

OGE ENERGY CORP.
Form 10-K
February 18, 2010

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, 2009

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

73-1481638

(State or other jurisdiction of
incorporation or organization)

(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)

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
Rights to Purchase Series A Preferred 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

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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 definitions of "large accelerated filer," "accelerated filer" and "smaller 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 Act). Yes No

At June 30, 2009, 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 \$2,725,078,180 based on the number of shares held by non-affiliates (96,224,512) and the reported closing market price of the common stock on the New York Stock Exchange on such date of \$28.32.

At January 31, 2010, 97,048,304 shares of common stock, par value \$0.01 per share, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The Proxy Statement for the Company's 2010 annual meeting of shareowners is incorporated by reference into Part III of this Form 10-K.

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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. 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, actions of rating agencies and their impact on capital expenditures;
- the ability of OGE Energy Corp. (collectively, with its subsidiaries, 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 natural gas liquids, each on a stand-alone basis and in relation to each other;
 - 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;
 - 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 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

OGE Energy Corp. (“OGE Energy” and collectively, with its subsidiaries, 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. For financial information regarding these segments, see Note 12 of Notes to 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.

The electric utility segment generates, transmits, distributes and sells electric energy in Oklahoma and western Arkansas. Its operations are conducted through Oklahoma Gas and Electric Company (“OG&E”) and are subject to rate regulation by the Oklahoma Corporation Commission (“OCC”), the Arkansas Public Service Commission (“APSC”) and the Federal Energy Regulatory Commission (“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 gas business in 1928 and is no longer engaged in the gas distribution business.

Enogex LLC and its subsidiaries (“Enogex”) are providers of integrated natural gas midstream services. Enogex is engaged in the business of gathering, processing, transporting and storing 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 two business segments: (i) natural gas transportation and storage and (ii) natural gas gathering and processing. Prior to January 1, 2008, Enogex owned OGE Energy Resources, Inc. (“OERI”), whose primary operations are in natural gas marketing. On January 1, 2008, Enogex distributed the stock of OERI to OGE Energy. Also, Enogex holds a 50 percent ownership interest in the Atoka Midstream, LLC joint venture (“Atoka”) through Enogex Atoka LLC, a wholly-owned subsidiary of Enogex Gathering & Processing LLC. Enogex is a Delaware single-member limited liability company. Effective July 1, 2009, Enogex LLC formed a new entity, Enogex Gathering & Processing LLC, a wholly-owned subsidiary of Enogex, for purposes of holding the membership interests of Enogex Gas Gathering LLC, Enogex Products LLC (“Products”) and Enogex Atoka LLC, which were previously direct wholly-owned subsidiaries of Enogex LLC.

In July 2008, OGE Energy and Electric Transmission America, a joint venture of subsidiaries of American Electric Power and MidAmerican Energy Holdings Co., formed a transmission joint venture, conducting business as Tallgrass Transmission L.L.C. (“Tallgrass”), to construct high-capacity transmission line projects. The Company owns 50 percent of Tallgrass. Tallgrass is intended to allow the participating companies to lead development of renewable wind by sharing capital costs associated with transmission construction. Tallgrass’ initial projects could include 765 kilovolt (“kV”) lines from Woodward 120 miles northwest to Guymon in the Oklahoma Panhandle and from Woodward 50 miles north to the Kansas border. A Southwest Power Pool (“SPP”) study estimates cost for the two projects if constructed as 765 kV lines to be approximately \$500 million, of which OGE Energy’s portion would be approximately \$250 million. See “Regulation and Rates – Recent Regulatory Matters – Tallgrass Joint Venture” for a further discussion of Tallgrass.

Company Strategy

The Company's vision 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 in a safe, reliable and efficient manner. The Company intends to execute its vision by focusing on its regulated electric utility business and unregulated midstream natural gas business. The Company intends to maintain the majority of its assets in the regulated utility business complemented by its natural gas pipeline business. The Company's financial objectives from 2010 through 2012 include a long-term annual earnings growth rate of five to seven percent on a weather-normalized basis as well as an annual dividend growth rate of two percent subject to approval by the Company's Board of Directors. The target payout ratio for the Company is to pay out as dividends no more than 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.

OG&E has been focused on increased investment to preserve system reliability and meet load growth, leverage unique geographic position to develop renewable energy resources for wind and transmission, replace infrastructure equipment, replace aging transmission and distribution systems, provide new products and services, provide energy management solutions to OG&E's customers through the Smart Grid program (discussed below) and deploy newer technology that improves operational, financial and environmental performance. As part of this plan, OG&E has taken, or has committed to take, the following actions:

- in January 2007, a 120 megawatt ("MW") wind farm in northwestern Oklahoma ("Centennial") was placed in service;
- in September 2008, OG&E purchased a 51 percent interest in the 1,230 MW natural gas-fired, combined-cycle power generation facility in Luther, Oklahoma ("Redbud Facility");
- in 2008, OG&E announced a "Positive Energy Smart Grid" initiative that will empower customers to proactively manage their energy consumption during periods of peak demand. As a result of the American Recovery and Reinvestment Act of 2009 ("ARRA") signed by the President into law in February 2009, OG&E requested a \$130 million grant from the U.S. Department of Energy ("DOE") in August 2009 to develop its Smart Grid technology. In late October 2009, OG&E received notification from the DOE that its grant had been accepted by the DOE;
- in 2008, OG&E began construction of a transmission line from Oklahoma City, Oklahoma to Woodward, Oklahoma ("Windspeed"), which is a critical first step to increased wind development in western Oklahoma. This transmission line is expected to be in service by April 2010;
- in June 2009, OG&E received SPP approval to build four 345 kV transmission lines referred to as "Balanced Portfolio 3E", which OG&E expects to begin constructing in early 2010. These transmission lines are expected to be in service between December 2012 and December 2014;
- in September 2009, OG&E signed power purchase agreements with two developers who are to build two new wind farms, totaling 280 MWs, in northwestern Oklahoma which OG&E intends to add to its power-generation portfolio by the end of 2010. OG&E will continue to evaluate renewable opportunities to add to its power-generation portfolio in the future;
- in November and December 2009, the individual turbines were placed in service related to the OU Spirit wind project in western Oklahoma ("OU Spirit"), which added 101 MWs of wind capacity to OG&E's wind portfolio; and
- OG&E's construction initiative from 2010 to 2015 includes approximately \$2.6 billion in major projects designed to expand capacity, enhance reliability and improve environmental performance. This construction initiative also includes strengthening and expanding the electric transmission, distribution and substation systems and replacing aging infrastructure.

OG&E continues to pursue additional renewable energy and the construction of associated transmission facilities required to support this renewable expansion. OG&E also is promoting Demand Side Management programs to encourage more efficient use of electricity. See "Recent Regulatory Matters – OG&E Conservation and Energy Efficiency Programs" for a further discussion. If these initiatives are successful, OG&E believes it may be able to defer the construction of any incremental fossil fuel generation capacity until 2020.

Increases in generation and the building of transmission lines are subject to numerous regulatory and other approvals, including appropriate regulatory treatment from the OCC and, in the case of transmission lines, the SPP. Other projects involve installing new emission-control and monitoring equipment at existing OG&E power plants to help meet OG&E's commitment to comply with current and future environmental requirements. For additional information regarding the above items and other regulatory matters, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Environmental Laws and Regulations" and Note 14 of Notes to Consolidated Financial Statements.

Enogex plans to continue to implement improvements to enhance long-term financial performance of its mid-continent assets through more efficient operations and effective commercial management of the assets, capturing growth opportunities through expansion projects, increased utilization of existing assets and strategic acquisitions. Enogex also plans to continue to add additional fee-based business to its portfolio as opportunities become available. In addition, Enogex is seeking to diversify its gathering, processing and transportation businesses principally by expanding into other geographic areas that are complementary with the Company's strategic capabilities. Enogex expects to accomplish this diversification

either by undertaking organic growth projects or through strategic acquisitions. Over the past several years, Enogex has been able to take advantage of numerous organic growth projects within its existing footprint including:

- expansions on the east side of Enogex's gathering system, primarily in the Woodford Shale play in southeastern Oklahoma through construction of new facilities and expansion of existing facilities and its interest in Atoka; and
- expansions on the west side of Enogex's gathering system, primarily in the Granite Wash play, Woodford Shale play and Atoka play in western Oklahoma and the Granite Wash play and Atoka play in the Wheeler County, Texas area, which is located in the Texas Panhandle.

In addition to focusing on growing its earnings and improving cash flow, Enogex intends to continue to prudently manage its business and execute on organic growth initiatives. The Company's business strategy is to continue maintaining the diversified asset position of OG&E and Enogex so as to provide competitive energy products and services to customers primarily in the south central United St