

OGE ENERGY CORP.  
Form 10-Q  
August 07, 2014

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 June 30, 2014

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 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.  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).  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

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  No

At June 30, 2014, there were 199,228,945 shares of common stock, par value \$0.01 per share, outstanding.

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OGE ENERGY CORP.

FORM 10-Q

FOR THE QUARTER ENDED JUNE 30, 2014

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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
2013 Form 10-K	Annual Report on Form 10-K for the year ended December 31, 2013
APSC	Arkansas Public Service Commission
ArcLight	Bronco Midstream Holdings, LLC, Bronco Midstream Holdings II, LLC, collectively
ASC	Financial Accounting Standards Board Accounting Standards Codification
ASU	Financial Accounting Standards Board Accounting Standards Update
BART	Best available retrofit technology
CenterPoint	CenterPoint Energy Resources Corp., wholly-owned subsidiary of CenterPoint Energy, Inc.
Company	OGE Energy, collectively with its subsidiaries
DOJ	U.S. Department of Justice
Dry Scrubbers	Dry flue gas desulfurization units with spray dryer absorber
Enable	Enable Midstream Partners, LP, partnership between OGE Energy, the ArcLight group and CenterPoint Energy, Inc. formed to own and operate the midstream businesses of OGE Energy and CenterPoint
Enogex Holdings	Enogex Holdings LLC, the parent company of Enogex LLC and a majority-owned subsidiary of OGE Holdings, LLC (prior to May 1, 2013)
Enogex LLC	Enogex LLC, collectively with its subsidiaries (effective July 30, 2013, the name was changed to Enable Oklahoma Intrastate Transmission, LLC)
EPA	U.S. Environmental Protection Agency
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FIP	Federal implementation plan
GAAP	Accounting principles generally accepted in the United States
MATS	Mercury and Air Toxics Standards
NGLs	Natural gas liquids
NO <sub>x</sub>	Nitrogen oxide
OCC	Oklahoma Corporation Commission
Off-system sales	Sales to other utilities and power marketers
OG&E	Oklahoma Gas and Electric Company, wholly-owned subsidiary of OGE Energy
OGE Holdings	OGE Enogex Holdings, LLC, wholly-owned subsidiary of OGE Energy, parent company of Enogex Holdings (prior to May 1, 2013) and 28.5 percent owner of Enable Midstream Partners
Pension Plan	Qualified defined benefit retirement plan
Restoration of Retirement Income Plan	Supplemental retirement plan to the Pension Plan
SESH	Southeast Supply Header, LLC
SIP	State implementation plan
SO <sub>2</sub>	Sulfur dioxide
SPP	Southwest Power Pool
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 2013 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 as well as inflation rates and monetary fluctuations;
- prices and availability of electricity, coal, natural gas and NGLs;
- the timing and extent of changes in commodity prices, particularly natural gas and NGLs, the competitive effects of the available pipeline capacity in the regions Enable serves, and the effects of geographic and seasonal commodity price differentials, including the effects of these circumstances on re-contracting available capacity on Enable's interstate pipelines;
- the timing and extent of changes in the supply of natural gas, particularly supplies available for gathering by Enable's gathering and processing business and transporting by Enable's interstate pipelines, including the impact of natural gas and NGLs prices on the level of drilling and production activities in the regions Enable serves;
- 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;
- the cost of protecting assets against, or damage due to, terrorism or cyber-attacks and other catastrophic events;
- advances in technology;
- creditworthiness of suppliers, customers and other contractual parties;
- difficulty in making accurate assumptions and projections regarding future revenues and costs associated with the Company's equity investment in Enable that the Company does not control; 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 2013 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		Six Months Ended	
	June 30,		June 30,	
(In millions except per share data)	2014	2013	2014	2013
<b>OPERATING REVENUES</b>				
Electric Utility	\$611.8	\$573.9	\$1,172.2	\$1,027.6
Natural Gas Midstream Operations (Note 1)	—	160.3	—	608.0
Total operating revenues	611.8	734.2	1,172.2	1,635.6
<b>COST OF SALES</b>				
Electric Utility	270.9	243.6	564.3	444.8
Natural Gas Midstream Operations (Note 1)	—	127.0	—	478.8
Total cost of sales	270.9	370.6	564.3	923.6
<b>OPERATING EXPENSES</b>				
Other operation and maintenance	111.4	122.0	223.8	270.0
Depreciation and amortization	68.3	74.4	135.5	166.3
Taxes other than income	19.4	23.3	45.0	56.4
Total operating expenses	199.1	219.7	404.3	492.7
<b>OPERATING INCOME</b>	141.8	143.9	203.6	219.3
<b>OTHER INCOME (EXPENSE)</b>				
Equity in earnings of unconsolidated affiliates (Note 1)	39.3	18.5	87.2	18.5
Allowance for equity funds used during construction	0.8	1.5	1.9	2.7
Other income	3.1	4.5	4.5	19.2
Other expense	(2.1)	(4.2)	(5.4)	(10.7)
Net other income	41.1	20.3	88.2	29.7
<b>INTEREST EXPENSE</b>				
Interest on long-term debt	37.8	36.0	72.9	75.7
Allowance for borrowed funds used during construction	(0.5)	(0.7)	(1.1)	(1.4)
Interest on short-term debt and other interest charges	2.1	2.0	3.5	4.2
Interest expense	39.4	37.3	75.3	78.5
<b>INCOME BEFORE TAXES</b>	143.5	126.9	216.5	170.5
<b>INCOME TAX EXPENSE</b>	42.7	33.9	66.4	49.5
<b>NET INCOME</b>	100.8	93.0	150.1	121.0
Less: Net income attributable to noncontrolling interests	—	1.3	—	6.2
<b>NET INCOME ATTRIBUTABLE TO OGE ENERGY</b>	\$100.8	\$91.7	\$150.1	\$114.8
<b>BASIC AVERAGE COMMON SHARES OUTSTANDING</b>	199.2	198.3	199.0	198.0
<b>DILUTED AVERAGE COMMON SHARES OUTSTANDING</b>	200.0	199.4	199.8	199.1
<b>BASIC EARNINGS PER AVERAGE COMMON SHARE</b>				
ATTRIBUTABLE TO OGE ENERGY COMMON SHAREHOLDERS	\$0.51	\$0.46	\$0.75	\$0.58
<b>DILUTED EARNINGS PER AVERAGE COMMON SHARES</b>				
ATTRIBUTABLE TO OGE ENERGY COMMON SHAREHOLDERS	\$0.50	\$0.46	\$0.75	\$0.58
<b>DIVIDENDS DECLARED PER COMMON SHARE</b>	\$0.22500	\$0.20875	\$0.45000	\$0.41750

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

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

(In millions)	Three Months Ended		Six Months Ended	
	June 30, 2014	2013	June 30, 2014	2013
Net income	\$100.8	\$93.0	\$150.1	\$121.0
Other comprehensive income (loss), net of tax				
Pension Plan and Restoration of Retirement Income Plan:				
Amortization of deferred net loss, net of tax of \$0.3, \$0.8, \$0.6 and \$1.2, respectively	0.5	1.0	0.9	1.9
Postretirement Benefit Plans:				
Amortization of deferred net loss, net of tax of \$0.2, \$0.3, \$0.3 and \$0.6, respectively	0.3	0.5	0.5	1.0
Amortization of prior service cost, net of tax of (\$0.3), (\$0.2), (\$0.6) and (\$0.5), respectively	(0.5)	(0.4)	(0.9)	(0.9)
Deferred commodity contracts hedging (gains) losses reclassified in net income, net of tax of \$0, \$0, \$0 and (\$0.1), respectively	—	—	—	(0.1)
Amortization of deferred interest rate swap hedging losses, net of tax of \$0, \$0 \$0.1 and \$0.1, respectively	—	—	0.1	0.1
Other comprehensive income, net of tax	0.3	1.1	0.6	2.0
Comprehensive income	101.1	94.1	150.7	123.0
Less: Comprehensive income attributable to noncontrolling interests	—	1.3	—	6.3
Less: Deconsolidation of Enogex Holdings	—	6.1	—	6.1
Total comprehensive income attributable to OGE Energy	\$101.1	\$86.7	\$150.7	\$110.6

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)	Six Months Ended June 30,	
	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 150.1	\$ 121.0
Adjustments to reconcile net income to net cash provided from operating activities		
Depreciation and amortization	135.5	167.6
Deferred income taxes and investment tax credits, net	60.3	50.7
Equity in earnings of unconsolidated affiliates	(87.2)	(18.5)
Distributions from unconsolidated affiliates	76.5	—
Allowance for equity funds used during construction	(1.9)	(2.7)
Gain on disposition and abandonment of assets	(0.2)	(8.7)
Stock-based compensation	(7.0)	(6.6)
Regulatory assets	(0.5)	3.7
Regulatory liabilities	(5.4)	(9.8)
Other assets	(27.6)	(0.6)
Other liabilities	19.5	(24.2)
Change in certain current assets and liabilities		
Accounts receivable, net	(8.0)	(41.4)
Accounts receivable - unconsolidated affiliates	5.0	—
Accrued unbilled revenues	(23.6)	(25.8)
Income taxes receivable	2.5	(3.5)
Fuel, materials and supplies inventories	22.0	(20.0)
Fuel clause under recoveries	(55.9)	(1.7)
Other current assets	(1.0)	(7.4)
Accounts payable	(61.0)	(3.9)
Accounts payable - unconsolidated affiliates	—	10.5
Fuel clause over recoveries	(0.4)	(87.4)
Other current liabilities	(9.9)	(11.4)
<b>Net Cash Provided from Operating Activities</b>	<b>181.8</b>	<b>79.9</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures (less allowance for equity funds used during construction)	(297.6)	(565.0)
Investment in unconsolidated affiliates	—	(2.7)
Proceeds from sale of assets	0.6	35.9
<b>Net Cash Used in Investing Activities</b>	<b>(297.0)</b>	<b>(531.8)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from long-term debt	246.5	247.5
Issuance of common stock	6.7	6.8
Changes in advances with unconsolidated affiliates	—	126.2
Contributions from noncontrolling interest partners	—	107.0
Distributions to noncontrolling interest partners	—	(2.5)
Payment of long-term debt	(0.1)	(0.1)
(Decrease) increase in short-term debt	(53.0)	47.8
Dividends paid on common stock	(89.5)	(82.6)
<b>Net Cash Provided from Financing Activities</b>	<b>110.6</b>	<b>450.1</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(4.6)</b>	<b>(1.8)</b>

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CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	6.8	1.8
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$2.2	\$—

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

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OGE ENERGY CORP.  
CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions)	June 30, 2014	December 31, 2013
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$2.2	\$6.8
Accounts receivable, less reserve of \$0.9 and \$1.9, respectively	187.4	179.4
Accounts receivable - unconsolidated affiliates	7.4	12.4
Accrued unbilled revenues	82.3	58.7
Income taxes receivable	3.1	5.6
Fuel inventories	58.0	74.4
Materials and supplies, at average cost	77.8	80.7
Deferred income taxes	160.8	215.8
Fuel clause under recoveries	82.1	26.2
Other	35.6	34.6
Total current assets	696.7	694.6
<b>OTHER PROPERTY AND INVESTMENTS</b>		
Investment in unconsolidated affiliates	1,309.6	1,298.8
Other	65.4	61.0
Total other property and investments	1,375.0	1,359.8
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
In service	9,644.3	9,183.1
Construction work in progress	222.3	468.5
Total property, plant and equipment	9,866.6	9,651.6
Less accumulated depreciation	3,046.3	2,978.8
Net property, plant and equipment	6,820.3	6,672.8
<b>DEFERRED CHARGES AND OTHER ASSETS</b>		
Regulatory assets	376.5	379.1
Other	55.8	28.4
Total deferred charges and other assets	432.3	407.5
<b>TOTAL ASSETS</b>	<b>\$9,324.3</b>	<b>\$9,134.7</b>

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)	June 30, 2014	December 31, 2013
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Short-term debt	\$386.6	\$439.6
Accounts payable	174.3	251.0
Dividends payable	44.8	44.7
Customer deposits	71.8	70.9
Accrued taxes	38.1	39.9
Accrued interest	46.5	43.4
Accrued compensation	38.9	56.9
Long-term debt due within one year	240.0	100.0
Fuel clause over recoveries	—	0.4
Other	52.9	47.0
Total current liabilities	1,093.9	1,093.8
<b>LONG-TERM DEBT</b>	<b>2,409.5</b>	<b>2,300.1</b>
<b>DEFERRED CREDITS AND OTHER LIABILITIES</b>		
Accrued benefit obligations	244.0	241.5
Deferred income taxes	2,130.1	2,125.3
Deferred investment tax credits	1.4	1.9
Regulatory liabilities	239.7	234.2
Other	105.9	100.8
Total deferred credits and other liabilities	2,721.1	2,703.7
Total liabilities	6,224.5	6,097.6
<b>COMMITMENTS AND CONTINGENCIES (NOTE 12)</b>		
<b>STOCKHOLDERS' EQUITY</b>		
Common stockholders' equity	1,075.3	1,073.6
Retained earnings	2,052.1	1,991.7
Accumulated other comprehensive loss, net of tax	(27.6)	(28.2)
Total stockholders' equity	3,099.8	3,037.1
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$9,324.3</b>	<b>\$9,134.7</b>

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, 2013	\$2.0	\$1,071.6	\$1,991.7	\$(28.2)	\$—	\$—	\$3,037.1
Net income	—	—	150.1	—	—	—	150.1
Other comprehensive income, net of tax	—	—	—	0.6	—	—	0.6
Dividends declared on common stock	—	—	(89.7)	—	—	—	(89.7)
Issuance of common stock	—	6.7	—	—	—	—	6.7
Stock-based compensation and other	—	(5.0)	—	—	—	—	(5.0)
Balance at June 30, 2014	\$2.0	\$1,073.3	\$2,052.1	\$(27.6)	\$—	\$—	\$3,099.8
Balance at December 31, 2012	\$1.0	\$1,046.4	\$1,772.4	\$(49.1)	\$305.2	\$(3.5)	\$3,072.4
Net income	—	—	114.8	—	6.2	—	121.0
Other comprehensive income, net of tax	—	—	—	1.9	0.1	—	2.0
Dividends declared on common stock	—	—	(82.8)	—	—	—	(82.8)
Issuance of common stock	—	6.9	—	—	—	—	6.9
Stock-based compensation and other	—	(8.4)	—	—	(0.8)	3.5	(5.7)
Contributions from noncontrolling interest partners	—	22.5	—	—	84.5	—	107.0
Distributions to noncontrolling interest partners	—	—	—	—	(2.5)	—	(2.5)
Deconsolidation of Enogex Holdings	—	—	0.5	(6.1)	(392.7)	—	(398.3)
Deferred income taxes attributable to contributions from noncontrolling interest partners	—	—	—	—	—	—	—