects;
- Federal or state legislation and regulatory decisions and initiatives that affect cost and investment recovery, have an impact on rate structures or affect the speed and degree to which competition enters the Company's markets;
- environmental laws and regulations that may impact the Company's operations;
- changes in accounting standards, rules or guidelines;
- the discontinuance of accounting principles for certain types of rate-regulated activities;
- whether OG&E can successfully implement its Smart Grid program to install meters for its customers and integrate the Smart Grid meters with its customer billing and other computer information systems;
- the cost of protecting assets against, or damage due to, terrorism or cyber attacks;
- advances in technology;
- creditworthiness of suppliers, customers and other contractual parties;
- the higher degree of risk associated with the Company's nonregulated business compared with the Company's regulated utility business; and
- other risk factors listed in the reports filed by the Company with the Securities and Exchange Commission including those listed in "Item 1A. Risk Factors" and in Exhibit 99.01 to the Company's 2011 Form 10-K.

The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

OGE ENERGY CORP.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended March 31,	
(In millions except per share data)	2012	2011
OPERATING REVENUES		
Electric Utility operating revenues	\$426.7	\$422.1
Natural Gas Midstream Operations operating revenues	414.0	418.4
Total operating revenues	840.7	840.5
COST OF GOODS SOLD (exclusive of depreciation and amortization shown below)		
Electric Utility cost of goods sold	183.6	207.5
Natural Gas Midstream Operations cost of goods sold	301.7	325.7
Total cost of goods sold	485.3	533.2
Gross margin on revenues	355.4	307.3
OPERATING EXPENSES		
Other operation and maintenance	147.6	138.3
Depreciation and amortization	86.6	74.0
Impairment of assets	0.2	—
Gain on insurance proceeds	(7.5))—
Taxes other than income	30.2	27.1
Total operating expenses	257.1	239.4
OPERATING INCOME	98.3	67.9
OTHER INCOME (EXPENSE)		
Interest income	—	0.1
Allowance for equity funds used during construction	1.9	4.4
Other income	7.7	6.3
Other expense	(1.9)	)(2.3)
Net other income	7.7	8.5
INTEREST EXPENSE		
Interest on long-term debt	39.2	35.4
Allowance for borrowed funds used during construction	(1.1)	)(2.3)
Interest on short-term debt and other interest charges	2.0	1.0
Interest expense	40.1	34.1
INCOME BEFORE TAXES	65.9	42.3
INCOME TAX EXPENSE	18.4	12.6
NET INCOME	47.5	29.7
Less: Net income attributable to noncontrolling interests	10.4	4.9
NET INCOME ATTRIBUTABLE TO OGE ENERGY	\$37.1	\$24.8
BASIC AVERAGE COMMON SHARES OUTSTANDING	98.3	97.7
DILUTED AVERAGE COMMON SHARES OUTSTANDING	98.8	99.1
BASIC EARNINGS PER AVERAGE COMMON SHARE		
ATTRIBUTABLE TO OGE ENERGY COMMON SHAREHOLDERS	\$0.38	\$0.25
DILUTED EARNINGS PER AVERAGE COMMON SHARE		
ATTRIBUTABLE TO OGE ENERGY COMMON SHAREHOLDERS	\$0.38	\$0.25
DIVIDENDS DECLARED PER COMMON SHARE	\$0.3925	\$0.3750

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part hereof.

OGE ENERGY CORP.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

(In millions)	Three Months Ended March 31,	
	2012	2011
Net income	\$47.5	\$29.7
Other comprehensive income (loss), net of tax		
Pension Plan and Restoration of Retirement Income Plan:		
Amortization of deferred net loss, net of tax of \$0.4 million and \$0.4 million, respectively	0.8	0.5
Amortization of prior service cost, net of tax of \$0 and (\$0.1) million, respectively	—	0.2
Postretirement plans:		
Amortization of deferred net loss, net of tax of \$0.3 million and \$0.5 million, respectively	0.5	0.2
Amortization of deferred net transition obligation, net of tax of \$0 and (\$0.1) million, respectively	—	0.1
Amortization of prior service cost, net of tax of (\$0.3) million and (\$0.3) million, respectively	(0.5)	(0.6)
Prior service cost arising during the period, net of tax of \$0 and \$6.2 million, respectively	—	10.7
Deferred commodity contracts hedging (gains) losses reclassified in net income, net of tax of (\$1.7) million and \$3.2 million, respectively	(3.3)	6.6
Deferred commodity contracts hedging losses, net of tax of \$0 and (\$2.0) million, respectively	—	(5.1)
Deferred interest rate swaps hedging losses reclassified in net income, net of tax of \$0.1 million and \$0.1 million, respectively	0.1	0.1
Other comprehensive income (loss), net of tax	(2.4)	12.7
Comprehensive income	45.1	42.4
Less: Comprehensive income attributable to noncontrolling interest for sale of equity investment	—	(1.7)
Less: Comprehensive income attributable to noncontrolling interests	9.5	6.0
Total comprehensive income attributable to OGE Energy	\$35.6	\$38.1

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part hereof.

OGE ENERGY CORP.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In millions)	Three Months Ended March 31,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$47.5	\$29.7
Adjustments to reconcile net income to net cash provided from operating activities		
Depreciation and amortization	86.6	74.0
Impairment of assets	0.2	—
Deferred income taxes and investment tax credits, net	18.4	12.6
Allowance for equity funds used during construction	(1.9)	(4.4)
Loss on disposition of assets	0.5	0.3
Gain on insurance proceeds	(7.5)	—
Stock-based compensation	(11.8)	(2.3)
Price risk management assets	(0.5)	0.7
Price risk management liabilities	(4.9)	3.2
Regulatory assets	5.6	6.0
Regulatory liabilities	(3.4)	2.8
Other assets	2.4	1.7
Other liabilities	5.2	1.3
Change in certain current assets and liabilities		
Accounts receivable, net	54.8	8.1
Accrued unbilled revenues	6.0	6.3
Fuel, materials and supplies inventories	3.3	16.1
Gas imbalance assets	(4.0)	(2.1)
Fuel clause under recoveries	1.8	0.6
Other current assets	(6.3)	6.2
Accounts payable	(59.2)	(43.1)
Gas imbalance liabilities	(1.5)	1.4
Fuel clause over recoveries	31.5	(4.5)
Other current liabilities	(42.5)	(38.3)
Net Cash Provided from Operating Activities	120.3	76.3
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures (less allowance for equity funds used during construction)	(311.1)	(195.0)
Reimbursement of capital expenditures	9.7	11.3
Proceeds from insurance	6.1	—
Proceeds from sale of assets	0.2	1.7
Net Cash Used in Investing Activities	(295.1)	(182.0)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term debt	212.2	92.2
Issuance of common stock	3.7	4.1
Contributions from noncontrolling interest partners	—	73.5
Repayment of line of credit	—	(25.0)
Distributions to noncontrolling interest partners	(5.6)	(0.8)
Dividends paid on common stock	(38.5)	(36.6)
Net Cash Provided from Financing Activities	171.8	107.4
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3.0)	1.7
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	4.6	2.3

CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$1.6	\$4.0
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The accompanying Notes to Condensed Consolidated Financial Statements are an integral part hereof.

OGE ENERGY CORP.
CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions)	March 31, 2012 (Unaudited)	December 31, 2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$1.6	\$4.6
Accounts receivable, less reserve of \$2.5 and \$3.8, respectively	269.2	322.5
Accrued unbilled revenues	53.3	59.3
Income taxes receivable	8.3	8.3
Fuel inventories	96.3	100.7
Materials and supplies, at average cost	88.3	87.2
Price risk management	4.1	3.5
Gas imbalances	5.8	1.8
Deferred income taxes	37.3	32.1
Fuel clause under recoveries	—	1.8
Other	37.2	30.9
Total current assets	601.4	652.7
OTHER PROPERTY AND INVESTMENTS, at cost	49.2	46.7
PROPERTY, PLANT AND EQUIPMENT		
In service	10,597.4	10,315.9
Construction work in progress	501.6	499.0
Total property, plant and equipment	11,099.0	10,814.9
Less accumulated depreciation	3,394.4	3,340.9
Net property, plant and equipment	7,704.6	7,474.0
DEFERRED CHARGES AND OTHER ASSETS		
Regulatory assets	500.5	507.9
Intangible assets, net	134.6	137.0
Goodwill	39.4	39.4
Price risk management	0.2	0.3
Other	44.6	48.0
Total deferred charges and other assets	719.3	732.6
TOTAL ASSETS	\$9,074.5	\$8,906.0

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part hereof.

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OGE ENERGY CORP.
CONDENSED CONSOLIDATED BALANCE SHEETS (Continued)

(In millions)	March 31, 2012 (Unaudited)	December 31, 2011
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term debt	\$489.3	\$277.1
Accounts payable	304.8	388.0
Dividends payable	38.7	38.5
Customer deposits	68.8	67.6
Accrued taxes	26.2	42.3
Accrued interest	35.5	54.8
Accrued compensation	36.6	47.8
Price risk management	0.5	0.4
Gas imbalances	8.3	9.8
Fuel clause over recoveries	39.2	7.7
Other	67.4	64.5
Total current liabilities	1,115.3	998.5
LONG-TERM DEBT	2,737.3	2,737.1
DEFERRED CREDITS AND OTHER LIABILITIES		
Accrued benefit obligations	365.6	360.8
Deferred income taxes	1,674.6	1,651.4
Deferred investment tax credits	5.5	6.1
Regulatory liabilities	237.0	230.7
Deferred revenues	40.7	40.8
Price risk management	—	0.1
Other	88.1	61.2
Total deferred credits and other liabilities	2,411.5	2,351.1
Total liabilities	6,264.1	6,086.7
COMMITMENTS AND CONTINGENCIES (NOTE 13)		
STOCKHOLDERS' EQUITY		
Common stockholders' equity	1,022.3	1,035.3
Retained earnings	1,573.2	1,574.8
Accumulated other comprehensive loss, net of tax	(42.1)	(40.6)
Treasury stock, at cost	(0.3)	(6.2)
Total OGE Energy stockholders' equity	2,553.1	2,563.3
Noncontrolling interests	257.3	256.0
Total stockholders' equity	2,810.4	2,819.3
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$9,074.5	\$8,906.0

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part hereof.

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OGE ENERGY CORP.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Unaudited)

	Common Stock	Premium on Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Treasury Stock	Total
(In millions)							
Balance at December 31, 2011	\$1.0	\$1,034.3	\$1,574.8	\$ (40.6	) \$256.0	\$(6.2	)\$2,819.3
Comprehensive income (loss)							
Net income	—	—	37.1	—	10.4	—	47.5
Other comprehensive income (loss), net of tax	—	—	—	(1.5	) (0.9	)—	(2.4)
Comprehensive income (loss)	—	—	37.1	(1.5	) 9.5	—	45.1
Dividends declared on common stock	—	—	(38.7	)—	—	—	(38.7)
Issuance of common stock	—	3.7	—	—	—	—	3.7
Stock-based compensation and other	—	(16.7	)—	—	(2.6	)5.9	(13.4)
Distributions to noncontrolling interest partners	—	—	—	—	(5.6	)—	(5.6)
Balance at March 31, 2012	\$1.0	\$1,021.3	\$1,573.2	\$ (42.1	) \$257.3	\$(0.3	)\$2,810.4
Balance at December 31, 2010	\$1.0	\$968.2	\$1,380.6	\$ (60.2	) \$110.4	\$—	\$2,400.0
Comprehensive income (loss)							
Net income	—	—	24.8	—	4.9	—	29.7
Other comprehensive income (loss), net of tax	—	—	—	13.3	(0.6	)—	12.7
Comprehensive income (loss)	—	—	24.8	13.3	4.3	—	42.4
Dividends declared on common stock	—	—	(36.7	)—	—	—	(36.7)
Issuance of common stock	—	4.1	—	—	—	—	4.1
Stock-based compensation	—	(2.4	)—	—	—	—	(2.4)
Contributions from noncontrolling interest partners	—	29.1	—	—	44.4	—	73.5
Distributions to noncontrolling interest partners	—	—	—	—	(0.8	)—	(0.8)
Deferred income taxes attributable to contributions from noncontrolling interest partners	—	(11.2	)—	—	—	—	(11.2)
Balance at March 31, 2011	\$1.0	\$987.8	\$1,368.7	\$ (46.9	) \$158.3	\$—	\$2,468.9

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part hereof.

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OGE ENERGY CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Summary of Significant Accounting Policies

Organization

The Company is an energy and energy services provider offering physical delivery and related services for both electricity and natural gas primarily in the south central United States. The Company conducts these activities through four business segments: (i) electric utility, (ii) natural gas transportation and storage, (iii) natural gas gathering and processing and (iv) natural gas marketing. All significant intercompany transactions have been eliminated in consolidation.

The electric utility segment generates, transmits, distributes and sells electric energy in Oklahoma and western Arkansas. Its operations are conducted through OG&E and are subject to regulation by the OCC, the APSC and the FERC. OG&E was incorporated in 1902 under the laws of the Oklahoma Territory. OG&E is the largest electric utility in Oklahoma and its franchised service territory includes the Fort Smith, Arkansas area. OG&E sold its retail natural gas business in 1928 and is no longer engaged in the natural gas distribution business.

Enogex is a provider of integrated natural gas midstream services. Enogex is engaged in the business of gathering, processing, transporting, storing and marketing natural gas. Most of Enogex's natural gas gathering, processing, transportation and storage assets are strategically located in the Arkoma and Anadarko basins of Oklahoma and the Texas Panhandle. Enogex's operations are organized into three business segments: (i) natural gas transportation and storage, (ii) natural gas gathering and processing and (iii) natural gas marketing. At March 31, 2012, the Company indirectly owns an 81.3 percent membership interest in Enogex Holdings, which in turn owns all of the membership interests in Enogex LLC, a Delaware single-member limited liability company. The Company continues to consolidate Enogex Holdings in its Condensed Consolidated Financial Statements as OGE Energy has a controlling financial interest over the operations of Enogex Holdings. Also, Enogex LLC holds a 50 percent ownership interest in Atoka. The Company consolidates Atoka in its Condensed Consolidated Financial Statements as Enogex acts as the managing member of Atoka and has control over the operations of Atoka.

Basis of Presentation

The Condensed Consolidated Financial Statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations; however, the Company believes that the disclosures are adequate to prevent the information presented from being misleading.

In the opinion of management, all adjustments necessary to fairly present the consolidated financial position of the Company at March 31, 2012 and December 31, 2011, the results of its operations for the three months ended March 31, 2012 and 2011 and the results of its cash flows for the three months ended March 31, 2012 and 2011, have been included and are of a normal recurring nature except as otherwise disclosed.

Due to seasonal fluctuations and other factors, the Company's operating results for the three months ended March 31, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012 or for any future period. The Condensed Consolidated Financial Statements and Notes thereto should be read in conjunction with the audited Consolidated Financial Statements and Notes thereto included in the Company's 2011 Form 10-K.

Accounting Records

The accounting records of OG&E are maintained in accordance with the Uniform System of Accounts prescribed by the FERC and adopted by the OCC and the APSC. Additionally, OG&E, as a regulated utility, is subject to accounting principles for certain types of rate-regulated activities, which provide that certain actual or anticipated costs that would otherwise be charged to expense can be deferred as regulatory assets, based on the expected recovery from customers in future rates. Likewise, certain actual or anticipated credits that would otherwise reduce expense can be deferred as regulatory liabilities, based on the expected flowback to customers in future rates. Management's expected recovery of deferred costs and flowback of deferred credits generally results from specific decisions by regulators granting such ratemaking treatment.

OG&E records certain actual or anticipated costs and obligations as regulatory assets or liabilities if it is probable, based on regulatory orders or other available evidence, that the cost or obligation will be included in amounts allowable for recovery or refund in future rates.

The following table is a summary of OG&E's regulatory assets and liabilities at:

(In millions)	March 31, 2012	December 31, 2011
Regulatory Assets		
Current		
Fuel clause under recoveries	\$—	\$1.8
Other (A)	24.7	14.2
Total Current Regulatory Assets	\$24.7	\$16.0
Non-Current		
Benefit obligations regulatory asset	\$352.1	\$359.2
Income taxes recoverable from customers, net	54.4	54.0
Smart Grid	39.4	37.2
Deferred storm expenses	21.7	23.8
Unamortized loss on reacquired debt	13.9	14.2
Deferred Pension expenses	7.9	9.1
Other	11.1	10.4
Total Non-Current Regulatory Assets	\$500.5	\$507.9
Regulatory Liabilities		
Current		
Fuel clause over recoveries	\$39.2	\$7.7
Smart Grid rider over collections (B)	24.8	24.3
Other (B)	13.9	13.7
Total Current Regulatory Liabilities	\$77.9	\$45.7
Non-Current		
Accrued removal obligations, net	\$211.2	\$208.2
Pension tracker	25.8	22.5
Total Non-Current Regulatory Liabilities	\$237.0	\$230.7

(A) Included in Other Current Assets on the Condensed Consolidated Balance Sheets.

(B) Included in Other Current Liabilities on the Condensed Consolidated Balance Sheets.

Management continuously monitors the future recoverability of regulatory assets. When in management's judgment future recovery becomes impaired, the amount of the regulatory asset is adjusted, as appropriate. If OG&E were required to discontinue the application of accounting principles for certain types of rate-regulated activities for some or all of its operations, it could result in writing off the related regulatory assets, which could have significant financial effects.

Business Combination

As previously reported in the Company's 2011 Form 10-K, on September 23, 2011, Enogex entered into the following agreements: an agreement with Cordillera, Oxbow and West Canadian Midstream LLC pursuant to which Enogex agreed to acquire 100 percent of the membership interest in Roger Mills Gas Gathering, LLC, an Oklahoma limited liability company that owns an approximately 60-mile natural gas gathering system located in Roger Mills County and Ellis County, Oklahoma; an agreement with Cordillera and Oxbow pursuant to which Enogex agreed to acquire an approximately 30-mile natural gas gathering system located in Roger Mills County, Oklahoma; and agreements with Cordillera and other producers pursuant to which such producers agreed to provide Enogex with long-term acreage

dedication in the area served by the gathering systems encompassing approximately 100,000 net acres. The gathering systems are located in the Granite Wash area. The aggregate purchase price for these transactions was \$200.4 million, which was paid in cash primarily from contributions from OGE Energy and the ArcLight group as well as cash generated from operations and bank borrowings. The transactions closed on November 1, 2011. During the three months ended March 31, 2012, the purchase price allocation for this transaction was finalized and no adjustments were required to the previously reported purchase price allocation in the Company's 2011 Form 10-K.

Property, Plant and Equipment

Enogex Cox City Plant Fire

On December 8, 2010, a fire occurred at Enogex's Cox City natural gas processing plant destroying major components of one of the four processing trains, representing 120 MMcf/d of the total 180 MMcf/d of capacity, at that facility. The damaged train was replaced and the facility was returned to full service in September 2011. The total cost necessary to return the facility back to full service was \$29.6 million. In the fourth quarter of 2011, Enogex received a partial insurance reimbursement of \$7.4 million and recognized a gain of \$3.0 million on insurance proceeds. In March 2012, Enogex reached a settlement agreement with its insurers in this matter. As a result of the settlement agreement, Enogex received additional reimbursements of \$6.1 million during the three months ended March 31, 2012 and \$1.5 million in April 2012. Enogex recognized a gain of \$7.5 million on insurance proceeds during the three months ended March 31, 2012.

Asset Retirement Obligation

The following table summarizes changes to OG&E's asset retirement obligations related to its wind farms due to a change in the assumption related to the timing of removal used in the valuation of the asset retirement obligations. (In millions)

Balance at January 1, 2012	\$24.8
Accretion expense	0.4
Revisions in estimated cash flows	26.7
Balance at March 31, 2012	\$51.9

Accumulated Other Comprehensive Income (Loss)

The following table summarizes the components of accumulated other comprehensive loss at March 31, 2012 and December 31, 2011 attributable to OGE Energy. At both March 31, 2012 and December 31, 2011, there was no accumulated other comprehensive loss related to Enogex's noncontrolling interest in Atoka.

(In millions)	March 31, 2012	December 31, 2011
Pension Plan and Restoration of Retirement Income Plan:		
Net loss	\$(41.3)	\$(42.1)
Prior service cost	(0.1)	(0.1)
Postretirement plans:		
Net loss	(14.9)	(15.4)
Prior service cost	8.5	9.0
Net transition obligation	(0.1)	(0.1)
Deferred commodity contracts hedging gains	—	3.3
Deferred interest rate swaps hedging losses	(0.6)	(0.7)
Total accumulated other comprehensive loss	(48.5)	(46.1)
Less: Accumulated other comprehensive loss attributable to noncontrolling interests	(6.4)	(5.5)
Accumulated other comprehensive loss, net of tax	\$(42.1)	\$(40.6)

2. Accounting Pronouncement

In May 2011, the Financial Accounting Standards Board issued "Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs," which reconciled differences between U.S. GAAP and International Financial Reporting Standards and clarified existing disclosure requirements about fair value measurement as set forth in previously issued accounting guidance in this area. The

new standard requires additional disclosures relating to the valuation processes used by the Company related to its fair value measurements using significant unobservable inputs (Level 3), as well as the sensitivity of the fair value measurement to the changes in unobservable inputs. The new standard is applicable to all entities that are required or permitted to measure or disclose the fair value of an asset, a liability or an instrument classified in a reporting entity's shareholders' equity in the financial statements. The new standard is effective for interim and

annual reporting periods beginning after December 15, 2011, and should be applied prospectively. Early adoption of this new standard was not permitted. The Company adopted this new standard effective January 1, 2012. The Company had no Level 3 assets or liabilities at March 31, 2012.

3. Noncontrolling Interests

Pursuant to the Enogex Holdings LLC Agreement, Enogex Holdings makes quarterly distributions to its partners. The following table summarizes the quarterly distributions during the three months ended March 31, 2012.

(In millions)	OGE Holdings Portion	ArcLight group's Portion	Total Distribution
First quarter 2012	\$24.4	\$5.6	\$30.0

Enogex LLC made no distributions during the three months ended March 31, 2012 to its Atoka partner, as there is no minimum distribution requirement related to Atoka.

4. Fair Value Measurements

The classification of the Company's fair value measurements requires judgment regarding the degree to which market data are observable or corroborated by observable market data. GAAP establishes a fair value hierarchy that prioritizes the inputs used to measure fair value based on observable and unobservable data. The hierarchy categorizes the inputs into three levels, with the highest priority given to quoted prices in active markets for identical unrestricted assets or liabilities (Level 1) and the lowest priority given to unobservable inputs (Level 3). Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The three levels defined in the fair value hierarchy and examples of each are as follows:

Level 1 inputs are quoted prices in active markets for identical unrestricted assets or liabilities that are accessible at the measurement date. Instruments classified as Level 1 include natural gas futures, swaps and option transactions for contracts traded on the NYMEX and settled through a NYMEX clearing broker.

Level 2 inputs are inputs other than quoted prices in active markets included within Level 1 that are either directly or indirectly observable at the reporting date for the asset or liability for substantially the full term of the asset or liability. Level 2 inputs include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active. Instruments classified as Level 2 include over-the-counter NYMEX natural gas swaps, natural gas basis swaps and natural gas purchase and sales transactions in markets such that the pricing is closely related to the NYMEX pricing.

Level 3 inputs are prices or valuation techniques for the asset or liability that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity). Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk).

The Company utilizes the market approach in determining the fair value of its derivative positions by using either NYMEX published market prices, independent broker pricing data or broker/dealer valuations. The valuations of derivatives with pricing based on NYMEX published market prices may be considered Level 1 if they are settled through a NYMEX clearing broker account with daily margining. Over-the-counter derivatives with NYMEX based prices are considered Level 2 due to the impact of counterparty credit risk. Valuations based on independent broker pricing or broker/dealer valuations may be classified as Level 2 only to the extent they may be validated by an additional source of independent market data for an identical or closely related active market. In certain less liquid markets or for longer-term contracts, forward prices are not as readily available. In these circumstances, contracts are

valued using internally developed methodologies that consider historical relationships among various quoted prices in active markets that result in management's best estimate of fair value. These contracts are classified as Level 3.

The impact to the fair value of derivatives due to credit risk is calculated using the probability of default based on Standard & Poor's Ratings Services and/or internally generated ratings. The fair value of derivative assets is adjusted for credit risk. The fair value of derivative liabilities is adjusted for credit risk only if the impact is deemed material.

Contracts with Master Netting Arrangements

Fair value amounts recognized for forward, interest rate swap, option and other conditional or exchange contracts executed with the same counterparty under a master netting arrangement may be offset. The reporting entity's choice to offset or not must be applied consistently. A master netting arrangement exists if the reporting entity has multiple contracts, whether for the same type of conditional or exchange contract or for different types of contracts, with a single counterparty that are subject to a contractual agreement that provides for the net settlement of all contracts through a single payment in a single currency in the event of default on or termination of any one contract. Offsetting the fair values recognized for forward, interest rate swap, option and other conditional or exchange contracts outstanding with a single counterparty results in the net fair value of the transactions being reported as an asset or a liability in the Condensed Consolidated Balance Sheets. The Company has presented the fair values of its derivative contracts under master netting agreements using a net fair value presentation.

The following tables summarize the Company's assets and liabilities that are measured at fair value on a recurring basis at March 31, 2012 and December 31, 2011 as well as reconcile the Company's commodity contracts fair value to PRM Assets and Liabilities on the Company's Condensed Consolidated Balance Sheets at March 31, 2012 and December 31, 2011. There were no Level 3 investments held at March 31, 2012 or December 31, 2011.

March 31, 2012

(In millions)	Commodity Contracts		Gas Imbalances (A)	
	Assets	Liabilities	Assets (B)	Liabilities (C)
Quoted market prices in active market for identical assets (Level 1)	\$52.8	\$54.8	\$—	\$—
Significant other observable inputs (Level 2)	5.0	0.9	3.3	6.8
Total fair value	57.8	55.7	3.3	6.8
Netting adjustments	(53.5)	(55.2)	—	—
Total	\$4.3	\$0.5	\$3.3	\$6.8

December 31, 2011

(In millions)	Commodity Contracts		Gas Imbalances (A)	
	Assets	Liabilities	Assets	Liabilities (C)
Quoted market prices in active market for identical assets (Level 1)	\$57.1	\$52.3	\$—	\$—
Significant other observable inputs (Level 2)	4.2	1.2	1.8	7.8
Total fair value	61.3	53.5	1.8	7.8
Netting adjustments	(57.5)	(53.0)	—	—
Total	\$3.8	\$0.5	\$1.8	\$7.8

The Company uses the market approach to fair value its gas imbalance assets and liabilities, using an average of (A) the Inside FERC Gas Market Report for Panhandle Eastern Pipe Line Co. (Texas, Oklahoma Mainline), ONEOK (Oklahoma) and ANR Pipeline (Oklahoma) indices.

Gas imbalance assets exclude fuel reserves for under retained fuel due from shippers of \$2.5 million at March 31, (B) 2012 with no comparable item at December 31, 2011, which fuel reserves are based on the value of natural gas at the time the imbalance was created and which are not subject to revaluation at fair market value.

Gas imbalance liabilities exclude fuel reserves for over retained fuel due to shippers of \$1.5 million and \$2.0 (C) million at March 31, 2012 and December 31, 2011, respectively, which fuel reserves are based on the value of natural gas at the time the imbalance was created and which are not subject to revaluation at fair market value.

The following table summarizes the Company's assets that are measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the three months ended March 31, 2011. There were no Level 3 investments held at March 31, 2012 or December 31, 2011.

Commodity Contracts

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(In millions)	Assets	
Balance at January 1	\$13.3	
Total gains or losses		
Included in other comprehensive income	(4.8)
Settlements	(3.3)
Balance at March 31	\$5.2	

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The following table summarizes the fair value and carrying amount of the Company's financial instruments, including derivative contracts related to the Company's PRM activities, at March 31, 2012 and December 31, 2011.

(In millions)	March 31, 2012		December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Price Risk Management Assets				
Energy Derivative Contracts	\$4.3	\$4.3	\$3.8	\$3.8
Price Risk Management Liabilities				
Energy Derivative Contracts	\$0.5	\$0.5	\$0.5	\$0.5
Long-Term Debt				
OG&E Senior Notes	\$1,903.9	\$2,301.7	\$1,903.8	\$2,383.8
OGE Energy Senior Notes	99.8	106.4	99.8	108.5
OG&E Industrial Authority Bonds	135.4	135.4	135.4	135.4
Enogex LLC Senior Notes	448.2	490.7	448.1	497.9
Enogex LLC Revolving Credit Agreement	150.0	150.0	150.0	150.0

The carrying value of the financial instruments on the Condensed Consolidated Balance Sheets not otherwise discussed above approximates fair value except for long-term debt which is valued at the carrying amount. The valuation of the Company's energy derivative contracts was determined generally based on quoted market prices. However, in certain instances where market quotes are not available, other valuation techniques or models are used to estimate market values. The valuation of instruments also considers the credit risk of the counterparties. The fair value of the Company's long-term debt is based on quoted market prices and estimates of current rates available for similar issues with similar maturities.

5. Derivative Instruments and Hedging Activities

The Company is exposed to certain risks relating to its ongoing business operations. The primary risks managed using derivatives instruments are commodity price risk and interest rate risk. The Company is also exposed to credit risk in its business operations.

Commodity Price Risk

The Company primarily uses forward physical contracts, commodity price swap contracts and commodity price option features to manage the Company's commodity price risk exposures. Commodity derivative instruments used by the Company are as follows:

- NGLs put options and NGLs swaps are used to manage Enogex's NGLs exposure associated with its processing agreements;

- natural gas swaps are used to manage Enogex's keep-whole natural gas exposure associated with its processing operations and Enogex's natural gas exposure associated with operating its gathering, transportation and storage assets;

- natural gas futures and swaps and natural gas commodity purchases and sales are used to manage OER's natural gas exposure associated with its storage and transportation contracts; and

- natural gas futures and swaps, natural gas options and natural gas commodity purchases and sales are used to manage OER's marketing and trading activities.

Normal purchases and normal sales contracts are not recorded in PRM Assets or Liabilities in the Condensed Consolidated Balance Sheets and earnings recognition is recorded in the period in which physical delivery of the commodity occurs. Management applies normal purchases and normal sales treatment to: (i) commodity contracts for the purchase and sale of natural gas used in or produced by Enogex's operations, (ii) commodity contracts for the sale

of NGLs produced by Enogex's gathering and processing business, (iii) electric power contracts by OG&E and (iv) fuel procurement by OG&E.

The Company recognizes its non-exchange traded derivative instruments as PRM Assets or Liabilities in the Condensed Consolidated Balance Sheets at fair value with such amounts classified as current or long-term based on their anticipated settlement. Exchange traded transactions are settled on a net basis daily through margin accounts with a clearing broker and, therefore, are recorded at fair value on a net basis in Other Current Assets in the Condensed Consolidated Balance Sheets.

Interest Rate Risk

The Company's exposure to changes in interest rates primarily relates to short-term variable-rate debt and commercial paper. The Company manages its interest rate exposure by monitoring and limiting the effects of market changes in interest rates. The Company utilizes interest rate derivatives to alter interest rate exposure in an attempt to reduce the effects of these changes. Interest rate derivatives are used solely to modify interest rate exposure and not to modify the overall leverage of the debt portfolio.

Credit Risk

The Company is exposed to certain credit risks relating to its ongoing business operations. Credit risk includes the risk that counterparties that owe the Company money or energy will breach their obligations. If the counterparties to these arrangements fail to perform, the Company may be forced to enter into alternative arrangements. In that event, the Company's financial results could be adversely affected and the Company could incur losses.

Cash Flow Hedges

For derivatives that are designated and qualify as a cash flow hedge, the effective portion of the change in fair value of the derivative instrument is reported as a component of Accumulated Other Comprehensive Income and recognized into earnings in the same period during which the hedged transaction affects earnings. The ineffective portion of a derivative's change in fair value or hedge components excluded from the assessment of effectiveness is recognized currently in earnings. The Company measures the ineffectiveness of commodity cash flow hedges using the change in fair value method whereby the change in the expected future cash flows designated as the hedge transaction are compared to the change in fair value of the hedging instrument. Forecasted transactions, which are designated as the hedged transaction in a cash flow hedge, are regularly evaluated to assess whether they continue to be probable of occurring. If the forecasted transactions are no longer probable of occurring, hedge accounting will cease on a prospective basis and all future changes in the fair value of the derivative will be recognized directly in earnings.

The Company designates as cash flow hedges derivatives used to manage commodity price risk exposure for Enogex's NGLs volumes and corresponding keep-whole natural gas resulting from its natural gas processing contracts (processing hedges) and natural gas positions resulting from its natural gas gathering and processing, pipeline and storage operations (operational gas hedges). The Company also designates as cash flow hedges certain derivatives used to manage natural gas commodity exposure for certain natural gas storage inventory positions. Enogex had no instruments designated as cash flow hedges at March 31, 2012.

Fair Value Hedges

For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedge risk are recognized currently in earnings. The Company includes the gain or loss on the hedged items in Operating Revenues as the offsetting loss or gain on the related hedging derivative.

At March 31, 2012 and December 31, 2011, the Company had no derivative instruments that were designated as fair value hedges.

Derivatives Not Designated As Hedging Instruments

Derivative instruments not designated as hedging instruments are utilized in OER's asset management, marketing and trading activities. For derivative instruments not designated as hedging instruments, the gain or loss on the derivative is recognized currently in earnings.

At March 31, 2012, the Company had the following derivative instruments that were not designated as hedging instruments.

(In millions)	Gross Notional Volume (A)	
	Purchases	Sales
Natural gas (B)		
Physical (C)(D)	10.6	42.6
Fixed Swaps/Futures	69.8	70.7
Options	16.0	13.0
Basis Swaps	25.8	28.0

(A) Natural gas in MMBtu's.

(B) 92.6 percent of the natural gas contracts have durations of one year or less, 2.9 percent have durations of more than one year and less than two years and 4.5 percent have durations of more than two years.

(C) Of the natural gas physical purchases and sales volumes not designated as hedges, the majority are priced based on a monthly or daily index and the fair value is subject to little or no market price risk.

(D) Natural gas physical sales volumes exceed natural gas physical purchase volumes due to the marketing of natural gas volumes purchased via Enogex's processing contracts, which are not derivative instruments and are excluded from the table above.

Balance Sheet Presentation Related to Derivative Instruments

The fair value of the derivative instruments that are presented in the Company's Condensed Consolidated Balance Sheet at March 31, 2012 are as follows:

Instrument	Balance Sheet Location	Fair Value	
		Assets	Liabilities
		(In millions)	
Derivatives Not Designated as Hedging Instruments			
Natural Gas			
Financial Futures/Swaps	Current PRM	\$0.1	\$0.1
	Other Current Assets	53.2	55.0
Physical Purchases/Sales	Current PRM	4.1	0.5
	Non-Current PRM	0.2	—
Financial Options	Other Current Assets	0.2	0.1
Total (A)		\$57.8	\$55.7

(A) See Note 4 for a reconciliation of the Company's total derivatives fair value to the Company's Condensed Consolidated Balance Sheet at March 31, 2012.

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The fair value of the derivative instruments that are presented in the Company's Condensed Consolidated Balance Sheet at December 31, 2011 are as follows:

Instrument	Balance Sheet Location	Fair Value	
		Assets	Liabilities
		(In millions)	
Derivatives Designated as Hedging Instruments			
Natural Gas			
Financial Futures/Swaps	Other Current Assets	\$5.2	\$0.3
Total		\$5.2	\$0.3
Derivatives Not Designated as Hedging Instruments			
Natural Gas			
Financial Futures/Swaps	Current PRM	\$0.4	\$—
	Other Current Assets	49.9	49.9
Physical Purchases/Sales	Current PRM	3.1	0.4
	Non-Current PRM	0.3	0.1
Financial Options	Other Current Assets	2.4	2.8
Total		\$56.1	\$53.2
Total Gross Derivatives (A)		\$61.3	\$53.5

(A) See Note 4 for a reconciliation of the Company's total derivatives fair value to the Company's Condensed Consolidated Balance Sheet at December 31, 2011.

Income Statement Presentation Related to Derivative Instruments

The following tables present the effect of derivative instruments on the Company's Condensed Consolidated Statement of Income for the three months ended March 31, 2012.

Derivatives in Cash Flow Hedging Relationships

(In millions)	Amount Recognized in Other Comprehensive Income	Amount Reclassified from Accumulated Other Comprehensive Income into Income	Amount Recognized in Income
Natural Gas Financial Futures/Swaps	\$0.3	\$5.2	\$—
Total	\$0.3	\$5.2	\$—

Derivatives Not Designated as Hedging Instruments

(In millions)	Amount Recognized in Income
Natural Gas Physical Purchases/Sales	\$(2.4)
Natural Gas Financial Futures/Swaps	0.4
Total	\$(2.0)

The following tables present the effect of derivative instruments on the Company's Condensed Consolidated Statement of Income for the three months ended March 31, 2011.

Derivatives in Cash Flow Hedging Relationships

(In millions)	Amount Recognized in Other Comprehensive Income	Amount Reclassified from Accumulated Other Comprehensive Income	Amount Recognized in
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	Income	into Income	Income
NGLs Financial Options	\$(6.8)\$(2.5)\$—
Natural Gas Financial Futures/Swaps	(0.2)(7.3)—
Total	\$(7.0)\$(9.8)\$—

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Derivatives Not Designated as Hedging Instruments