

OGE ENERGY CORP.
Form 10-K
February 25, 2014

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

FORM 10-K
(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2013

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)

321 North Harvey

P.O. Box 321

Oklahoma City, Oklahoma 73101-0321

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: 405-553-3000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Name of each exchange on which registered

Common Stock

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.

Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form

10-K.

Indicate by 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 28, 2013, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of shares of common stock held by non-affiliates was \$6,733,312,753 based on the number of shares held by non-affiliates (197,457,852) and the reported closing market price of the common stock on the New York Stock Exchange on such date of \$34.10.

At January 31, 2014, there were 198,620,521 shares of common stock, par value \$0.01 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The Proxy Statement for the Company's 2014 annual meeting of shareowners is incorporated by reference into Part III of this Form 10-K.

OGE ENERGY CORP.

FORM 10-K

FOR THE YEAR ENDED DECEMBER 31, 2013

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GLOSSARY OF TERMS

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

| Abbreviation | Definition |
|-------------------------|---|
| 401(k) Plan | Qualified defined contribution retirement plan |
| APSC | Arkansas Public Service Commission |
| ArcLight group | Bronco Midstream Holdings, LLC, Bronco Midstream Holdings II, LLC, collectively |
| ASC | Financial Accounting Standards Board Accounting Standards Codification |
| Atoka | Atoka Midstream LLC joint venture |
| BART | Best available retrofit technology |
| CenterPoint | CenterPoint Energy Resources Corp., wholly-owned Subsidiary of CenterPoint Energy, Inc. |
| Code | Internal Revenue Code of 1986 |
| Company | OGE Energy Corp, collectively with its subsidiaries and Enable Midstream Partners |
| 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 June 30, 2013, the name was changed to Enable Oklahoma Intrastate Transmission, LLC) |
| EPA | U.S. Environmental Protection Agency |
| Federal Clean Water Act | Federal Water Pollution Control Act of 1972, as amended |
| FERC | Federal Energy Regulatory Commission |
| FIP | Federal implementation plan |
| GAAP | Accounting principles generally accepted in the United States |
| MATS | Mercury and Air Toxics Standards |
| MMBtu | Million British thermal unit |
| MMcf/d | Million cubic feet per day |
| MRT | CenterPoint Energy - Mississippi River Transmission, LLC, a Delaware limited liability company |
| MW | Megawatt |
| MWH | Megawatt-hour |
| NAAQS | National Ambient Air Quality Standards |
| NGLs | Natural gas liquids |
| NOX | Nitrogen oxide |
| NYMEX | New York Mercantile Exchange |
| 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 Corp |
| OGE Holdings | OGE Enogex Holdings, LLC, wholly-owned subsidiary of OGE Energy Corp, parent company of Enogex Holdings (prior to May 1, 2013) and 28.5 percent owner of Enable Midstream Partners |
| OSHA | Federal Occupational Safety and Health Act of 1970 |
| Pension Plan | Qualified defined benefit retirement plan |

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|---------------------------------------|--|
| PRM | Price risk management |
| PUD Staff | Public Utility Division Staff of the Oklahoma Corporation Commission |
| QF | Qualified cogeneration facilities |
| QF contracts | Contracts with QFs and small power production producers |
| Restoration of Retirement Income Plan | Supplemental retirement plan to the Pension Plan |
| SIP | State implementation plan |
| SO2 | Sulfur dioxide |
| SPP | Southwest Power Pool |
| System sales | Sales to OG&E's customers |
| TBtu/d | Trillion British thermal units per day |

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FORWARD-LOOKING STATEMENTS

Except for the historical statements contained herein, the matters discussed in this Form 10-K, including those matters discussed in "Item 7. 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" and "Item 7. 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 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, including the demand for natural gas, NGLs, crude oil and midstream services;
- 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;
- the risk that Enable may not be able to successfully integrate the operations of Enogex LLC and the businesses contributed by CenterPoint as discussed in Note 3; 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 this 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

Item 1. Business.

THE COMPANY

Introduction

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 two business segments: (i) electric utility and (ii) natural gas midstream operations. For a discussion of the change in the Company's business segments due to the formation of Enable, see Note 14 of Notes to Condensed Consolidated Financial Statements.

For periods prior to May 1, 2013, the Company consolidated Enogex Holdings in its Condensed Consolidated Financial Statements. The Company was incorporated in August 1995 in the state of Oklahoma and its principal executive offices are located at 321 North Harvey, P.O. Box 321, Oklahoma City, Oklahoma 73101-0321; telephone 405-553-3000.

Effective May 1, 2013, OGE Energy, the ArcLight group and CenterPoint Energy, Inc., formed Enable Midstream Partners, LP to own and operate the midstream businesses of OGE Energy and CenterPoint. In the formation transaction, OGE Energy and ArcLight group contributed Enogex LLC to Enable and the Company deconsolidated its previously held investment in Enogex Holdings and acquired an equity interest in Enable. The Company determined that its contribution of Enogex LLC to Enable met the requirements of being in substance real estate and was recorded at historical cost. The general partner of Enable is equally controlled by CenterPoint and OGE Energy, who each have 50 percent of the management rights. Based on the 50/50 management ownership, with neither company having control, effective May 1, 2013, OGE Energy began accounting for its interest in Enable using the equity method of accounting. At December 31, 2013, OGE Energy, through its wholly owned subsidiary OGE Holdings, holds 28.5 percent of the limited partner interests in Enable. OGE Energy also owns a 60 percent interest in any incentive distribution rights in Enable. Incentive distribution rights are expected to entitle the holder to increasing percentages, up to a maximum of 50 percent, of the cash distributed by Enable in excess of the target quarterly distributions to be set in connection with Enable's initial public offering. On November 26, 2013, Enable filed a registration statement on Form S-1 related to the proposed initial public offering of limited partnership interests that will have the effect of making Enable a publicly traded master limited partnership.

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.

The natural gas midstream operations segment consists of the Company's investment in Enable. Enable is engaged in the business of gathering, processing, transporting and storing natural gas. Enable's natural gas gathering and processing assets are strategically located in four states and serve natural gas production from shale developments in the Anadarko, Arkoma and Ark-La-Tex basins. Enable also owns an emerging crude oil gathering business in the Bakken shale formation that commenced initial operations in November 2013. Enable is continuing to construct additional crude oil gathering capacity in this area. Enable's natural gas transportation and storage assets extend from western Oklahoma and the Texas Panhandle to Alabama and from Louisiana to Illinois.

The Company completed a 2-for-1 stock split of the Company's common stock effective July 1, 2013. All share and per share amounts within this Form 10-K reflect the effects of the stock split.

Company Strategy

The Company's mission is to fulfill its critical role in the nation's electric utility and natural gas midstream pipeline infrastructure and meet individual customers' needs for energy and related services focusing on safety, efficiency, reliability, customer service and risk management. The Company's corporate strategy is to continue to maintain its existing business mix and diversified asset position of its regulated electric utility business and unregulated natural gas midstream business while providing competitive energy products and services to customers primarily in the south central United States as well as seeking growth opportunities in both businesses.

OG&E is focused on increased investment to preserve system reliability and meet load growth by adding and maintaining infrastructure equipment and replacing aging transmission and distribution systems. OG&E expects to maintain a diverse generation portfolio while remaining environmentally responsible. OG&E is focused on maintaining strong regulatory and legislative relationships for the long-term benefit of its customers. In an effort to encourage more efficient use of electricity, OG&E is also providing energy management solutions to its customers through the Smart Grid program that utilizes newer technology to improve operational and environmental performance as well as allow customers to monitor and manage their energy usage, which should help reduce demand during critical peak times, resulting in lower capacity requirements. If these initiatives are successful, OG&E believes it may be able to defer the construction or acquisition of any incremental fossil fuel generation capacity until 2020. The Smart Grid program also provides benefits to OG&E, including more efficient use of its resources and access to increased information about customer usage, which should enable OG&E to have better distribution system planning data, better response to customer usage questions and faster detection and restoration of system outages. As the Smart Grid platform matures, OG&E anticipates providing new products and services to its customers. In addition, OG&E is also pursuing additional transmission-related opportunities within the SPP.

Enable's primary business objective is to practice operational excellence and to grow its business responsibly, increasing the amount of cash distributions made to its unitholders over time while maintaining financial stability. Strategies to accomplish this objective include capitalizing on organic growth opportunities and leveraging the scale of its existing assets, utilizing long-term, fee-based contracts to minimize direct commodity price exposure and maintaining strong customer relationships to attract new volumes and expand beyond its existing footprint and business lines. Enable also plans to grow through accretive acquisitions and disciplined development.

Additionally, the Company wants to achieve a premium valuation of its businesses relative to its peers, grow earnings per share with a stable earnings pattern, create a high performance culture and achieve desired outcomes with target stakeholders. The Company's financial objectives include a long-term annual earnings growth rate of five to seven percent on a weather-normalized basis, maintaining a strong credit rating as well as increasing the dividend to meet the Company's dividend payout objectives. The Company's target payout ratio is to pay out dividends of approximately 60 percent of its normalized earnings on an annual basis. The target payout ratio has been determined after consideration of numerous factors, including the largely retail composition of the Company's shareholder base, the Company's financial position, the Company's growth targets, the composition of the Company's assets and investment opportunities. The Company believes it can accomplish these financial objectives by, among other things, pursuing multiple avenues to build its business, maintaining a diversified asset position, continuing to develop a wide range of skills to succeed with changes in its industries, providing products and services to customers efficiently, managing risks effectively and maintaining strong regulatory and legislative relationships.

ELECTRIC OPERATIONS - OG&E

General

The electric utility segment generates, transmits, distributes and sells electric energy in Oklahoma and western Arkansas. Its operations are conducted through OG&E. OG&E furnishes retail electric service in 268 communities and their contiguous rural and suburban areas. During 2013, one other community and two rural electric cooperatives in Oklahoma and western Arkansas purchased electricity from OG&E for resale. The service area covers 30,000 square miles in Oklahoma and western Arkansas, including Oklahoma City, the largest city in Oklahoma, and Fort Smith, Arkansas, the second largest city in that state. Of the 268 communities that OG&E serves, 242 are located in Oklahoma and 26 in Arkansas. OG&E derived 90 percent of its total electric operating revenues in 2013 from sales in Oklahoma and the remainder from sales in Arkansas.

OG&E's system control area peak demand in 2013 was 6,341 MWs on June 27, 2013. OG&E's load responsibility peak demand was 5,806 MWs on June 27, 2013. As reflected in the table below and in the operating statistics that

follow, there were 28.2 million MWH system sales in 2013, 28.0 million MWH system sales in 2012 and 28.5 million MWH system sales in 2011. Variations in system sales for the three years are reflected in the following table:

| Year ended December 31 | 2013 |
|------------------------|------|
|------------------------|------|