
**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, 2010

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

OG E 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 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, 2010, there were 97,372,989 shares of common stock, par value \$0.01 per share, outstanding.

OGE ENERGY CORP.
FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2010
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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 OGE Energy Corp.’s Annual Report on Form 10-K for the year ended December 31, 2009 (“2009 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 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 the Company’s 2009 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 June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
<i>(In millions, except per share data)</i>				
OPERATING REVENUES				
Electric Utility operating revenues	\$ 512.8	\$ 425.3	\$ 956.8	\$ 762.0
Natural Gas Pipeline operating revenues	374.4	218.8	806.2	488.7
Total operating revenues	887.2	644.1	1,763.0	1,250.7
COST OF GOODS SOLD (exclusive of depreciation and amortization shown below)				
Electric Utility cost of goods sold	218.9	176.4	457.8	335.5
Natural Gas Pipeline cost of goods sold	287.6	147.8	618.8	341.9
Total cost of goods sold	506.5	324.2	1,076.6	677.4
Gross margin on revenues	380.7	319.9	686.4	573.3
Other operation and maintenance	135.0	105.6	258.6	222.1
Depreciation and amortization	71.2	64.6	141.5	127.2
Impairment of assets	---	1.4	---	1.4
Taxes other than income	23.0	21.9	48.0	44.2
OPERATING INCOME	151.5	126.4	238.3	178.4
OTHER INCOME (EXPENSE)				
Loss in earnings of unconsolidated affiliate	(1.3)	---	(1.3)	---
Interest income	---	0.4	---	1.1
Allowance for equity funds used during construction	2.3	3.9	4.6	5.2
Other income	3.4	6.5	6.5	13.0
Other expense	(3.7)	(2.7)	(6.1)	(5.0)
Net other income	0.7	8.1	3.7	14.3
INTEREST EXPENSE				
Interest on long-term debt	33.4	31.9	67.0	63.3
Allowance for borrowed funds used during construction	(1.0)	(1.9)	(2.2)	(3.0)
Interest on short-term debt and other interest charges	1.6	1.7	3.3	4.1
Interest expense	34.0	31.7	68.1	64.4
INCOME BEFORE TAXES	118.2	102.8	173.9	128.3
INCOME TAX EXPENSE	40.3	31.9	70.8	39.8
NET INCOME	77.9	70.9	103.1	88.5
Less: Net income attributable to noncontrolling interest	0.6	0.4	1.6	1.2
NET INCOME ATTRIBUTABLE TO OGE ENERGY	\$ 77.3	\$ 70.5	\$ 101.5	\$ 87.3
BASIC AVERAGE COMMON SHARES OUTSTANDING	97.3	96.5	97.2	95.6
DILUTED AVERAGE COMMON SHARES OUTSTANDING	98.7	97.5	98.6	96.4
BASIC EARNINGS PER AVERAGE COMMON SHARE				
ATTRIBUTABLE TO OGE ENERGY COMMON SHAREHOLDERS	\$ 0.79	\$ 0.73	\$ 1.04	\$ 0.91
DILUTED EARNINGS PER AVERAGE COMMON SHARE				
ATTRIBUTABLE TO OGE ENERGY COMMON SHAREHOLDERS	\$ 0.78	\$ 0.72	\$ 1.03	\$ 0.91
DIVIDENDS DECLARED PER SHARE	\$ 0.3625	\$ 0.3550	\$ 0.7250	\$ 0.7100

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

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

<i>(In millions)</i>	Six Months Ended June 30,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 103.1	\$ 88.5
Adjustments to reconcile net income to net cash provided from operating activities		
Loss in earnings of unconsolidated affiliate	1.3	---
Depreciation and amortization	141.5	127.2
Impairment of assets	---	1.4
Deferred income taxes and investment tax credits, net	52.2	52.9
Allowance for equity funds used during construction	(4.6)	(5.2)
Loss on disposition and abandonment of assets	0.9	0.3
Stock-based compensation expense	3.9	2.8
Stock-based compensation converted to cash for tax withholding	(1.6)	(1.7)
Price risk management assets	(4.4)	6.1
Price risk management liabilities	11.4	(63.0)
Other assets	11.7	4.9
Other liabilities	(40.7)	(39.2)
Change in certain current assets and liabilities		
Accounts receivable, net	(24.1)	33.1
Accrued unbilled revenues	(24.4)	(26.6)
Income taxes receivable	150.6	(27.3)
Fuel, materials and supplies inventories	(28.5)	(34.4)
Gas imbalance assets	(1.8)	3.9
Fuel clause under recoveries	(0.6)	23.9
Other current assets	8.9	(0.5)
Accounts payable	4.8	(74.3)
Customer deposits	18.3	2.6
Accrued taxes	20.4	16.4
Accrued interest	(7.8)	10.6
Accrued compensation	(3.6)	(3.5)
Gas imbalance liabilities	(4.2)	(13.2)
Fuel clause over recoveries	(50.1)	118.8
Other current liabilities	8.9	(17.6)
Net Cash Provided from Operating Activities	341.5	186.9
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures (less allowance for equity funds used during construction)	(296.6)	(491.2)
Construction reimbursement	3.3	17.6
Proceeds from sale of assets	1.6	0.7
Other investing activities	0.1	---
Net Cash Used in Investing Activities	(291.6)	(472.9)
CASH FLOWS FROM FINANCING ACTIVITIES		
Retirement of long-term debt	(289.2)	---
Dividends paid on common stock	(70.4)	(67.5)
(Decrease) increase in short-term debt	(62.1)	84.2
Repayment of line of credit	(50.0)	(40.0)
Issuance of common stock	9.8	68.7
Proceeds from line of credit	115.0	80.0
Proceeds from long-term debt	246.2	198.4
Net Cash (Used in) Provided from Financing Activities	(100.7)	323.8
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(50.8)	37.8
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	58.1	174.4
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 7.3	\$ 212.2

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

OGE ENERGY CORP.
CONDENSED CONSOLIDATED BALANCE SHEETS

<i>(In millions)</i>	June 30, 2010 (Unaudited)	December 31, 2009
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 7.3	\$ 58.1
Accounts receivable, less reserve of \$1.7 and \$2.4, respectively	315.5	291.4
Accrued unbilled revenues	81.6	57.2
Income taxes receivable	7.1	157.7
Fuel inventories	140.5	118.5
Materials and supplies, at average cost	84.9	78.4
Price risk management	8.0	1.8
Gas imbalances	5.0	3.2
Accumulated deferred tax assets	37.0	39.8
Fuel clause under recoveries	0.9	0.3
Prepayments	6.4	8.7
Other	3.4	11.0
Total current assets	697.6	826.1
OTHER PROPERTY AND INVESTMENTS, at cost	41.6	43.7
PROPERTY, PLANT AND EQUIPMENT		
In service	8,925.8	8,617.8
Construction work in progress	250.5	335.4
Total property, plant and equipment	9,176.3	8,953.2
Less accumulated depreciation	3,119.4	3,041.6
Net property, plant and equipment	6,056.9	5,911.6
DEFERRED CHARGES AND OTHER ASSETS		
Income taxes recoverable from customers, net	39.8	19.1
Benefit obligations regulatory asset	341.3	357.8
Price risk management	2.5	4.3
Unamortized loss on reacquired debt	16.0	16.5
Unamortized debt issuance costs	16.7	15.3
Other	81.7	72.3
Total deferred charges and other assets	498.0	485.3
TOTAL ASSETS	\$ 7,294.1	\$ 7,266.7

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

OGE ENERGY CORP.
CONDENSED CONSOLIDATED BALANCE SHEETS (Continued)

<i>(In millions)</i>	June 30, 2010 (Unaudited)	December 31, 2009
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term debt	\$ 112.9	\$ 175.0
Accounts payable	277.2	297.0
Dividends payable	35.3	35.1
Customer deposits	93.5	85.6
Accrued taxes	55.8	37.0
Accrued interest	52.8	60.6
Accrued compensation	46.5	50.1
Long-term debt due within one year	---	289.2
Price risk management	9.6	14.2
Gas imbalances	7.8	12.0
Fuel clause over recoveries	137.4	187.5
Other	41.3	32.4
Total current liabilities	870.1	1,275.7
LONG-TERM DEBT	2,402.6	2,088.9
DEFERRED CREDITS AND OTHER LIABILITIES		
Accrued benefit obligations	337.5	369.3
Accumulated deferred income taxes	1,321.1	1,246.6
Accumulated deferred investment tax credits	11.3	13.1
Accrued removal obligations, net	175.5	168.2
Price risk management	---	0.1
Other	56.3	44.0
Total deferred credits and other liabilities	1,901.7	1,841.3
Total liabilities	5,174.4	5,205.9
COMMITMENTS AND CONTINGENCIES (NOTE 12)		
STOCKHOLDERS' EQUITY		
Common stockholders' equity	902.3	887.7
Retained earnings	1,258.7	1,227.8
Accumulated other comprehensive loss, net of tax	(62.9)	(74.7)
Total OGE Energy stockholders' equity	2,098.1	2,040.8
Noncontrolling interest	21.6	20.0
Total stockholders' equity	2,119.7	2,060.8
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 7,294.1	\$ 7,266.7

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

OGE ENERGY CORP.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited)

<i>(In millions)</i>	Common Stock	Premium on Capital Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total
Balance at December 31, 2009	\$ 1.0	\$ 886.7	\$ 1,227.8	\$ (74.7)	\$ 20.0	\$ 2,060.8
Comprehensive income (loss)						
Net income for first quarter of 2010	---	---	24.2	---	1.0	25.2
Other comprehensive income (loss), net of tax						
Defined benefit pension plan and restoration of retirement income plan:						
Amortization of deferred net loss, net of tax (\$1.2 pre-tax)	---	---	---	0.5	---	0.5
Defined benefit postretirement plans:						
Amortization of deferred net loss, net of tax (\$1.0 pre-tax)	---	---	---	0.6	---	0.6
Amortization of deferred net transition obligation, net of tax (\$0.2 pre-tax)	---	---	---	0.2	---	0.2
Amortization of prior service cost, net of tax ((\$0.2) pre-tax)	---	---	---	(0.2)	---	(0.2)
Deferred commodity contracts hedging losses, net of tax ((\$4.3) pre-tax)	---	---	---	(2.7)	---	(2.7)
Amortization of cash flow hedge, net of tax (\$0.1 pre-tax)	---	---	---	0.1	---	0.1
Other comprehensive loss	---	---	---	(1.5)	---	(1.5)
Comprehensive income (loss)	---	---	24.2	(1.5)	1.0	23.7
Dividends declared on common stock	---	---	(35.3)	---	---	(35.3)
Issuance of common stock	---	6.5	---	---	---	6.5
Balance at March 31, 2010	\$ 1.0	\$ 893.2	\$ 1,216.7	\$ (76.2)	\$ 21.0	\$ 2,055.7
Comprehensive income						
Net income for second quarter of 2010	---	---	77.3	---	0.6	77.9
Other comprehensive income, net of tax						
Defined benefit pension plan and restoration of retirement income plan:						
Amortization of deferred net loss, net of tax (\$0.8 pre-tax)	---	---	---	0.5	---	0.5
Amortization of prior service cost, net of tax (\$0.1 pre-tax)	---	---	---	0.1	---	0.1
Defined benefit postretirement plans:						
Amortization of deferred net loss, net of tax (\$0.5 pre-tax)	---	---	---	0.3	---	0.3
Amortization of deferred net transition obligation, net of tax (\$0.2 pre-tax)	---	---	---	0.1	---	0.1
Deferred commodity contracts hedging gains, net of tax (\$20.1 pre-tax)	---	---	---	12.3	---	12.3
Other comprehensive income	---	---	---	13.3	---	13.3
Comprehensive income	---	---	77.3	13.3	0.6	91.2
Dividends declared on common stock	---	---	(35.3)	---	---	(35.3)
Issuance of common stock	---	8.1	---	---	---	8.1
Balance at June 30, 2010	\$ 1.0	\$ 901.3	\$ 1,258.7	\$ (62.9)	\$ 21.6	\$ 2,119.7

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

OGE ENERGY CORP.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (CONTINUED)
(Unaudited)

<i>(In millions)</i>	Common Stock	Premium on Capital Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total
Balance at December 31, 2008	\$ 0.9	\$ 802.0	\$ 1,107.6	\$ (13.7)	\$ 17.2	\$ 1,914.0
Comprehensive income (loss)						
Net income for first quarter of 2009	---	---	16.8	---	0.8	17.6
Other comprehensive income (loss), net of tax						
Defined benefit pension plan and restoration of retirement income plan:						
Amortization of deferred net loss, net of tax (\$1.3 pre-tax)	---	---	---	0.8	---	0.8
Defined benefit postretirement plans:						
Amortization of deferred net loss, net of tax (\$0.2 pre-tax)	---	---	---	0.1	---	0.1
Deferred commodity contracts hedging losses, net of tax ((\$46.2) pre-tax)	---	---	---	(28.3)	---	(28.3)
Amortization of cash flow hedge, net of tax (\$0.2 pre-tax)	---	---	---	0.1	---	0.1
Other comprehensive loss	---	---	---	(27.3)	---	(27.3)
Comprehensive income (loss)	---	---	16.8	(27.3)	0.8	(9.7)
Dividends declared on common stock	---	---	(34.2)	---	---	(34.2)
Issuance of common stock	0.1	55.7	---	---	---	55.8
Balance at March 31, 2009	\$ 1.0	\$ 857.7	\$ 1,090.2	\$ (41.0)	\$ 18.0	\$ 1,925.9
Comprehensive income (loss)						
Net income for second quarter of 2009	---	---	70.5	---	0.4	70.9
Other comprehensive income (loss), net of tax						
Defined benefit pension plan and restoration of retirement income plan:						
Amortization of deferred net loss, net of tax (\$1.3 pre-tax)	---	---	---	0.7	---	0.7
Amortization of prior service cost, net of tax (\$0.1 pre-tax)	---	---	---	0.1	---	0.1
Defined benefit postretirement plans:						
Amortization of prior service cost, net of tax (\$0.1 pre-tax)	---	---	---	0.1	---	0.1
Deferred commodity contracts hedging losses, net of tax ((\$32.4) pre-tax)	---	---	---	(19.8)	---	(19.8)
Amortization of cash flow hedge, net of tax (\$0.1 pre-tax)	---	---	---	0.1	---	0.1
Other comprehensive loss	---	---	---	(18.8)	---	(18.8)
Comprehensive income (loss)	---	---	70.5	(18.8)	0.4	52.1
Dividends declared on common stock	---	---	(34.4)	---	---	(34.4)
Issuance of common stock	---	14.1	---	---	---	14.1
Balance at June 30, 2009	\$ 1.0	\$ 871.8	\$ 1,126.3	\$ (59.8)	\$ 18.4	\$ 1,957.7

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

OGE ENERGY CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Summary of Significant Accounting Policies

Organization

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. 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 Oklahoma Gas and Electric Company (“OG&E”) and are subject to 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 natural gas business in 1928 and is no longer engaged in the natural 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. 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. The Company has consolidated 100 percent of Atoka in its consolidated financial statements as Enogex acts as the managing member of Atoka and has control over the operations of Atoka. Enogex is a Delaware single-member limited liability company.

The Company charges operating costs to its subsidiaries based on several factors. Operating costs directly related to specific subsidiaries are assigned to those subsidiaries. Where more than one subsidiary benefits from certain expenditures, the costs are shared between those subsidiaries receiving the benefits. Operating costs incurred for the benefit of all subsidiaries are allocated among the subsidiaries, either as overhead based primarily on labor costs or using the “Distrigas” method. The Distrigas method is a three-factor formula that uses an equal weighting of payroll, net operating revenues and gross property, plant and equipment. The Company adopted the Distrigas method in January 1996 as a result of a recommendation by the OCC Staff. The Company believes this method provides a reasonable basis for allocating common expenses.

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 generally accepted accounting principles (“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 June 30, 2010 and December 31, 2009, the results of its operations for the three and six months ended June 30, 2010 and 2009 and the results of its cash flows for the six months ended June 30, 2010 and 2009, have been included and are of a normal recurring nature except as otherwise disclosed.

Due to seasonal fluctuations and other factors, the operating results for the three and six months ended June 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010 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 Annual Report on Form 10-K for the year ended December 31, 2009 (“2009 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:

<i>(In millions)</i>	June 30, 2010	December 31, 2009
Regulatory Assets		
Benefit obligations regulatory asset	\$ 341.3	\$ 357.8
Income taxes recoverable from customers, net	39.8	19.1
Deferred storm expenses	32.3	28.0
Unamortized loss on reacquired debt	16.0	16.5
Deferred pension plan expenses	15.8	18.1
Smart Grid	7.7	---
Red Rock deferred expenses	7.5	7.7
Fuel clause under recoveries	0.9	0.3
Miscellaneous	3.0	3.9
Total Regulatory Assets	\$ 464.3	\$ 451.4
Regulatory Liabilities		
Accrued removal obligations, net	\$ 175.5	\$ 168.2
Fuel clause over recoveries	137.4	187.5
Miscellaneous	10.2	7.3
Total Regulatory Liabilities	\$ 323.1	\$ 363.0

For a discussion of regulatory assets related to OG&E's Smart Grid program, see Note 13.

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 the Company 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; the financial effects of which could be significant.

Reclassifications

Certain prior year amounts have been reclassified on the Condensed Consolidated Statement of Cash Flows to conform to the 2010 presentation related to a customer's reimbursement of Enogex's costs related to the ongoing construction of a transportation pipeline in 2009 and 2010.

2. 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. An example of instruments that may be classified as Level 1 are futures transactions for energy commodities traded on the New York Mercantile Exchange (“NYMEX”).

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. An example of instruments that may be classified as Level 2 includes energy commodity purchase or sales transactions in a market 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). An example of instruments that may be classified as Level 3 includes energy commodity purchase or sales transactions of a longer duration or in an inactive market such that there are no closely related markets in which quoted prices are available.

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. Otherwise, they are considered 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 (“Standard & Poor’s”) 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 June 30, 2010 and December 31, 2009 as well as reconcile the Company's commodity contracts fair value to Price Risk Management ("PRM") Assets and Liabilities on the Company's Condensed Consolidated Balance Sheet at June 30, 2010 and December 31, 2009.

June 30, 2010

<i>(In millions)</i>	Quoted Market Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value	Master Netting Agreement Adjustments	Amounts Held in Clearing Broker Accounts Reflected in Other Current Assets	Balance Sheet Presentation
Assets							
Commodity contracts	\$ 14.3	\$ 6.4	\$ 42.1	\$ 62.8	\$ (36.6)	\$ (15.7)	\$ 10.5
Gas imbalance assets (A)	---	5.0	---	5.0	---	---	5.0
Total	\$ 14.3	\$ 11.4	\$ 42.1	\$ 67.8	\$ (36.6)	\$ (15.7)	\$ 15.5
Liabilities							
Commodity contracts	\$ 13.7	\$ 45.8	\$ 1.8	\$ 61.3	\$ (36.6)	\$ (15.1)	\$ 9.6
Gas imbalance liabilities (A)(B)	---	3.0	---	3.0	---	---	3.0
Total	\$ 13.7	\$ 48.8	\$ 1.8	\$ 64.3	\$ (36.6)	\$ (15.1)	\$ 12.6

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

(B) Gas imbalance liabilities exclude fuel reserves for over retained fuel due to shippers of approximately \$4.8 million, 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.

December 31, 2009

<i>(In millions)</i>	Quoted Market Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value	Master Netting Agreement Adjustments	Amounts Held in Clearing Broker Accounts Reflected in Other Current Assets	Balance Sheet Presentation
Assets							
Commodity contracts	\$ 16.1	\$ 6.2	\$ 49.0	\$ 71.3	\$ (47.9)	\$ (17.3)	\$ 6.1
Gas imbalance assets (C)	---	3.2	---	3.2	---	---	3.2
Total	\$ 16.1	\$ 9.4	\$ 49.0	\$ 74.5	\$ (47.9)	\$ (17.3)	\$ 9.3
Liabilities							
Commodity contracts	\$ 13.3	\$ 49.8	\$ 14.7	\$ 77.8	\$ (47.9)	\$ (15.6)	\$ 14.3
Gas imbalance liabilities (C)(D)	---	8.0	---	8.0	---	---	8.0
Total	\$ 13.3	\$ 57.8	\$ 14.7	\$ 85.8	\$ (47.9)	\$ (15.6)	\$ 22.3

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

(D) Gas imbalance liabilities exclude fuel reserves for over retained fuel due to shippers of approximately \$4.0 million, 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 and liabilities that are measured at fair value on a recurring basis using significant unobservable inputs (Level 3).

Assets (In millions)	Commodity Contracts	
	2010	2009
Balance at January 1	\$ 49.0	\$ 121.2
Total gains or losses		
Included in other comprehensive income	(3.9)	(11.1)
Purchases, issuances, sales and settlements		
Settlements	(4.1)	(4.5)
Balance at March 31	\$ 41.0	\$ 105.6
Total gains or losses		
Included in other comprehensive income	7.2	(34.4)
Purchases, issuances, sales and settlements		
Settlements	(6.1)	(3.9)
Balance at June 30	\$ 42.1	\$ 67.3
The amount of total gains or losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets held at June 30	\$ ---	\$ ---

Liabilities (In millions)	Commodity Contracts	
	2010	2009
Balance at January 1	\$ 14.7	\$ ---
Total gains or losses		
Included in other comprehensive income	(5.1)	---
Purchases, issuances, sales and settlements		
Settlements	(1.4)	---
Balance at March 31	\$ 8.2	\$ ---
Total gains or losses		
Included in other comprehensive income	(3.7)	---
Purchases, issuances, sales and settlements		
Purchases	---	1.8
Settlements	(2.7)	---
Balance at June 30	\$ 1.8	\$ 1.8
The amount of total gains or losses for the period included in earnings attributable to the change in unrealized gains or losses relating to liabilities held at June 30	\$ ---	\$ ---

Gains and losses (realized and unrealized) included in earnings for the three and six months ended June 30, 2010 and 2009 attributable to the change in unrealized gains or losses relating to assets and liabilities held at June 30, 2010 and 2009, if any, are reported in Operating Revenues.

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 June 30, 2010 and December 31, 2009.

(In millions)	June 30, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Price Risk Management Assets				
Energy Derivative Contracts	\$ 10.5	\$ 10.5	\$ 6.1	\$ 6.1
Price Risk Management Liabilities				
Energy Derivative Contracts	\$ 9.6	\$ 9.6	\$ 14.3	\$ 14.3
Long-Term Debt				
OG&E Senior Notes	\$ 1,654.9	\$ 1,872.6	\$ 1,406.4	\$ 1,492.1
OGE Energy Senior Notes	99.6	107.4	99.5	102.6
OG&E Industrial Authority Bonds	135.4	135.4	135.4	135.4
Enogex Senior Notes	447.7	484.9	736.8	746.7
Enogex Revolving Credit Agreement	65.0	65.0	---	---

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 management's estimate of current rates available for similar issues with similar maturities.

3. 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:

- natural gas liquids ("NGL") 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 OGE Energy's natural gas marketing subsidiary, OGE Energy Resources, Inc.'s ("OERI"), 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 OERI's marketing and trading activities.

Management may designate certain derivative instruments for the purchase or sale of physical commodities, purchase or sale of electric power and fuel procurement discussed above as normal purchases and normal sales contracts. 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 its 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 debt and commercial paper. The Company manages its interest rate exposure by limiting its variable-rate debt to a certain percentage of total capitalization and by monitoring the effects of market changes in interest rates. The Company utilizes interest rate derivatives to alter interest rate exposure in an attempt to reduce interest expense related to existing debt issues. 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 contractual long/short positions and operational storage natural gas, keep-whole natural gas and NGLs. Enogex's cash flow hedging activity at June 30, 2010 covers the period from July 1, 2010 through December 31, 2011. The Company also designates as cash flow hedges certain derivatives used to manage commodity exposure for certain transportation and natural gas inventory positions at OERI. OERI does not have any derivative instruments designated as cash flow hedges at June 30, 2010.

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 June 30, 2010 and December 31, 2009, the Company had no outstanding commodity 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 OERI's asset management, marketing and trading activities and also include contracts formerly designated as cash flow hedges of Enogex's NGLs, keep-whole natural gas and operational storage natural gas exposures. A portion of Enogex's processing agreements, which were previously under keep-whole arrangements, were converted to fee-based arrangements. As a result, effective June 30, 2009 Enogex de-designated a portion of these derivatives and entered into offsetting derivatives to close the positions. For derivative instruments not designated as hedging instruments, the gain or loss on the derivative is recognized currently in earnings.

Quantitative Disclosures Related to Derivative Instruments

At June 30, 2010, the Company had the following outstanding commodity derivative instruments that were designated as cash flow hedges.

	Commodity	Gross Notional Volume (A) <i>(In millions)</i>	Maturity
Short Financial Swaps/Futures (fixed)	NGLs	0.3	Current
Purchased Financial Options	NGLs	1.3	Current
Purchased Financial Options	NGLs	0.7	Non-Current
Total Purchased Financial Options		2.0	
Long Financial Swaps/Futures (fixed)	Natural Gas	5.7	Current
Long Financial Swaps/Futures (fixed)	Natural Gas	2.6	Non-Current
Total Long Financial Swaps/Futures (fixed)		8.3	
Short Financial Swaps/Futures (fixed)	Natural Gas	0.9	Current
Short Financial Basis Swaps	Natural Gas	0.9	Current

(A) Natural gas in million British thermal unit ("MMBtu"); NGLs in barrels.

At June 30, 2010, the Company had the following outstanding commodity derivative instruments that were not designated as either a cash flow or fair value hedge.

	Commodity	Gross Notional Volume (A) <i>(In millions)</i>	Maturity
Short Financial Swaps/Futures (fixed)	NGLs	0.4	Current
Long Financial Swaps/Futures (fixed)	NGLs	0.4	Current
Physical Purchases (B)	Natural Gas	16.6	Current
Physical Purchases (B)	Natural Gas	5.8	Non-Current
Total Physical Purchases		<u>22.4</u>	
Physical Sales (B)	Natural Gas	30.1	Current
Physical Sales (B)	Natural Gas	16.8	Non-Current
Total Physical Sales		<u>46.9</u>	
Long Financial Swaps/Futures (fixed)	Natural Gas	34.7	Current
Long Financial Swaps/Futures (fixed)	Natural Gas	1.5	Non-Current
Total Long Financial Swaps/Futures (fixed)		<u>36.2</u>	
Short Financial Swaps/Futures (fixed)	Natural Gas	35.2	Current
Short Financial Swaps/Futures (fixed)	Natural Gas	3.0	Non-Current
Total Short Financial Swaps/Futures (fixed)		<u>38.2</u>	
Purchased Financial Option	Natural Gas	20.1	Current
Sold Financial Option	Natural Gas	18.8	Current
Long Financial Basis Swaps	Natural Gas	11.1	Current
Long Financial Basis Swaps	Natural Gas	1.5	Non-Current
Total Long Financial Basis Swaps		<u>12.6</u>	
Short Financial Basis Swaps	Natural Gas	9.8	Current
Short Financial Basis Swaps	Natural Gas	1.5	Non-Current
Total Short Financial Basis Swaps		<u>11.3</u>	

(A) Natural gas in MMBtu; NGLs in barrels.

(B) Of the natural gas physical purchases and sales volumes not designated as cash flow or fair value 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.

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 June 30, 2010 are as follows:

			Fair Value	
Instrument	Commodity	Balance Sheet Location	Assets	Liabilities
			(In millions)	
Derivatives Designated as Hedging Instruments				
Financial Options	NGLs	Current PRM	\$ 26.2	\$ ---
		Non-Current PRM	14.4	---
Financial Futures/Swaps	NGLs	Current PRM	0.1	0.7
Financial Futures/Swaps	Natural Gas	Current PRM	---	23.5
		Non-Current PRM	---	12.2
		Other Current Assets	3.1	0.1
Total Gross Derivatives Designated as Hedging Instruments			\$ 43.8	\$ 36.5
Derivatives Not Designated as Hedging Instruments				
Financial Futures/Swaps (A)	NGLs	Current PRM	\$ 1.4	\$ 1.1
Financial Futures/Swaps (B)	Natural Gas	Current PRM	3.0	7.2
		Other Current Assets	11.5	14.0
Physical Purchases/Sales	Natural Gas	Current PRM	1.7	1.5
		Non-Current PRM	0.3	---
Financial Options	Natural Gas	Other Current Assets	1.1	1.0
Total Gross Derivatives Not Designated as Hedging Instruments			\$ 19.0	\$ 24.8
Total Gross Derivatives (C)			\$ 62.8	\$ 61.3

- (A) The fair value of Financial Futures/Swaps – NGLs not designated as hedging instruments includes derivatives that were previously designated as hedging instruments and subsequently de-designated and off-setting derivatives were entered to close the hedge positions. The referenced derivatives had a fair value as presented in the table above in Current Assets of approximately \$1.4 million and Current Liabilities of approximately \$1.1 million.
- (B) The fair value of Financial Futures/Swaps – Natural Gas not designated as hedging instruments includes derivatives that were previously designated as hedging instruments and subsequently de-designated and off-setting derivatives were entered to close the hedge positions. The referenced derivatives had a fair value as presented in the table above in Current Assets of approximately \$2.1 million and Current Liabilities of approximately \$6.8 million.
- (C) See reconciliation of the Company's total derivatives fair value to the Company's Condensed Consolidated Balance Sheet at June 30, 2010 (see Note 2).

The fair value of the derivative instruments that are presented in the Company's Condensed Consolidated Balance Sheet at December 31, 2009 are as follows:

			Fair Value	
Instrument	Commodity	Balance Sheet Location	Assets	Liabilities
(In millions)				
Derivatives Designated as Hedging Instruments				
Financial Options	NGLs	Current PRM	\$ 16.4	\$ ---
		Non-Current PRM	23.4	---
Financial Futures/Swaps	NGLs	Current PRM	---	6.1
Financial Futures/Swaps	Natural Gas	Current PRM	---	14.8
		Non-Current PRM	---	19.7
		Other Current Assets	4.6	1.2
Total Gross Derivatives Designated as Hedging Instruments			\$ 44.4	\$ 41.8
Derivatives Not Designated as Hedging Instruments				
Financial Futures/Swaps (D)	NGLs	Current PRM	\$ 9.2	\$ 8.6
Financial Futures/Swaps (E)	Natural Gas	Current PRM	3.6	12.3
		Non-Current PRM	---	0.1
		Other Current Assets	11.8	13.6
Physical Purchases/Sales	Natural Gas	Current PRM	0.8	0.6
		Non-Current PRM	0.6	---
Financial Options	Natural Gas	Other Current Assets	0.9	0.8
Total Gross Derivatives Not Designated as Hedging Instruments			\$ 26.9	\$ 36.0
Total Gross Derivatives (F)			\$ 71.3	\$ 77.8

- (D) The entire fair value of Financial Futures/Swaps – NGLs not designated as hedging instruments includes derivatives that were previously designated as hedging instruments and subsequently de-designated with offsetting derivatives to close the hedge positions.
- (E) The fair value of Financial Futures/Swaps – Natural Gas not designated as hedging instruments includes derivatives that were previously designated as hedging instruments and subsequently de-designated with offsetting derivatives to close the hedge positions. The referenced derivatives had a fair value as presented in the table above in Current Assets of approximately \$2.9 million and Current Liabilities of approximately \$11.7 million.
- (F) See reconciliation of the Company's total derivatives fair value to the Company's Condensed Consolidated Balance Sheet at December 31, 2009 (see Note 2).

Income Statement Presentation Related to Derivative Instruments

The following table presents the effect of derivative instruments on the Company's Condensed Consolidated Statement of Income for the three months ended June 30, 2010.

Instrument	Amount of Gain or Loss Recognized in OCI on Derivative (Effective Portion)(A)	Location of Gain or Loss Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or Loss Reclassified from Accumulated OCI into Income (Effective Portion)	Location of Gain or Loss Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or Loss Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
<i>(In millions)</i>					
Derivatives in Cash Flow Hedging Relationships					
NGLs Financial Options	\$ 10.5	Operating Revenues	\$ 1.1	Operating Revenues	\$ ---
NGLs Financial Futures/Swaps	2.0	Operating Revenues	(0.5)	Operating Revenues	---
Natural Gas Financial Futures/Swaps	---	Operating Revenues	(8.6)	Operating Revenues	---
Total	\$ 12.5	Total	\$ (8.0)	Total	\$ ---

(A) The estimated net amount of gains or losses included in Accumulated Other Comprehensive Income at June 30, 2010 that is expected to be reclassified into earnings within the next 12 months is a loss of approximately \$12.5 million.

	Location of Gain or Loss Recognized in Income on Derivative	Amount of Gain or Loss Recognized in Income of Derivative
<i>(In millions)</i>		
Derivatives Not Designated as Hedging Instruments		
Natural Gas Physical Purchases/Sales	Operating Revenues	\$ (3.7)
Natural Gas Financial Futures/Swaps	Operating Revenues	(0.6)
Total		\$ (4.3)

The following table presents the effect of derivative instruments on the Company's Condensed Consolidated Statement of Income for the three months ended June 30, 2009.

Instrument	Amount of Gain or Loss Recognized in OCI on Derivative (Effective Portion)	Location of Gain or Loss Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or Loss Reclassified from Accumulated OCI into Income (Effective Portion)	Location of Gain or Loss Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or Loss Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
<i>(In millions)</i>					
Derivatives in Cash Flow Hedging Relationships					
NGLs Financial Options	\$ (23.9)	Operating Revenues	\$ 1.2	Operating Revenues	\$ ---
NGLs Financial Futures/Swaps	(20.4)	Operating Revenues	4.6	Operating Revenues	---
Natural Gas Financial Futures/Swaps	5.9	Operating Revenues	(12.3)	Operating Revenues	(0.3)
Total	\$ (38.4)	Total	\$ (6.5)	Total	\$ (0.3)

	Location of Gain or Loss Recognized in Income on Derivative	Amount of Gain or Loss Recognized in Income of Derivative
<i>(In millions)</i>		
Derivatives Not Designated as Hedging Instruments		
Natural Gas Physical Purchases/Sales	Operating Revenues	\$ (2.3)
Natural Gas Financial Futures/Swaps	Operating Revenues	1.8
Total		\$ (0.5)

The following table presents the effect of derivative instruments on the Company's Condensed Consolidated Statement of Income for the six months ended June 30, 2010.

Instrument	Amount of Gain or Loss Recognized in OCI on Derivative (Effective Portion)(A)	Location of Gain or Loss Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or Loss Reclassified from Accumulated OCI into Income (Effective Portion)	Location of Gain or Loss Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or Loss Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
<i>(In millions)</i>					
Derivatives in Cash Flow Hedging Relationships					
NGLs Financial Options	\$ 11.0	Operating Revenues	\$ 0.5	Operating Revenues	\$ ---
NGLs Financial Futures/Swaps	3.3	Operating Revenues	(1.8)	Operating Revenues	---
Natural Gas Financial Futures/Swaps	(9.9)	Operating Revenues	(12.0)	Operating Revenues	0.1
Total	\$ 4.4	Total	\$ (13.3)	Total	\$ 0.1

(A) The estimated net amount of gains or losses included in Accumulated Other Comprehensive Income at June 30, 2010 that is expected to be reclassified into earnings within the next 12 months is a loss of approximately \$12.5 million.

	Location of Gain or Loss Recognized in Income on Derivative	Amount of Gain or Loss Recognized in Income of Derivative
<i>(In millions)</i>		
Derivatives Not Designated as Hedging Instruments		
Natural Gas Physical Purchases/Sales	Operating Revenues	\$ (3.8)
Natural Gas Financial Futures/Swaps	Operating Revenues	0.2
Total		\$ (3.6)

The following table presents the effect of derivative instruments on the Company's Condensed Consolidated Statement of Income for the six months ended June 30, 2009.

Instrument	Amount of Gain or Loss Recognized in OCI on Derivative (Effective Portion)(A)	Location of Gain or Loss Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or Loss Reclassified from Accumulated OCI into Income (Effective Portion)	Location of Gain or Loss Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or Loss Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
<i>(In millions)</i>					
Derivatives in Cash Flow Hedging Relationships					
NGLs Financial Options	\$ (33.9)	Operating Revenues	\$ 3.0	Operating Revenues	\$ ---
NGLs Financial Futures/Swaps	(25.2)	Operating Revenues	10.1	Operating Revenues	---
Natural Gas Financial Futures/Swaps	(17.0)	Operating Revenues	(11.1)	Operating Revenues	(0.3)
Total	\$ (76.1)	Total	\$ 2.0	Total	\$ (0.3)

	Location of Gain or Loss Recognized in Income on Derivative	Amount of Gain or Loss Recognized in Income of Derivative
<i>(In millions)</i>		
Derivatives Not Designated as Hedging Instruments		
Natural Gas Physical Purchases/Sales	Operating Revenues	\$ (10.5)
Natural Gas Financial Futures/Swaps	Operating Revenues	8.4
NGLs Financial Futures/Swaps	Operating Revenues	(0.2)
Total		\$ (2.3)

Credit-Risk Related Contingent Features in Derivative Instruments

In the event Moody's Investors Service or Standard & Poor's were to lower the Company's senior unsecured debt rating to a below investment grade rating, at June 30, 2010, the Company would have been required to post approximately \$8.1 million of cash collateral to satisfy its obligation under its financial and physical contracts relating to derivative instruments that are in a net liability position at June 30, 2010. In addition, the Company could be required to provide additional credit assurances in future dealings with third parties, which could include letters of credit or cash collateral.

4. Stock-Based Compensation

On January 21, 1998, the Company adopted a Stock Incentive Plan (the "1998 Plan") and in 2003, the Company adopted another Stock Incentive Plan (the "2003 Plan" that replaced the 1998 Plan). In 2008, the Company adopted, and its shareowners approved, a new Stock Incentive Plan (the "2008 Plan" and together with the 1998 Plan and the 2003 Plan, the "Plans"). The 2008 Plan replaced the 2003 Plan and no further awards will be granted under the 2003 Plan or the 1998 Plan. As under the 2003 Plan and the 1998 Plan, under the 2008 Plan, restricted stock, stock options, stock appreciation rights and performance units may be granted to officers, directors and other key employees of the Company and its subsidiaries. The Company has authorized the issuance of up to 2,750,000 shares under the 2008 Plan.

The Company recorded compensation expense of approximately \$1.9 million pre-tax (\$1.2 million after tax, or \$0.01 per basic and diluted share) and approximately \$3.9 million pre-tax (\$2.4 million after tax, or \$0.03 per basic share and \$0.02 per diluted share), respectively, during the three and six months ended June 30, 2010 related to the Company's share-based payments. The Company recorded compensation expense of approximately \$1.4 million pre-tax (\$0.9 million after tax, or \$0.01 per basic and diluted share) and approximately \$2.8 million pre-tax (\$1.7 million after tax, or \$0.02 per basic and diluted share), respectively, during the three and six months ended June 30, 2009 related to the Company's share-based payments.

The Company issues new shares to satisfy stock option exercises and payouts of earned performance units. During the three and six months ended June 30, 2010, there were 56,200 shares and 195,133 shares, respectively, of new common stock issued pursuant to the Company's Plans related to exercised stock options and payouts of earned performance units. The Company received approximately \$1.3 million and \$2.4 million, respectively, during the three and six months ended June 30, 2010 related to exercised stock options. There were no exercised stock options during the three and six months ended June 30, 2009.

5. Accumulated Other Comprehensive Income (Loss)

The components of accumulated other comprehensive loss at June 30, 2010 and December 31, 2009 are as follows:

<i>(In millions)</i>	June 30, 2010	December 31, 2009
Defined benefit pension plan and restoration of retirement income plan:		
Net loss, net of tax ((\$63.6) and (\$65.6) pre-tax, respectively)	\$ (39.0)	\$ (40.0)
Prior service cost, net of tax ((\$0.9) and (\$1.1) pre-tax, respectively)	(0.6)	(0.7)
Defined benefit postretirement plans:		
Net loss, net of tax ((\$20.3) and (\$21.2) pre-tax, respectively)	(9.8)	(10.7)
Net transition obligation, net of tax ((\$0.2) and (\$0.6) pre-tax, respectively)	(0.1)	(0.4)
Prior service cost, net of tax ((\$0.4) and (\$0.1) pre-tax, respectively)	(0.2)	---
Deferred commodity contracts hedging losses, net of tax ((\$19.7) and (\$35.5) pre-tax, respectively)	(12.1)	(21.7)
Deferred hedging losses on interest rate swaps, net of tax ((\$1.7) and (\$1.9) pre-tax, respectively)	(1.1)	(1.2)
Total accumulated other comprehensive loss, net of tax	\$ (62.9)	\$ (74.7)

6. Income Taxes

The Company files consolidated income tax returns in the U.S. Federal jurisdiction and various state jurisdictions. With few exceptions, the Company is no longer subject to U.S. Federal tax examinations by tax authorities for years prior to 2006 or state and local tax examinations by tax authorities for years prior to 2002. Income taxes are generally allocated to each company in the affiliated group based on its stand-alone taxable income or loss. Federal investment tax credits previously claimed on electric utility property have been deferred and are being amortized to income over the life of the related property. The Company continues to amortize its Federal investment tax credits on a ratable basis throughout the year. OG&E earns both Federal and Oklahoma state tax credits associated with the production from its wind farms. In addition, OG&E and Enogex earn Oklahoma state tax credits associated with their investments in electric generating and natural gas processing facilities which further reduce the Company's effective tax rate.

The Company estimated a Federal tax net operating loss for 2009 primarily caused by the accelerated tax depreciation provisions contained within the American Recovery and Reinvestment Act of 2009 ("ARRA"). ARRA allowed a current deduction for 50 percent of the cost of certain property placed into service during 2009. This tax loss resulted in an approximate \$68 million current income tax receivable related to the 2009 tax year. On November 6, 2009, the Worker, Homeownership, and Business Assistance Act of 2009 was signed into law by the President. This new law provided for a five-year carry back of net operating losses incurred in 2008 or 2009. This expanded carryback period enabled the Company to carry back the entire 2009 tax loss. A carryback claim was filed in March 2010 and a refund of approximately \$68 million was received by the Company in April 2010.

In June 2010, new legislation was passed in Oklahoma that creates a moratorium, from July 1, 2010 through June 30, 2012, on approximately 30 income tax credits. For income tax purposes, credits affected by the moratorium may not be claimed for any event, transaction, investment, expenditure or other act for which the credits would otherwise be allowable. During this two-year window, affected credits generated by the Company will be deferred and utilized at a time after the moratorium expires. For financial accounting purposes, the Company will receive the benefits in the future as the credits do not expire if they are not utilized in the period they are generated.

Medicare Part D Subsidy

On March 23, 2010, the Patient Protection and Affordable Care Act of 2009 (the "Patient Protection Act") was signed into law, and, on March 30, 2010, the Health Care and Education Reconciliation Act of 2010 (the "Reconciliation Act" and, together with Patient Protection Act, the "Acts"), which makes various amendments to certain aspects of the Patient Protection Act, was signed into law. The Acts effectively change the tax treatment of federal subsidies paid to

sponsors of retiree health benefit plans that provide prescription drug benefits that are at least actuarially equivalent to the corresponding benefits provided under Medicare Part D.

The federal subsidy paid to employers was introduced as part of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (the “Medicare Act”). The Company has been recognizing the federal subsidy since 2005 related to certain retiree prescription drug plans that were determined to be actuarially equivalent to the benefit provided under Medicare Part D. Under the Medicare Act, the federal subsidy does not reduce an employer’s income tax deduction for the costs of providing such prescription drug plans nor is it subject to income tax individually.

Under the Acts, beginning in 2013 an employer’s income tax deduction for the costs of providing Medicare Part D-equivalent prescription drug benefits to retirees will be reduced by the amount of the federal subsidy. Under GAAP, any impact from a change in tax law must be recognized in earnings in the period enacted regardless of the effective date. As retiree healthcare liabilities and related tax impacts are already reflected in the Company’s Condensed Consolidated Financial Statements, the Company recognized a one-time, non-cash charge of approximately \$11.4 million, or \$0.11 per diluted share, during the quarter ended March 31, 2010 for the write-off of previously recognized tax benefits relating to Medicare Part D subsidies to reflect the change in the tax treatment of the federal subsidy.

7. Common Equity

Automatic Dividend Reinvestment and Stock Purchase Plan

In November 2008, the Company filed a Form S-3 Registration Statement to register 5,000,000 shares of the Company’s common stock pursuant to the Company’s Automatic Dividend Reinvestment and Stock Purchase Plan (“DRIP/DSPP”). The Company issued 87,941 shares and 189,686 shares, respectively, of common stock under its DRIP/DSPP during the three and six months ended June 30, 2010 and received proceeds of approximately \$3.6 million and \$7.3 million, respectively. The Company may, from time to time, issue additional shares under its DRIP/DSPP to fund capital requirements or working capital needs.

At June 30, 2010, there were 2,803,058 shares of unissued common stock reserved for issuance under the Company’s DRIP/DSPP.

Earnings Per Share

Outstanding shares for purposes of basic and diluted earnings per average common share were calculated as follows:

<i>(In millions)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Average Common Shares Outstanding				
Basic average common shares outstanding	97.3	96.5	97.2	95.6
Effect of dilutive securities:				
Contingently issuable shares (performance units)	1.4	1.0	1.4	0.8
Diluted average common shares outstanding	98.7	97.5	98.6	96.4
Anti-dilutive shares excluded from EPS calculation	---	---	---	---

8. Long-Term Debt

At June 30, 2010, the Company was in compliance with all of its debt agreements.

OG&E has three series of variable-rate industrial authority bonds (the “Bonds”) with optional redemption provisions that allow the holders to request repayment of the Bonds at various dates prior to the maturity. The Bonds, which can be tendered at the option of the holder during the next 12 months, are as follows:

SERIES	DATE DUE	AMOUNT
		<i>(In millions)</i>
0.30% - 0.50%	Garfield Industrial Authority, January 1, 2025	\$ 47.0
0.35% - 0.52%	Muskogee Industrial Authority, January 1, 2025	32.4
0.33% - 0.55%	Muskogee Industrial Authority, June 1, 2027	56.0
Total (redeemable during next 12 months)		\$ 135.4

All of these Bonds are subject to an optional tender at the request of the holders, at 100 percent of the principal amount, together with accrued and unpaid interest to the date of purchase. The bond holders, on any business day, can

request repayment of the Bond by delivering an irrevocable notice to the tender agent stating the principal amount of the Bond, payment instructions for the purchase price and the business day the Bond is to be purchased. The repayment option may only be exercised by the holder of a Bond for the principal amount. When a tender notice has been received by the trustee, a third party remarketing agent for the Bonds will attempt to remarket any Bonds tendered for purchase. This process occurs once per week. Since the original issuance of these series of Bonds in 1995 and 1997, the remarketing agent has successfully remarketed all tendered bonds. If the remarketing agent is unable to remarket any such Bonds, OG&E is obligated to repurchase such unremarketed Bonds. As OG&E has both the intent and ability to refinance the Bonds on a long-term basis and such ability is supported by an ability to consummate the refinancing, the Bonds are classified as long-term debt in the Company's Condensed Consolidated Financial Statements. OG&E believes that it has sufficient liquidity to meet these obligations.

Registration Statement Filing

On May 6, 2010, the Company filed a Registration Statement on Form S-3 pursuant to which it may offer from time to time a currently indeterminate number of shares of the Company's common stock, and a currently indeterminate principal amount of debt securities of the Company and debt securities of OG&E. The Company expects to issue equity when market conditions are favorable and when the need arises.

Issuance of New Long-Term Debt

On June 8, 2010, OG&E issued \$250 million of 5.85% senior notes due June 1, 2040. The proceeds from the issuance were added to the Company's general funds and are intended to fund OG&E's ongoing capital expenditure program or to be used for working capital. Pending such use, the funds have been temporarily invested. OG&E expects to issue additional long-term debt from time to time when market conditions are favorable and when the need arises.

9. Short-Term Debt and Credit Facilities

The Company borrows on a short-term basis, as necessary, by the issuance of commercial paper and by borrowings under its revolving credit agreements. The short-term debt balance was approximately \$112.9 million and \$175.0 million at June 30, 2010 and December 31, 2009, respectively. The following table provides information regarding the Company's revolving credit agreements and available cash at June 30, 2010.

Revolving Credit Agreements and Available Cash				
Entity	Aggregate Commitment	Amount Outstanding (A)	Weighted-Average Interest Rate	Maturity
<i>(In millions)</i>				
OGE Energy (B)	\$ 596.0	\$ 112.9	0.38% (D)	December 6, 2012
OG&E (C)	389.0	9.5	---% (D)	December 6, 2012
Enogex (E)	250.0	65.0	0.66% (D)	March 31, 2013
	1,235.0	187.4	0.46%	
Cash	7.3	N/A	N/A	N/A
Total	\$ 1,242.3	\$ 187.4	0.46%	

(A) Includes direct borrowings under the revolving credit agreements, commercial paper borrowings and letters of credit at June 30, 2010.

(B) This bank facility is available to back up OGE Energy's commercial paper borrowings and to provide revolving credit borrowings. This bank facility can also be used as a letter of credit facility. At June 30, 2010, there were no outstanding borrowings under this revolving credit agreement and approximately \$112.9 million in outstanding commercial paper borrowings.

(C) This bank facility is available to back up OG&E's commercial paper borrowings and to provide revolving credit borrowings. This bank facility can also be used as a letter of credit facility. At June 30, 2010, there was approximately \$9.5 million supporting letters of credit. There were no outstanding borrowings under this revolving credit agreement and no outstanding commercial paper borrowings at June 30, 2010.

(D) Represents the weighted-average interest rate for the outstanding borrowings under the revolving credit agreements and commercial paper borrowings.

(E) This bank facility is available to provide revolving credit borrowings for Enogex. As Enogex's credit agreement matures on March 31, 2013, borrowings thereunder are classified as long-term debt in the Company's Condensed Consolidated Balance Sheets.

OGE Energy's and OG&E's ability to access the commercial paper market could be adversely impacted by a credit ratings downgrade or major market disruptions. Pricing grids associated with the Company's credit facilities could cause

annual fees and borrowing rates to increase if an adverse ratings impact occurs. The impact of any future downgrade could include an increase in the costs of the Company's short-term borrowings, but a reduction in the Company's credit ratings would not result in any defaults or accelerations. Any future downgrade of the Company could also lead to higher long-term borrowing costs and, if below investment grade, would require the Company to post cash collateral or letters of credit.

Unlike OGE Energy and Enogex, OG&E must obtain regulatory approval from the FERC in order to borrow on a short-term basis. OG&E has the necessary regulatory approvals to incur up to \$800 million in short-term borrowings at any one time for a two-year period beginning January 1, 2009 and ending December 31, 2010.

10. Retirement Plans and Postretirement Benefit Plans

The details of net periodic benefit cost of the pension plan, the restoration of retirement income plan and the postretirement benefit plans included in the Condensed Consolidated Financial Statements are as follows:

Net Periodic Benefit Cost

Pension Plan				
(In millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2010 (A)	2009 (A)	2010 (B)	2009 (B)
Service cost	\$ 4.0	\$ 4.5	\$ 8.4	\$ 9.0
Interest cost	8.1	7.9	15.9	15.7
Expected return on plan assets	(10.5)	(8.3)	(21.2)	(16.5)
Amortization of net loss	5.5	5.9	10.6	11.8
Amortization of unrecognized prior service cost	0.6	0.2	1.2	0.4
Net periodic benefit cost	\$ 7.7	\$ 10.2	\$ 14.9	\$ 20.4

Restoration of Retirement Income Plan				
(In millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2010 (A)	2009 (A)	2010 (B)	2009 (B)
Service cost	\$ 0.2	\$ 0.2	\$ 0.4	\$ 0.4
Interest cost	0.1	0.1	0.2	0.2
Amortization of net loss	0.1	---	0.2	0.1
Amortization of unrecognized prior service cost	0.3	0.2	0.4	0.3
Net periodic benefit cost	\$ 0.7	\$ 0.5	\$ 1.2	\$ 1.0

(A) In addition to the \$8.4 million and \$10.7 million of net periodic benefit cost recognized during the three months ended June 30, 2010 and 2009, respectively, the Company recognized the following:

- an increase in pension expense during the three months ended June 30, 2010 of approximately \$1.5 million and a reduction in pension expense of approximately \$1.1 million during the same period in 2009 to maintain the allowable amount to be recovered for pension expense in the Oklahoma jurisdiction which are identified as Deferred Pension Plan Expenses (see Note 1); and
- a reduction in pension expense during the three months ended June 30, 2009 of approximately \$3.2 million in the Arkansas jurisdiction to reflect the approval of recovery of OG&E's 2006 and 2007 pension settlement costs in the May 2009 Arkansas rate order which are identified as Deferred Pension Plan Expenses (see Note 1).

(B) In addition to the \$16.1 million and \$21.4 million of net periodic benefit cost recognized during the six months ended June 30, 2010 and 2009, respectively, the Company recognized the following:

- an increase in pension expense during the six months ended June 30, 2010 of approximately \$2.9 million and a reduction in pension expense of approximately \$2.1 million during the same period in 2009 to maintain the allowable amount to be recovered for pension expense in the Oklahoma jurisdiction which are identified as Deferred Pension Plan Expenses (see Note 1); and
- a reduction in pension expense during the six months ended June 30, 2009 of approximately \$3.2 million in the Arkansas jurisdiction to reflect the approval of recovery of OG&E's 2006 and 2007 pension settlement costs in the May 2009 Arkansas rate order which are identified as Deferred Pension Plan Expenses (see Note 1).

Postretirement Benefit Plans				
(In millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Service cost	\$ 0.9	\$ 0.9	\$ 2.1	\$ 1.7
Interest cost	4.3	3.5	8.5	7.0
Expected return on plan assets	(1.8)	(1.7)	(3.5)	(3.3)
Amortization of transition obligation	0.7	0.7	1.4	1.4
Amortization of net loss	3.4	1.3	6.1	2.5
Amortization of unrecognized prior service cost	---	0.2	---	0.5
Net periodic benefit cost	\$ 7.5	\$ 4.9	\$ 14.6	\$ 9.8

Pension Plan Funding

In the second quarter of 2010, the Company contributed approximately \$40 million to its pension plan and currently expects to contribute an additional \$10 million to its pension plan during the remainder of 2010. Any remaining expected contributions to its pension plan during 2010 would be discretionary contributions, anticipated to be in the form of cash, and are not required to satisfy the minimum regulatory funding requirement specified by the Employee Retirement Income Security Act of 1974, as amended.

11. Report of Business Segments

The Company's business is divided into four segments for financial reporting purposes. These segments are as follows: (i) electric utility, which is engaged in the generation, transmission, distribution and sale of electric energy, (ii) natural gas transportation and storage, (iii) natural gas gathering and processing and (iv) natural gas marketing. Other Operations primarily includes the operations of the holding company. Intersegment revenues are recorded at prices comparable to those of unaffiliated customers and are affected by regulatory considerations. In reviewing its segment operating results, the Company focuses on operating income as its measure of segment profit and loss, and, therefore has presented this information below. The following tables summarize the results of the Company's business segments for the three and six months ended June 30, 2010 and 2009.

Three Months Ended June 30, 2010	Electric Utility	Transportation And Storage	Gathering and Processing	Marketing	Other Operations	Eliminations	Total
(In millions)							
Operating revenues	\$ 512.8	\$ 97.1	\$ 235.4	\$ 189.0	\$ ---	\$ (147.1)	\$ 887.2
Cost of goods sold	230.8	60.9	168.6	192.9	---	(146.7)	506.5
Gross margin on revenues	282.0	36.2	66.8	(3.9)	---	(0.4)	380.7
Other operation and maintenance	101.2	12.6	23.5	2.1	(3.5)	(0.9)	135.0
Depreciation and amortization	50.6	5.4	12.5	---	2.7	---	71.2
Taxes other than income	17.2	3.4	1.6	---	0.8	---	23.0
Operating income (loss)	\$ 113.0	\$ 14.8	\$ 29.2	\$ (6.0)	\$ ---	\$ 0.5	\$ 151.5
Total assets	\$ 5,775.9	\$ 1,556.2	\$ 907.9	\$ 104.5	\$ 2,691.6	\$ (3,742.0)	\$ 7,294.1

Three Months Ended June 30, 2009	Electric Utility	Transportation And Storage	Gathering and Processing	Marketing	Other Operations	Eliminations	Total
(In millions)							
Operating revenues	\$ 425.3	\$ 101.0	\$ 142.3	\$ 117.2	\$ ---	\$ (141.7)	\$ 644.1
Cost of goods sold	188.3	60.7	98.7	116.6	---	(140.1)	324.2
Gross margin on revenues	237.0	40.3	43.6	0.6	---	(1.6)	319.9
Other operation and maintenance	77.9	9.7	19.9	2.7	(3.3)	(1.3)	105.6
Depreciation and amortization	46.0	5.3	10.6	---	2.7	---	64.6
Impairment of assets	0.3	0.8	0.3	---	---	---	1.4
Taxes other than income	16.3	3.2	1.5	0.1	0.8	---	21.9
Operating income (loss)	\$ 96.5	\$ 21.3	\$ 11.3	\$ (2.2)	\$ (0.2)	\$ (0.3)	\$ 126.4
Total assets	\$ 5,161.1	\$ 1,565.9	\$ 885.9	\$ 127.1	\$ 2,477.1	\$ (3,212.3)	\$ 7,004.8

Six Months Ended June 30, 2010	Electric Utility	Transportation And Storage	Gathering and Processing	Marketing	Other Operations	Eliminations	Total
<i>(In millions)</i>							
Operating revenues	\$ 956.8	\$ 208.2	\$ 483.3	\$ 434.7	\$ ---	\$ (320.0)	\$ 1,763.0
Cost of goods sold	481.6	127.1	348.6	437.2	---	(317.9)	1,076.6
Gross margin on revenues	475.2	81.1	134.7	(2.5)	---	(2.1)	686.4
Other operation and maintenance	195.1	23.6	44.8	4.8	(7.6)	(2.1)	258.6
Depreciation and amortization	100.3	10.8	24.9	---	5.5	---	141.5
Taxes other than income	34.9	7.3	3.5	0.2	2.1	---	48.0
Operating income (loss)	\$ 144.9	\$ 39.4	\$ 61.5	\$ (7.5)	\$ ---	\$ ---	\$ 238.3
Total assets	\$ 5,775.9	\$ 1,556.2	\$ 907.9	\$ 104.5	\$ 2,691.6	\$ (3,742.0)	\$ 7,294.1

Six Months Ended June 30, 2009	Electric Utility	Transportation And Storage	Gathering and Processing	Marketing	Other Operations	Eliminations	Total
<i>(In millions)</i>							
Operating revenues	\$ 762.0	\$ 209.3	\$ 280.8	\$ 309.5	\$ ---	\$ (310.9)	\$ 1,250.7
Cost of goods sold	359.3	126.9	194.8	304.4	---	(308.0)	677.4
Gross margin on revenues	402.7	82.4	86.0	5.1	---	(2.9)	573.3
Other operation and maintenance	163.2	19.6	43.0	5.3	(6.6)	(2.4)	222.1
Depreciation and amortization	91.5	10.0	20.7	---	5.0	---	127.2
Impairment of assets	0.3	0.8	0.3	---	---	---	1.4
Taxes other than income	32.4	6.8	2.8	0.3	1.9	---	44.2
Operating income (loss)	\$ 115.3	\$ 45.2	\$ 19.2	\$ (0.5)	\$ (0.3)	\$ (0.5)	\$ 178.4
Total assets	\$ 5,161.1	\$ 1,565.9	\$ 885.9	\$ 127.1	\$ 2,477.1	\$ (3,212.3)	\$ 7,004.8

12. Commitments and Contingencies

Except as set forth below and in Note 13, the circumstances set forth in Notes 13 and 14 to the Company's Consolidated Financial Statements included in the Company's 2009 Form 10-K appropriately represent, in all material respects, the current status of the Company's material commitments and contingent liabilities.

OG&E Railcar Lease Agreement

At June 30, 2010, OG&E had a noncancellable operating lease with purchase options, covering 1,462 coal hopper railcars to transport coal from Wyoming to OG&E's coal-fired generation units. Rental payments are charged to Fuel Expense and are recovered through OG&E's tariffs and fuel adjustment clauses. At the end of the lease term, which is January 31, 2011, OG&E has the option to either purchase the railcars at a stipulated fair market value or renew the lease. If OG&E chooses not to purchase the railcars or renew the lease agreement and the actual fair value of the railcars is less than the stipulated fair market value, OG&E would be responsible for the difference in those values up to a maximum of approximately \$31.5 million.

On February 10, 2009, OG&E executed a short-term lease agreement for 270 railcars in accordance with new coal transportation contracts with BNSF Railway and Union Pacific. These railcars were needed to replace railcars that have been taken out of service or destroyed. The lease agreement expired with respect to 135 railcars on November 2, 2009 and was not replaced. The lease agreement with respect to the remaining 135 railcars expired on March 5, 2010 and is now continuing on a month-to-month basis with a 30-day notice required by either party to terminate the agreement.

OG&E is also required to maintain all of the railcars it has under lease to transport coal from Wyoming and has entered into agreements with Progress Rail Services and WATCO, both of which are non-affiliated companies, to furnish this maintenance.

Oxley Litigation

OG&E has been sued by John C. Oxley D/B/A Oxley Petroleum et al. in the District Court of Haskell County, Oklahoma. This case has been pending for more than 11 years. The plaintiffs alleged that OG&E breached the terms of contracts covering several wells by failing to purchase gas from the plaintiffs in amounts set forth in the contracts. The

plaintiffs' most recent Statement of Claim describes approximately \$2.7 million in take-or-pay damages (including interest) and approximately \$36 million in contract repudiation damages (including interest), subject to the limitation described below. In 2001, OG&E agreed to provide the plaintiffs with approximately \$5.8 million of consideration and the parties agreed to arbitrate the dispute. The arbitration hearing was completed and the final briefs were provided to the arbitration panel on March 17, 2010. On May 19, 2010, the panel issued an arbitration award in an amount less than the consideration previously paid by OG&E and, as a result, OG&E did not owe any additional amount. The Company now considers this case closed.

Natural Gas Measurement Cases

Will Price, et al. v. El Paso Natural Gas Co., et al. (Price I). On September 24, 1999, various subsidiaries of the Company were served with a class action petition filed in the District Court of Stevens County, Kansas by Quinque Operating Company and other named plaintiffs alleging the mismeasurement of natural gas on non-Federal lands. On April 10, 2003, the court entered an order denying class certification. On May 12, 2003, the plaintiffs (now Will Price, Stixon Petroleum, Inc., Thomas F. Boles and the Cooper Clark Foundation, on behalf of themselves and other royalty interest owners) filed a motion seeking to file an amended class action petition, and the court granted the motion on July 28, 2003. In its amended petition (the R 20;Fourth Amended Petition"), OG&E and Enogex Inc. were omitted from the case but two of the Company's other subsidiary entities remained as defendants. The plaintiffs' Fourth Amended Petition seeks class certification and alleges that approximately 60 defendants, including two of the Company's subsidiary entities, have improperly measured the volume of natural gas. The Fourth Amended Petition asserts theories of civil conspiracy, aiding and abetting, accounting and unjust enrichment. In their briefing on class certification, the plaintiffs seek to also allege a claim for conversion. The plaintiffs seek unspecified actual damages, attorneys' fees, costs and pre-judgment and post-judgment interest. The plaintiffs also reserved the right to seek punitive damages.

Discovery was conducted on the class certification issues, and the parties fully briefed these same issues. A hearing on class certification issues was held April 1, 2005. In May 2006, the court heard oral argument on a motion to intervene filed by Colorado Consumers Legal Foundation, which is claiming entitlement to participate in the putative class action. The court has not yet ruled on the motion to intervene.

The class certification issues were briefed and argued by the parties in 2005 and proposed findings of facts and conclusions of law on class certification were filed in 2007. On September 18, 2009, the court entered its order denying class certification. On October 2, 2009, the plaintiffs filed for a rehearing of the court's denial of class certification. On February 10, 2010 the court heard arguments on the rehearing request and by an order dated March 31, 2010, the court denied the plaintiffs' request for rehearing.

The Company intends to vigorously defend this action. At this time, the Company is unable to provide an evaluation of the likelihood of an unfavorable outcome and an estimate of the amount or range of potential loss to the Company.

Will Price, et al. v. El Paso Natural Gas Co., et al. (Price II). On May 12, 2003, the plaintiffs (same as those in the Fourth Amended Petition in Price I above) filed a new class action petition in the District Court of Stevens County, Kansas naming the same defendants and asserting substantially identical legal and/or equitable theories as in the Fourth Amended Petition of the Price I case. OG&E and Enogex Inc. were not named in this case, but two subsidiary entities of the Company were named in this case. The plaintiffs allege that the defendants mismeasured the Btu content of natural gas obtained from or measured for the plaintiffs. In their briefing on class certification, the plaintiffs seek to also allege a claim for conversion. The plaintiffs seek unspecified actual damages, attorneys' fees, costs and pre-judgment and post-judgment interest. The plaintiffs also reserved the right to seek punitive damages.

Discovery was conducted on the class certification issues, and the parties fully briefed these same issues. A hearing on class certification issues was held April 1, 2005. In May 2006, the court heard oral argument on a motion to intervene filed by Colorado Consumers Legal Foundation, which is claiming entitlement to participate in the putative class action. The court has not yet ruled on the motion to intervene.

The class certification issues were briefed and argued by the parties in 2005 and proposed findings of facts and conclusions of law on class certification were filed in 2007. On September 18, 2009, the court entered its order denying class certification. On October 2, 2009, the plaintiffs filed for a rehearing of the court's denial of class certification. On February 10, 2010 the court heard arguments on the rehearing request and by an order dated March 31, 2010, the court denied the plaintiffs' request for rehearing.

The Company intends to vigorously defend this action. At this time, the Company is unable to provide an evaluation of the likelihood of an unfavorable outcome and an estimate of the amount or range of potential loss to the Company.

Pipeline Rupture

On November 14, 2008, a natural gas gathering pipeline owned by Enogex ruptured in Grady County, near Alex, Oklahoma, resulting in a fire that caused injuries to one resident and destroyed three residential structures. After the incident, Enogex coordinated and assisted the affected residents. Enogex resolved matters with two of the residents and Enogex continued to seek resolution with a remaining resident. This resident filed a legal action in May 2009 in the District Court of Cleveland County, Oklahoma, against OGE Energy and Enogex. This matter was resolved by the parties on April 8, 2010. The ultimate resolution of this incident was not material to the Company in light of previously established reserves and insurance coverage.

Franchise Fee Lawsuit

On June 19, 2006, two OG&E customers brought a putative class action, on behalf of all similarly situated customers, in the District Court of Creek County, Oklahoma, challenging certain charges on OG&E's electric bills. The plaintiffs claim that OG&E improperly charged sales tax based on franchise fee charges paid by its customers. The plaintiffs also challenge certain franchise fee charges, contending that such fees are more than is allowed under Oklahoma law. OG&E's motion for summary judgment was denied by the trial judge. In January 2007, the Oklahoma Supreme Court "arrested" the District Court action until, and if, the propriety of the complaint of billing practices is determined by the OCC. In September 2008, the plaintiffs filed an application with the OCC asking the OCC to modify its order which authorizes OG&E to collect the challenged franchise fee charges. On December 9, 2009 the OCC issued an order dismissing the plaintiffs' request for a modification of the 1994 OCC order which authorized OG&E to collect and remit sales tax on franchise fee charges. In its December 9, 2009 order, the OCC advised the plaintiffs that the ruling does not address the question of whether OG&E's collection and remittance of such sales tax should be discontinued prospectively. On April 19, 2010, the OCC issued a final order dismissing with prejudice the applicants' claims for recovery of previously paid taxes on franchise fees and approving the closing of this matter. On June 10, 2010, the plaintiffs filed a motion in the District Court of Creek County, Oklahoma, asking the court to proceed with the original class action. On July 8, 2010, a hearing in this matter was held and the court granted the plaintiffs motion to lift the stay of discovery previously imposed by the Oklahoma Supreme Court but denied any other specific relief pending further action by the court. On August 4, 2010, OG&E filed an application to assume original jurisdiction and a petition for a writ of prohibition with the Oklahoma Supreme Court. While OG&E cannot predict the precise outcome of this lawsuit, based on the information known at this time, OG&E believes that this lawsuit will not have a material adverse effect on the Company's consolidated financial position or results of operations.

Environmental Matters

Water

OG&E filed an Oklahoma Pollutant Discharge Elimination ("OPDES") permit renewal application with the state of Oklahoma on August 4, 2008 for its Seminole generating station and received draft permits for review on both January 9, 2009 and December 4, 2009. OG&E provided comments on the January draft permit and will provide additional comments on the December draft permit. In addition, OG&E filed OPDES permit renewal applications for its Arbuckle, Muskogee, Mustang and Horseshoe Lake generating stations on July 23, 2009, March 4, 2009, April 3, 2009 and October 29, 2009, respectively. The draft permits were reviewed and comments have been submitted to the Oklahoma Department of Environmental Quality for Muskogee, Mustang and Horseshoe Lake generating stations.

Other

In the normal course of business, the Company is confronted with issues or events that may result in a contingent liability. These generally relate to lawsuits, claims made by third parties, environmental actions or the action of various regulatory agencies. When appropriate, management consults with legal counsel and other appropriate experts to assess the claim. If in management's opinion, the Company has incurred a probable loss as set forth by accounting principles generally accepted in the United States, an estimate is made of the loss and the appropriate accounting entries are reflected in the Company's Condensed Consolidated Financial Statements. Except as otherwise stated above, in Note 13 below, in Item 1 of Part II of this Form 10-Q, in Notes 13 and 14 of Notes to the Company's Consolidated Financial Statements included in the Company's 2009 Form 10-K and in Item 3 of that report, management, after consultation with legal counsel, does not currently anticipate that liabilities arising out of these pending or threatened lawsuits, claims and contingencies will have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

13. Rate Matters and Regulation

Except as set forth below, the circumstances set forth in Note 14 to the Company's Consolidated Financial Statements included in the Company's 2009 Form 10-K appropriately represent, in all material respects, the current status of any regulatory matters.

Completed Regulatory Matters

OG&E Windspeed Transmission Line Project

OG&E filed an application on May 19, 2008 with the OCC requesting pre-approval to recover from Oklahoma customers the cost to construct a transmission line from Oklahoma City, Oklahoma to Woodward, Oklahoma ("Windspeed"). The OCC subsequently authorized recovery at a construction cost of up to approximately \$218 million, including allowance for funds used during construction ("AFUDC"). At June 30, the construction costs and AFUDC incurred for the Windspeed transmission line were approximately \$210.2 million and the final costs are expected to be less than \$218 million. The Windspeed transmission line was placed into service on March 31, 2010, with the recovery rider being implemented with the first billing cycle in April 2010.

OG&E Long-Term Gas Supply Agreements

On February 26, 2010, OG&E filed an application with the OCC requesting a waiver of the competitive bid rules to allow OG&E to negotiate desired long-term gas purchase agreements. On May 11, 2010, all parties to this case signed a settlement agreement in this matter requesting that the OCC issue an order granting a waiver of the competitive bid rules. A hearing on the settlement agreement was held on May 13, 2010 and the OCC issued an order approving the settlement agreement on May 27, 2010. On June 29, 2010, OG&E filed a separate application with the OCC seeking approval of four long-term gas purchase agreements, which would provide a 12-year supply of natural gas to OG&E and account for approximately 25 percent of its current natural gas fuel supply needs. On July 27, 2010, a procedural schedule was established in this matter with a hearing scheduled to begin on October 14, 2010.

Review of OG&E's Fuel Adjustment Clause for Calendar Year 2008

On July 20, 2009, the OCC Staff filed an application for a public hearing to review and monitor OG&E's application of the 2008 fuel adjustment clause. On September 18, 2009, OG&E responded by filing the necessary information and documents to satisfy the OCC's minimum filing requirement rules. On May 5, 2010, all parties to this case signed a settlement agreement in this matter, stating that OG&E's generation and fuel procurement processes and costs during the 2008 calendar year were prudent. A hearing on the settlement agreement was held on May 26, 2010 and the OCC issued an order approving the settlement agreement on June 18, 2010.

OG&E Smart Grid Application

In February 2009, the ARRA was enacted into law. Several provisions of this law relate to issues of direct interest to the Company including, in particular, financial incentives to develop smart grid technology, transmission infrastructure and renewable energy. OG&E filed a grant request on August 4, 2009 for \$130 million with the U.S. Department of Energy ("DOE") to be used for the Smart Grid application in OG&E's service territory. On October 27, 2009, OG&E received notification from the DOE that its grant had been accepted by the DOE for the full requested amount of \$130 million. On April 21, 2010, OG&E and the DOE entered into a definitive agreement with regards to the award.

On March 15, 2010, OG&E filed an application with the OCC requesting pre-approval for system-wide deployment of smart grid technology and a recovery rider, including a credit for the Smart Grid grant. On July 1, 2010, the OCC approved a settlement among all parties to the proceeding. The key settlement terms were:

- Pre-approval for system-wide deployment of smart grid technology and authorization for OG&E to begin recovering the costs of the system-wide deployment of smart grid technology through a rider mechanism that will become effective in accordance with the order approving the settlement agreement;
- OG&E's total project costs eligible for recovery (those costs expended or accrued by OG&E prior to the termination of the period authorized by the DOE as eligible for grant funds) shall be capped at \$366.4 million ("Smart Grid Cost"), inclusive of the DOE grant award amount. The Smart Grid Cost includes the cost of implementing the Norman, Oklahoma smart grid pilot program previously authorized by the OCC. Under the terms of the settlement, the Smart Grid Cost would be deemed to represent an investment that is fair, just and reasonable and in the public interest and to be prudent and will be recognized in OG&E's 2013 general rate case;

- Ÿ To the extent that OG&E's total expenditure for system-wide deployment of smart grid technology during the eligible period exceeds the Smart Grid Cost, OG&E shall be entitled to offer evidence and seek to establish that the excess above the Smart Grid Cost was prudently incurred and any such contention may be addressed in OG&E's 2013 rate case;
- Ÿ Implementation of the recovery rider would commence with the first billing cycle in July 2010;
- Ÿ Continued utilization of a return on equity previously approved by the OCC for other various recovery riders;
- Ÿ The recovery rider shall be designed to collect, on a levelized basis, the revenue requirement associated with the estimated project cost of \$357.4 million and shall be subject to a true-up in 2014 after the recovery rider expires, including a true-up for project costs, if any, in excess of \$357.4 million but less than the Smart Grid Cost. Any over/under recovery remaining will be passed or credited through OG&E's fuel adjustment clause;
- Ÿ OG&E guarantees that customers will receive the benefit of certain operations and maintenance cost reductions resulting from the smart grid deployment as a credit to the recovery rider;
- Ÿ Beginning January 1, 2011, OG&E shall make available the smart grid web portal to all customers having a smart meter. OG&E shall expend funds to educate customers regarding the best use of the information available on the portal. In addition, OG&E shall make available to all customers who do not have internet access the opportunity to receive a monthly home energy report. This report shall be made available, free of charge, to customers eligible for the Company's Low Income Home Energy Assistance Program and/or Senior Citizen program who are without internet service. The incremental costs for web portal access, education and the providing of home energy reports free of charge are to be accumulated as a regulatory asset in an amount up to \$6.9 million and recovered in base rates beginning in 2014;
- Ÿ The stranded costs associated with OG&E's existing meters which are being replaced by smart meters will be accumulated in a regulatory asset and recovered in base rates beginning in 2014; and
- Ÿ OG&E will file an application with the APSC related to the deployment of smart grid technology by the end of 2010.

Enogex 2010 Fuel Filing

Pursuant to its Statement of Operating Conditions ("SOC"), Enogex makes an annual fuel filing at the FERC to establish the zonal fuel percentages for each calendar year. The tracker mechanism set out in the SOC establishes prospectively the zonal fixed fuel factors (expressed as a percentage of natural gas shipped in the zone) for the upcoming calendar year. The collected fuel is later true-up to actual usage and based on the value of the fuel at the time of usage.

On November 23, 2009, Enogex made its annual filing to establish the fixed fuel percentages for its East Zone and West Zone for calendar year 2010 ("2010 Fuel Year"). The FERC accepted the proposed zonal fuel percentages for the 2010 Fuel Year by an order dated April 23, 2010.

The FERC regulates Enogex's Section 311 transportation and storage services but does not regulate Enogex's gathering services or intrastate transportation services. FERC Order No. 720-A, as amended, provides that companies, such as Enogex, will be required, as of September 1, 2010 to post scheduled volume and design capacity information on a daily basis for eligible receipt and delivery points on applicable gathering and intrastate transportation facilities that meet the requirements established in the order. While the jurisdictional status of Enogex's gathering and intrastate transportation services remains unchanged under this new regulation, the requirement of the FERC order to post this information subjects Enogex to the FERC's review of the requirements of this order. In addition, the OCC, the APSC and the FERC (all of which approve various electric rates of OG&E) have the authority to examine the appropriateness of any transportation charges or other fees paid by OG&E to Enogex which OG&E seeks to recover from its ratepayers in its cost-of-service for electric service.

OG&E Crossroads Wind Project Application

In February 2010, OG&E signed memoranda of understanding for approximately 197.8 megawatts ("MW") of wind turbine generators and certain related balance of plant engineering, procurement and construction services associated with the Crossroads wind project ("Crossroads") located in Dewey County, Oklahoma. In April 2010, OG&E filed an application with the OCC requesting pre-approval of Crossroads and a rider to recover from Oklahoma customers the costs to construct Crossroads. On July 29, 2010, the OCC approved a settlement among all parties to the proceeding with OG&E to build, own and operate the wind farm. The key settlement terms approved by the OCC were:

- Ÿ Authorization for OG&E to begin recovering the costs of Crossroads through a rider mechanism that will be effective until new rates are implemented after OG&E's 2013 general rate case;
- Ÿ Continued utilization of a return on equity previously approved by the OCC for other various recovery riders, subject to adjustment in the future to reflect the return on equity authorized in subsequent general rate cases;

- OG&E's capital costs for which it is entitled recovery for a 197.8 MW wind farm ("Capped Investment Amount") is \$407.7 million;
- To the extent OG&E's total investment in Crossroads exceeds the Capped Investment Amount, OG&E shall be entitled to offer evidence and seek to establish that the excess above the Capped Investment Amount was prudently incurred and should be included in OG&E's rate base;
- If the three-year rolling average of Crossroads megawatt-hours ("MWH") of production (including a credit for energy not produced due to curtailments or other events caused by system emergencies, force majeure events, or transmission system issues) falls below 712,844 MWHs, OG&E shall file testimony demonstrating the appropriate operation of Crossroads as part of its fuel cost recovery filing; and
- OG&E has the opportunity to expand Crossroads by an additional 29.7 MWs (12 additional turbines). If the pending Southwest Power Pool ("SPP") interconnection study concludes on or before September 1, 2010, that these additional turbines can be interconnected at incremental costs below \$4.7 million, the costs and associated recovery for these additional turbines shall be included in the Crossroads rider, and the Capped Investment Amount and the three-year rolling average of MWH production will be adjusted to approximately \$469.7 million and 819,879 MWHs, respectively.

On July 31, 2010, the SPP released its interconnection study which identified that the incremental interconnection costs associated with the additional 29.7 MWs was approximately \$1.2 million. Therefore, OG&E chose to expand Crossroads by the additional 29.7 MWs with a total projected cost of the project, including AFUDC, to be approximately \$450 million, which is below the Capped Investment Amount of approximately \$469.7 million.

Pending Regulatory Matters

OG&E Arkansas OU Spirit Application and Renewable Energy Filing

OG&E expects to file an application with the APSC in August 2010, requesting approval to recover from Arkansas customers the cost of OU Spirit through a surcharge and approval to recover, through the fuel adjustment clause, the costs of purchasing power under two wind purchase power agreements totaling 280 MWs, which were signed in September 2009, as a result of a request for proposal issued by OG&E in December 2008. The agreements are both 20-year power purchase agreements, under which the developers are to build, own and operate the wind generating facilities and OG&E will purchase their electric output. The two wind farms are expected to be in service by the end of 2010.

OG&E 2010 Arkansas Rate Case Filing

OG&E began developing a rate case filing for the Arkansas jurisdiction in early 2010. In June 2010, OG&E filed notice with the APSC of its intent to seek an increase in its electric rates, anticipating a rate case filing no sooner than August 2010, with a targeted implementation date for new electric rates of July 2011. The amount of the requested increase has not yet been determined.

SPP Transmission/Substation Projects

The SPP is a regional transmission organization under the jurisdiction of the FERC that was created to ensure reliable supplies of power, adequate transmission infrastructure and competitive wholesale prices of electricity. The SPP does not build transmission though the SPP's tariff contains rules that govern the transmission construction process. Transmission owners complete the construction and then own, operate and maintain transmission assets within the SPP region. When the SPP Board of Directors approves a project, the transmission provider in the area where the project is needed has the first obligation to build.

There are several studies currently under review at the SPP including the Extra High Voltage ("EHV") study that focuses on year 2026 and beyond to address issues of regional and interregional importance. The EHV study suggests overlaying the SPP footprint with a 345 kilovolt ("kV"), 500kV and 765kV transmission system and integrating it with neighboring regional entities. In 2009, the SPP Board of Directors approved a new report that recommended restructuring the SPP's regional planning processes to focus on the construction of a robust transmission system, large enough in both scale and geography, to provide flexibility to meet the SPP's future needs. OG&E expects to actively participate in the ongoing study, development and transmission growth that may result from the SPP's plans.

In 2007, the SPP notified OG&E to construct approximately 44 miles of new 345 kV transmission line which will originate at the existing OG&E Sooner 345 kV substation and proceed generally in a northerly direction to the Oklahoma/Kansas Stateline (referred to as the Sooner-Rose Hill project). At the Oklahoma/Kansas Stateline, the line will connect to the companion line being constructed in Kansas by Westar Energy. The line is estimated to be in service by June

2012. The capital expenditures related to this project are presented in the summary of capital expenditures for known and committed projects in “Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Future Capital Requirements.”

In January 2009, OG&E received notification from the SPP to begin construction on approximately 50 miles of new 345 kV transmission line and substation upgrades at OG&E’s Sunnyside substation, among other projects. In April 2009, Western Farmers Electric Cooperative (“WFEC”) assigned to OG&E the construction of 50 miles of line designated by the SPP to be built by the WFEC. The new line will extend from OG&E’s Sunnyside substation near Ardmore, Oklahoma, approximately 100 miles to the Hugo substation owned by the WFEC near Hugo, Oklahoma. OG&E began preliminary line routing and acquisition of rights-of-way in June 2009. When construction is completed, which is expected in April 2012, the SPP will allocate a portion of the annual revenue requirement to OG&E customers according to the base-plan funding mechanism as provided in the SPP tariff for application to such improvements. The capital expenditures related to this project are presented in the summary of capital expenditures for known and committed projects in “Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Future Capital Requirements.”

On April 28, 2009, the SPP approved the Balanced Portfolio 3E projects. Balanced Portfolio 3E includes four projects to be built by OG&E and includes: (i) construction of approximately 120 miles of transmission line from OG&E’s Seminole substation in a northeastern direction to OG&E’s Muskogee substation at a cost of approximately \$130 million for OG&E, which is expected to be in service by December 2014, (ii) construction of approximately 72 miles of transmission line from OG&E’s Woodward District EHV substation in a southwestern direction to the Oklahoma/Texas Stateline to a companion transmission line to be built by Southwestern Public Service to its Tuco substation at a cost of approximately \$120 million for OG&E, which is expected to be in service by April 2014, (iii) construction of approximately 38 miles of transmission line from OG&E’s Sooner substation in an eastern direction to the Grand River Dam Authority Cleveland substation at an estimated cost of approximately \$70 million for OG&E, which is expected to be in service by December 2012 and (iv) construction of a new substation near Anadarko which is expected to consist of a 345/138 kV transformer and substation breakers and will be built in OG&E’s portion of the Cimarron-Lawton East Side 345 kV line at an estimated cost of approximately \$15 million for OG&E, which is expected to be in service by December 2012. On June 19, 2009, OG&E received a notice to construct the Balanced Portfolio 3E projects from the SPP. On July 23, 2009, OG&E responded to the SPP that OG&E will construct the Balanced Portfolio 3E projects discussed above beginning in late 2010 or early 2011. The capital expenditures related to the Balanced Portfolio 3E projects are presented in the summary of capital expenditures for known and committed projects in “Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Future Capital Requirements.”

On April 27, 2010, the SPP approved, contingent upon approval by the FERC of a regional cost allocation methodology filed with the FERC by the SPP, a set of transmission projects titled “Priority Projects.” The Priority Projects consist of several transmission projects, two of which have been assigned to OG&E. The 345 kV projects include: (i) construction of approximately 120 miles of transmission line from OG&E’s Woodward District EHV substation to a companion transmission line to be built by Southwestern Public Service to its Hitchland substation in the Texas Panhandle at a cost of approximately \$233 million for OG&E, which is expected to be in service by April 2014 and (ii) construction of approximately 58 miles of transmission line from OG&E’s Woodward District EHV substation to a companion transmission line at the Kansas border to be built by either Mid-Kansas Electric Company (“MKEC”) or another company assigned by MKEC at a cost of approximately \$97 million to OG&E, which is expected to be in service by December 2014. On June 17, 2010, the FERC approved the cost allocation filed by the SPP and notices to construct these Priority Projects were issued by the SPP on June 30, 2010. OG&E expects to respond to the SPP on the notices to construct in the third quarter of 2010. The capital expenditures related to the Priority Projects are presented in the summary of capital expenditures for known and committed projects in “Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Future Capital Requirements.”

Tallgrass Joint Venture

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 energy projects by sharing capital costs associated with transmission construction. As previously disclosed, Tallgrass’ initial proposed projects were to include 765 kV lines from Woodward 120 miles northwest to Guymon in the Oklahoma Panhandle and from Woodward 50 miles north to the Kansas border. However, on April 27, 2010, the SPP approved these projects to be constructed as 345 kV. Therefore, these transmission lines are expected to be built by OG&E as discussed above. In conjunction with the approval that these projects should be constructed as 345 kV lines, the Company wrote off

approximately \$1.3 million in the second quarter of 2010 for costs that had been previously incurred and deferred related to Tallgrass.

Enogex FERC Section 311 2007 Rate Case

On October 1, 2007, Enogex made its required triennial rate filing at the FERC to update its Section 311 maximum interruptible transportation rates for Section 311 service in the East Zone and West Zone. Enogex's filing requested an increase in the maximum zonal rates and proposed to place such rates into effect on January 1, 2008. A number of parties intervened and some also filed protests. Settlement discussions have continued between the parties. With respect to the 2007 Section 311 rate case, Enogex did not place the increased rates set forth in its October 2007 rate filing into effect but rather continued to provide interruptible Section 311 service under the maximum Section 311 rates for both zones approved by the FERC in the previous rate case. Neither a final settlement nor an order from the FERC has been entered for the 2007 triennial filing. With the filing of Enogex's 2009 rate case discussed below, the rate period for the 2007 rate case became a limited locked-in period from January 2008 through May 2009.

On November 13, 2007, one of the protesting intervenors filed to consolidate the Enogex 2007 rate case with a separate Enogex application pending before the FERC allowing Enogex to lease firm capacity to Midcontinent Express Pipeline, LLC ("MEP") and with separate applications filed by MEP with the FERC for a certificate to construct and operate the new MEP pipeline and to lease firm capacity from Enogex. Enogex and MEP separately opposed this intervenor's protests and assertions in its initial and subsequent pleadings. On July 25, 2008, the FERC issued an order approving the MEP project including the approval of a limited jurisdiction certificate authorizing the Enogex lease agreement with MEP denying the request for consolidation and rejecting all claims raised by protestors regarding the lease agreement. Accordingly, Enogex proceeded with the construction of facilities necessary to implement this service. On August 25, 2008, the same protestor sought rehearing which the FERC denied. Enogex commenced service to MEP under the lease agreement on June 1, 2009. On July 16, 2009, the protestor filed, with the United States Court of Appeals for the District of Columbia Circuit, a petition for review of the FERC's orders approving the MEP construction and the MEP lease of capacity from Enogex requesting that such orders be modified or set aside on the grounds that they are arbitrary, capricious and contrary to law. The petitioner, the FERC and intervening parties were given an opportunity to brief the issues. Enogex participated in the filing of a joint intervenors' brief in support of the FERC's orders in this matter on June 11, 2010. Final briefing was completed on July 16, 2010. Enogex cannot predict what action the court will take and the timing of that action.

Enogex FERC Section 311 2009 Rate Case

On March 27, 2009, Enogex filed a petition for rate approval with the FERC to set the maximum rates for its new firm East Zone Section 311 transportation service and to revise the rates for its existing East and West Zone interruptible Section 311 transportation service. In anticipation of offering this new service, Enogex had filed with the FERC, as required by the FERC's regulations, a revised SOC Applicable to Transportation Services to describe the terms, conditions and operating arrangements for the new service. Enogex made the SOC filing on February 27, 2009. Enogex began offering firm East Zone Section 311 transportation service on April 1, 2009. The revised East and West Zone zonal rates for the Section 311 interruptible transportation service became effective June 1, 2009. The rates for the firm East Zone Section 311 transportation service and the increase in the rates for East and West Zone and interruptible Section 311 service are being collected, subject to refund, pending the FERC approval of the proposed rates. A number of parties intervened in both the rate case and the SOC filing and some additionally filed protests. Enogex filed answers to the interventions and protests in both matters. The FERC Staff served data requests on Enogex seeking additional information regarding various aspects of the filing and Enogex has submitted responses. On August 19, 2009, the FERC issued an order extending the time for action until it can make a determination whether Enogex's rates are fair and equitable or until the FERC determines that formal proceedings are necessary. The August 19, 2009 order also directed the FERC Staff to report to the FERC by December 29, 2009 on the status of settlement negotiations. On January 4, 2010, the FERC Staff submitted its initial settlement offer (R 20;Offer") proposing various adjustments to Enogex's filed cost of service. On April 27, 2010, Enogex submitted comments to the FERC Staff stating that it would agree to the Offer, contingent upon all parties agreeing to support or not oppose. Parties have until September 8, 2010 to submit comments stating whether they support, or do not oppose, the FERC Staff's Offer.

Enogex Mid-Year 2010 Fuel Filing

Pursuant to its SOC, Enogex makes an annual fuel filing at the FERC to establish the zonal fuel percentages for each calendar year as discussed above. As Enogex anticipated over recovering fuel for the remainder of 2010, Enogex filed a mid-year fuel filing on July 1, 2010. The proposed reduced rates were effective August 1, 2010 and are subject to refund pending FERC approval. Concurrently, Enogex asked the FERC for authority to change the timing of its annual filing to February 15 and for implementation of a new fuel year with a 12-month period of April 1 through March 31. If both requests are

approved, the reduced rates will remain in effect until March 31, 2011, at which time new rates for the period from April 1, 2011 to March 31, 2012 will be implemented.

Enogex Storage SOC filing

Enogex filed a new SOC applicable to storage services with the FERC on July 30, 2010. The new storage SOC, which took effect on July 30, 2010, replaced Enogex's existing storage SOC. Among other things, the new storage SOC updates the general terms and conditions for providing storage services.

State Legislative Initiative

House Bill 3028 ("HB 3028") became effective in May 2010 and established an Oklahoma renewable portfolio standard with a statewide goal of renewable energy capacity (on an installed electric generation capacity basis) of 15 percent by year 2015. HB 3028 also designated natural gas as the preferred fuel for all new fossil fuel electric generation in Oklahoma until year 2020, but provides that the OCC may determine that a fossil fuel other than natural gas is in the best interest of customers. By the year 2012, OG&E expects that its installed electric generation capacity basis for wind-powered units will be approximately 10 percent.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

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.

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 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 natural gas business in 1928 and is no longer engaged in the natural 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. Also, Enogex holds a 50 percent ownership interest in the Atoka Midstream, LLC joint venture through Enogex Atoka LLC, a wholly-owned subsidiary of Enogex Gathering & Processing LLC.

Overview

Financial 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 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, maintaining a strong credit rating and 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.

Summary of Operating Results

Three Months Ended June 30, 2010 as Compared to Three Months Ended June 30, 2009

Net income attributable to OGE Energy was approximately \$77.3 million, or \$0.78 per diluted share, during the three months ended June 30, 2010, as compared to approximately \$70.5 million, or \$0.72 per diluted share, during the same period in 2009. The increase in net income attributable to OGE Energy of approximately \$6.8 million, or 9.6 percent, or \$0.06 per diluted share, during the three months ended June 30, 2010 as compared to the same period in 2009 was primarily due to:

- an increase in net income at OG&E of approximately \$3.6 million or 6.4 percent, or \$0.03 per diluted share of the Company's common stock, primarily due to a higher gross margin on revenues ("gross margin") mainly due to rate increases and riders partially offset by higher other operation and maintenance expense;
- an increase in net income at Enogex of approximately \$6.3 million or 39.4 percent, or \$0.07 per diluted share of the Company's common stock, primarily due to a higher gross margin mainly due to higher processing spreads, higher natural gas liquids ("NGL") prices and volumes and higher natural gas prices and volumes partially offset by higher other operation and maintenance expense; and
- an increase in the net loss at OGE Energy Resources, Inc. ("OERI") of approximately \$2.4 million, or \$0.03 per diluted share of the Company's common stock, primarily due to a lower gross margin partially offset by a higher income tax benefit.

Six Months Ended June 30, 2010 as Compared to Six Months Ended June 30, 2009

Net income attributable to OGE Energy was approximately \$101.5 million, or \$1.03 per diluted share, during the six months ended June 30, 2010, as compared to approximately \$87.3 million, or \$0.91 per diluted share, during the same period in 2009. Included in net income attributable to OGE Energy during the six months ended June 30, 2010 was a one-time, non-cash charge of approximately \$11.4 million, or \$0.11 per diluted share, related to the elimination of the tax deduction for the Medicare Part D subsidy (discussed in Note 6 of Condensed Consolidated Financial Statements). The increase in net income attributable to OGE Energy of approximately \$14.2 million, or 16.3 percent, or \$0.12 per diluted share, during the six months ended June 30, 2010 as compared to the same period in 2009 was primarily due to:

- an increase in net income at OG&E of approximately \$3.5 million or 6.1 percent, or \$0.02 per diluted share of the Company's common stock, primarily due to a higher gross margin mainly due to rate increases and riders, cooler weather in the first quarter of 2010 and warmer weather in the second quarter of 2010 partially offset by higher other operation and maintenance expense and higher income tax expense mainly attributable to the elimination of the tax deduction for the Medicare Part D subsidy (discussed in Note 6 of Notes to Condensed Consolidated Financial Statements);
- an increase in net income at Enogex of approximately \$18.3 million or 58.3 percent, or \$0.17 per diluted share of the Company's common stock, primarily due to a higher gross margin mainly due to higher processing spreads, higher NGLs prices and volumes and higher natural gas prices and volumes partially offset by higher income tax expense mainly attributable to the elimination of the tax deduction for the Medicare Part D subsidy (discussed in Note 6 of Notes to Condensed Consolidated Financial Statements);
- an increase in the net loss at OGE Energy of approximately \$2.4 million, or \$0.02 per diluted share of the Company's common stock, primarily due to higher income tax expense mainly attributable to the elimination of the tax deduction for the Medicare Part D subsidy (discussed in Note 6 of Notes to Condensed Consolidated Financial Statements) partially offset by lower interest expense primarily due to lower average commercial paper borrowings in the first half of 2010; and
- an increase in the net loss at OERI of approximately \$4.4 million, or \$0.05 per diluted share of the Company's common stock, primarily due to a lower gross margin partially offset by a higher income tax benefit.

Recent Developments and Regulatory Matters

Volatility in the Commodity Markets

Enogex's gathering and processing margins generally improve when NGLs prices, both on an actual basis and also relative to the price of natural gas (sometimes referred to as high processing spreads), are high. For much of the first nine months of 2008, processing spreads and NGLs prices were relatively high. However, later in 2008, both commodity spreads and NGLs prices were significantly lower. During 2009 and through the first half of 2010, processing spreads and NGLs

prices increased over year-end 2008 levels but remained below the higher levels experienced in mid-2008. Enogex expects the volatility in these markets to continue.

Global Climate Change and Environmental Concerns

There are state, national and international efforts to address possible effects of global climate change and regulate the emission of greenhouse gases including, most significantly, carbon dioxide. In addition, there is litigation against other companies in which the plaintiffs seek to compel either reductions in the future emission of greenhouse gases or compensation for alleged damages resulting from past emissions of greenhouse gases. Congress has considered legislation that, if enacted, could require reductions of greenhouse gas emissions of as much as 83 percent below the baseline 2005 level, perhaps by implementing a cap-and-trade-system. The Federal legislative proposals also generally included renewable energy standards, energy efficiency mandates and other requirements. It is uncertain at this time whether, and in what form, such legislation will ultimately be adopted. If legislation or regulations are passed at the Federal or state levels in the future requiring mandatory reductions of carbon dioxide and other greenhouse gases for the Company's facilities to address climate change, this could result in significant additional capital expenditures and compliance costs.

Uncertainty surrounding global climate change and environmental concerns related to new coal-fired generation development is changing the mix of the potential sources of new generation in the region. Adoption of renewable portfolio standards would be expected to increase the region's reliance on wind generation. An Oklahoma renewable portfolio standard with a statewide goal of renewable energy capacity (on an installed electric generation capacity basis) of 15 percent by year 2015 became effective in May 2010. A federal renewable portfolio standard has not yet been established. The Company believes it can leverage its unique geographic position to develop renewable energy resources for wind and transmission to deliver the renewable energy.

OG&E Smart Grid Application

On July 1, 2010, the OCC approved a settlement with all parties to the OCC consideration of OG&E's application for pre-approval for system-wide deployment of smart grid technology and a recovery rider. The recovery rider was implemented with the first billing cycle in July 2010. For a discussion of the settlement agreement terms related to OG&E's Smart Grid application, see Note 13 of Notes to Condensed Consolidated Financial Statements.

OG&E Crossroads Wind Project Application

On June 28, 2010, a settlement agreement was reached with all the parties to the OCC consideration of OG&E's application for pre-approval of the 197.8 megawatts ("MW") of wind turbine generators and certain related balance of plant engineering, procurement and construction services associated with the Crossroads wind project ("Crossroads") and a recovery rider. On July 29, 2010, the OCC approved a settlement among all parties to the proceeding with OG&E to build, own and operate the wind farm. For a discussion of the settlement agreement terms approved by the OCC related to OG&E's Crossroads application, see Note 13 of Notes to Condensed Consolidated Financial Statements.

Gathering and Processing System Expansions

Texas Panhandle Expansion

Enogex is expanding its gathering infrastructure in the Wheeler County, Texas area with the construction of approximately 16 miles of 10-inch steel pipe, as well as the addition of approximately 5,400 horsepower of compression. The first 2,700 horsepower of compression became operational in July 2010, while the second 2,700 horsepower and the gathering pipelines are expected to be in service in August 2010. The capital expenditures associated with this project are expected to be approximately \$16 million.

Western Oklahoma System Expansion

Enogex is in the process of constructing a new 200 million cubic feet per day cryogenic processing plant in Canadian County, Oklahoma. The new plant, which will have inlet and residue compression and will be supported by the installation of approximately 31 miles of 20-inch gathering pipeline, as well as approximately 11 miles of 16-inch transmission pipeline providing takeaway capacity from the plant tailgate, is expected to be in service by January 2012. The capital expenditures associated with this project are expected to be approximately \$124 million.

Transportation System Expansions

In order to accommodate additional deliveries to Bennington, Oklahoma, Enogex is planning to add an incremental 13,800 horsepower of gas turbine compression at its Bennington compressor station, as well as other system upgrades. This project is expected to be in service in the fourth quarter of 2010. The capital expenditures associated with these projects are expected to be approximately \$24 million.

2010 Outlook

The Company's 2010 ongoing earnings guidance remains unchanged and is between approximately \$265 million and \$290 million of net income, or \$2.70 to \$2.95 per average diluted share, and is projected to be at the upper end of the earnings range. However, certain key assumptions previously disclosed have changed which are listed below. All other assumptions are unchanged from those included in the earnings guidance in the Company's Annual Report on Form 10-K for the year ended December 31, 2009 ("2009 Form 10-K").

2010 Ongoing Earnings Guidance:

- Excludes a one-time, non-cash charge recorded in March 2010 of approximately \$11.4 million, or \$0.11 per average diluted share, related to the elimination of the tax deduction for the Medicare Part D subsidy. Approximately \$7.0 million is related to OG&E, approximately \$2.0 million is related to Enogex and approximately \$2.4 million is related to the holding company.
- Includes a projected increase for the remainder of 2010 in income tax expense of approximately \$2.3 million, or \$0.02 per average diluted share, related to the elimination of the tax deduction for the Medicare Part D subsidy. Approximately \$1.9 million is related to OG&E, approximately \$0.2 million is related to Enogex and approximately \$0.2 million is related to the holding company.

Consolidated OGE Energy

- An effective tax rate of approximately 33 percent up from the previous guidance of 29 percent primarily a result of lower than previously projected investment and production tax credits at OG&E. The projected effective tax rate excludes the approximately \$11.4 million charge related to the Medicare Part D subsidy; and
- A projected loss at the holding company between \$11 million and \$13 million, or \$0.11 to \$0.13 per average diluted share, up from the previous projected loss between \$7 million and \$9 million, or \$0.07 to \$0.09 per average diluted share. The increase in the projected loss at the holding company is primarily due to lower than previously estimated revenues in the marketing business associated with various transportation contracts and the write-off of costs associated with the Tallgrass joint venture.

OG&E

The Company projects OG&E to earn approximately \$207 million to \$217 million, or \$2.10 to \$2.20 per average diluted share, in 2010. The key assumptions that have changed include:

- Allowance for equity funds used during construction ("AEFUDC") income of approximately \$15 million up from the previous guidance of \$5 million primarily as a result of OCC approval of the Crossroads wind farm; and
- An effective tax rate of approximately 31 percent up from the previous guidance of 27 percent primarily as a result of lower investment and production tax credits than previously projected. The projected effective tax rate excludes the approximately \$7.0 million charge related to the Medicare Part D subsidy.

OG&E has significant seasonality in its earnings. OG&E typically shows minimal earnings in the first and fourth quarters with a majority of earnings in the third quarter due to the seasonal nature of air conditioning demand.

Enogex

The Company projects Enogex to earn at the top end of the range of approximately \$63 million to \$85 million, or \$0.64 to \$0.86 per average diluted share, in 2010. The key assumptions that have changed include:

- Assumed increase of between 8 percent and 10 percent in gathered volumes over 2009 compared to the previous guidance of an increase of between 5 percent and 7 percent;

- Assumed increase of between 15 percent and 17 percent in inlet processing volumes over 2009 compared to the previous guidance of an increase of between 10 percent and 12 percent;
- Ethane rejection in the processing business for the remainder of the year; and
- Operating expenses of approximately \$230 million to \$240 million, up from the previous guidance of between \$220 million to \$230 million, primarily as a result of increased pipeline integrity and maintenance projects in the transportation business.

Ongoing earnings, which as indicated above excludes the one-time, non-cash charge of approximately \$11.4 million associated with the elimination of the tax deduction for the Medicare Part D subsidy as a result of the recent health care legislation, is a non-GAAP financial measure. As the Medicare Part D tax subsidy represents a charge which management believes will not be recurring on a regular basis, management believes that the presentation of Ongoing Earnings and Ongoing earnings per share (“EPS”) provides useful information to investors, as it provides them an additional relevant comparison of the Company’s performance across periods. Reconciliations of Ongoing Earnings and Ongoing EPS to generally accepted accounting principles (“GAAP”) net income and GAAP EPS are provided below.

Reconciliation of projected ongoing earnings (loss) to projected GAAP net income

<i>(In millions)</i>	Twelve Months Ended December 31, 2010							
	OG&E		Enogex		Holding Company		Consolidated	
	Low	High	Low	High	Low	High	Low	High
Ongoing earnings (loss)	\$ 207.0	\$ 217.0	\$ 63.0	\$ 85.0	\$ (13.0)	\$ (11.0)	\$ 265.0	\$ 290.0
Medicare Part D tax subsidy	(7.0)	(7.0)	(2.0)	(2.0)	(2.4)	(2.4)	(11.4)	(11.4)
Projected GAAP net income	\$ 200.0	\$ 210.0	\$ 61.0	\$ 83.0	\$ (15.4)	\$ (13.4)	\$ 253.6	\$ 278.6

Reconciliation of projected ongoing EPS to projected GAAP EPS

Twelve Months Ended December 31, 2010								
	OG&E		Enogex		Holding Company		Consolidated	
	Low	High	Low	High	Low	High	Low	High
Ongoing EPS	\$ 2.10	\$ 2.20	\$ 0.64	\$ 0.86	\$ (0.13)	\$ (0.11)	\$ 2.70	\$ 2.95
Medicare Part D tax subsidy	(0.07)	(0.07)	(0.02)	(0.02)	(0.02)	(0.02)	(0.11)	(0.11)
Projected GAAP EPS	\$ 2.03	\$ 2.13	\$ 0.62	\$ 0.84	\$ (0.15)	\$ (0.13)	\$ 2.59	\$ 2.84

Earnings before Interest, Taxes, Depreciation and Amortization (“EBITDA”) is used as a supplemental financial measure by external users of the Company’s financial statements such as investors, commercial banks and others; therefore, the Company has included the table below which provides a reconciliation of projected EBITDA to projected ongoing net income attributable to Enogex LLC at the top end of Enogex’s earnings assumptions for 2010.

Reconciliation of projected EBITDA to projected ongoing net income attributable to Enogex LLC

(In millions)	Twelve Months Ended December 31, 2010 (A)
Ongoing net income attributable to Enogex LLC	\$ 85.0
Add:	
Interest expense, net	33.0
Income tax expense	49.0
Depreciation and amortization	69.0
EBITDA	\$ 236.0

(A) At the top end of Enogex’s earnings assumptions for 2010.

For a discussion of the reasons for the use of Ongoing Earnings, Ongoing EPS and EBITDA, as well as their limitations as analytical tools, see “Non-GAAP Financial Measures” below.

Results of Operations

The following discussion and analysis presents factors that affected the Company's consolidated results of operations for the three and six months ended June 30, 2010 as compared to the same periods in 2009 and the Company's consolidated financial position at June 30, 2010. Due to seasonal fluctuations and other factors, the operating results for the three and six months ended June 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010 or for any future period. The following information should be read in conjunction with the Condensed Consolidated Financial Statements and Notes thereto. Known trends and contingencies of a material nature are discussed to the extent considered relevant.

	Three Months Ended June 30,		Six Months Ended June 30,	
<i>(In millions, except per share data)</i>	2010	2009	2010	2009
Operating income	\$ 151.5	\$ 126.4	\$ 238.3	\$ 178.4
Net income attributable to OGE Energy	\$ 77.3	\$ 70.5	\$ 101.5	\$ 87.3
Basic average common shares outstanding	97.3	96.5	97.2	95.6
Diluted average common shares outstanding	98.7	97.5	98.6	96.4
Basic earnings per average common share attributable to OGE Energy common shareholders	\$ 0.79	\$ 0.73	\$ 1.04	\$ 0.91
Diluted earnings per average common share attributable to OGE Energy common shareholders	\$ 0.78	\$ 0.72	\$ 1.03	\$ 0.91
Dividends declared per share	\$ 0.3625	\$ 0.3550	\$ 0.7250	\$ 0.7100

In reviewing its consolidated operating results, the Company believes that it is appropriate to focus on operating income as reported in its Condensed Consolidated Statements of Income as operating income indicates the ongoing profitability of the Company excluding the cost of capital and income taxes.

Operating Income (Loss) by Business Segment

	Three Months Ended June 30,		Six Months Ended June 30,	
<i>(In millions)</i>	2010	2009	2010	2009
OG&E (Electric Utility)	\$ 113.0	\$ 96.5	\$ 144.9	\$ 115.3
Enogex (Natural Gas Pipeline)				
Transportation and storage	14.8	21.3	39.4	45.2
Gathering and processing	29.2	11.3	61.5	19.2
OERI (Natural Gas Marketing)	(6.0)	(2.2)	(7.5)	(0.5)
Other Operations (A)	0.5	(0.5)	---	(0.8)
Consolidated operating income	\$ 151.5	\$ 126.4	\$ 238.3	\$ 178.4

(A) Other Operations primarily includes the operations of the holding company and consolidating eliminations.

The following operating income analysis by business segment includes intercompany transactions that are eliminated in the Condensed Consolidated Financial Statements.

OG&E (Electric Utility)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
<i>(Dollars in millions)</i>				
Operating revenues	\$ 512.8	\$ 425.3	\$ 956.8	\$ 762.0
Cost of goods sold	230.8	188.3	481.6	359.3
Gross margin on revenues	282.0	237.0	475.2	402.7
Other operation and maintenance	101.2	77.9	195.1	163.2
Depreciation and amortization	50.6	46.0	100.3	91.5
Impairment of assets	---	0.3	---	0.3
Taxes other than income	17.2	16.3	34.9	32.4
Operating income	113.0	96.5	144.9	115.3
Interest income	---	0.3	---	0.8
Allowance for equity funds used during construction	2.3	3.9	4.6	5.2
Other income	0.8	4.2	3.3	8.8
Other expense	0.4	0.7	1.0	1.2
Interest expense	25.2	23.2	49.4	47.5
Income tax expense	30.5	24.6	41.2	23.7
Net income	\$ 60.0	\$ 56.4	\$ 61.2	\$ 57.7
Operating revenues by classification				
Residential	\$ 207.7	\$ 167.6	\$ 398.9	\$ 303.9
Commercial	132.0	112.3	233.0	191.7
Industrial	52.8	43.0	98.3	75.8
Oilfield	40.4	33.2	76.0	62.1
Public authorities and street light	50.5	41.3	90.0	72.8
Sales for resale	14.5	12.0	31.2	24.7
Provision for rate refund	---	(0.4)	---	(0.6)
System sales revenues	497.9	409.0	927.4	730.4
Off-system sales revenues (A)	7.5	8.6	13.9	14.5
Other	7.4	7.7	15.5	17.1
Total operating revenues	\$ 512.8	\$ 425.3	\$ 956.8	\$ 762.0
MWH (B) sales by classification (in millions)				
Residential	2.082	2.069	4.426	4.063
Commercial	1.754	1.704	3.163	3.090
Industrial	0.966	0.861	1.857	1.710
Oilfield	0.756	0.720	1.481	1.452
Public authorities and street light	0.784	0.759	1.426	1.412
Sales for resale	0.351	0.309	0.679	0.620
System sales	6.693	6.422	13.032	12.347
Off-system sales	0.202	0.305	0.339	0.495
Total sales	6.895	6.727	13.371	12.842
Number of customers	779,359	773,436	779,359	773,436
Average cost of energy per KWH (C) – cents				
Natural gas	4.503	3.310	5.050	3.519
Coal	1.916	1.778	1.858	1.659
Total fuel	2.832	2.340	3.049	2.285
Total fuel and purchased power	3.127	2.624	3.334	2.601
Degree days (D)				
Heating - Actual	158	254	2,298	1,929
Heating - Normal	236	236	2,199	2,199
Cooling - Actual	737	637	745	660
Cooling - Normal	547	547	555	555

(A) Sales to other utilities and power marketers.

(B) Megawatt-hour.

(C) Kilowatt-hour.

(D) Degree days are calculated as follows: The high and low degrees of a particular day are added together and then averaged. If the calculated average is above 65 degrees, then the difference between the calculated average and 65 is expressed as cooling degree days, with each degree of difference equaling one cooling degree day. If the calculated average is below 65 degrees, then the difference between the calculated average and 65 is expressed as heating degree days, with each degree of difference equaling one heating degree day. The daily calculations are then totaled for the particular reporting period.

Operating Income

OG&E's operating income increased approximately \$16.5 million, or 17.1 percent, during the three months ended June 30, 2010 as compared to the same period in 2009 primarily due to a higher gross margin partially offset by higher other operation and maintenance expense and higher depreciation and amortization expense as discussed below.

Gross Margin

Gross margin was approximately \$282.0 million during the three months ended June 30, 2010 as compared to approximately \$237.0 million during the same period in 2009, an increase of approximately \$45.0 million, or 19.0 percent. The gross margin increased primarily due to:

- increased price variance, which included revenues from various rate riders, including the Windspeed rider, the OU Spirit rider, the Smart Grid rider and the system hardening rider, and higher revenues from the sales and customer mix, which increased the gross margin by approximately \$26.7 million;
- the \$48.3 million Oklahoma rate increase in which the majority of the annual increase is recovered during the summer months, which increased the gross margin by approximately \$14.9 million;
- warmer weather in OG&E's service territory, which increased the gross margin by approximately \$1.8 million;
- revenues from the Arkansas rate increase, which increased the gross margin by approximately \$1.4 million; and
- new customer growth in OG&E's service territory, which increased the gross margin by approximately \$1.4 million.

These increases in the gross margin were partially offset by lower other revenues due to fewer transmission requests from others on OG&E's system, which decreased the gross margin by approximately \$1.2 million.

Cost of goods sold for OG&E consists of fuel used in electric generation, purchased power and transmission related charges. Fuel expense was approximately \$182.8 million during the three months ended June 30, 2010 as compared to approximately \$147.9 million during the same period in 2009, an increase of approximately \$34.9 million, or 23.6 percent, primarily due to higher natural gas prices and increased natural gas generation due to ongoing maintenance at some of OG&E's coal-fired power plants. OG&E's electric generating capability is fairly evenly divided between coal and natural gas and provides for flexibility to use either fuel to the best economic advantage for the Company and its customers. Purchased power costs were approximately \$47.1 million during the three months ended June 30, 2010 as compared to approximately \$40.0 million during the same period in 2009, an increase of approximately \$7.1 million, or 17.8 percent, primarily due to an increase in short-term power agreements resulting in short-term spot market purchases for both reliability and economic purposes.

Variances in the actual cost of fuel used in electric generation and certain purchased power costs, as compared to the fuel component included in the cost-of-service for ratemaking, are passed through to OG&E's customers through fuel adjustment clauses. The fuel adjustment clauses are subject to periodic review by the OCC, the APSC and the FERC. The OCC, the APSC and the FERC have authority to review the appropriateness of gas transportation charges or other fees OG&E pays to Enogex.

Operating Expenses

Other operation and maintenance expenses were approximately \$101.2 million during the three months ended June 30, 2010 as compared to approximately \$77.9 million during the same period in 2009, an increase of approximately \$23.3 million, or 29.9 percent. The increase in other operation and maintenance expenses was primarily due to:

- an increase of approximately \$8.0 million in contract technical and construction services expense primarily attributable to increased spending for ongoing maintenance at some of OG&E's power plants in the second quarter of 2010 as compared to the same period in 2009;
- an increase of approximately \$7.0 million in employee benefits expense primarily due to a reclassification in May 2009 of 2006 and 2007 pension settlement costs to a regulatory asset, as prescribed in the Arkansas rate case settlement, an increase in postretirement benefits due to an increase in medical costs and changes in actuarial assumptions in 2010 and an increase in pension expense due to a decrease in the amount

- deferred as a pension regulatory asset in OG&E's Oklahoma jurisdiction resulting from OG&E's 2009 Oklahoma rate case;
- an increase of approximately \$2.3 million in intercompany allocations due to increased spending at the holding company;
- an increase of approximately \$2.0 million in salaries and wages expense primarily due to salary increases in 2010 and increased overtime expense due to storms in May 2010; and
- an increase of approximately \$1.9 million due to increased spending on vegetation management related to system hardening, which expenses are being recovered through a rider.

Depreciation and amortization expense was approximately \$50.6 million during the three months ended June 30, 2010 as compared to approximately \$46.0 million during the same period in 2009, an increase of approximately \$4.6 million, or 10.0 percent, primarily due to additional assets being placed into service, including OU Spirit that was placed into service in November and December 2009 and the Windspeed transmission line that was placed into service on March 31, 2010.

Additional Information

Allowance for Equity Funds Used During Construction. AEFUDC was approximately \$2.3 million during the three months ended June 30, 2010 as compared to approximately \$3.9 million during the same period in 2009, a decrease of approximately \$1.6 million, or 41.0 percent, primarily due to the completion of OU Spirit in November and December 2009 and the Windspeed transmission line on March 31, 2010.

Other Income. Other income includes, among other things, contract work performed, non-operating rental income and miscellaneous non-operating income. Other income was approximately \$0.8 million during the three months ended June 30, 2010 as compared to approximately \$4.2 million during the same period in 2009, a decrease in other income of approximately \$3.4 million, or 81.0 percent. Other income decreased by approximately \$2.1 million due to a decreased level of gains recognized in the guaranteed flat bill program during the second quarter of 2010 from higher than expected usage resulting from warmer weather in addition to more customers participating in the guaranteed flat bill program during the second quarter of 2010 and approximately \$1.1 million related to the benefit associated with the tax gross-up of AEFUDC.

Interest Expense. Interest expense was approximately \$25.2 million during the three months ended June 30, 2010 as compared to approximately \$23.2 million during the same period in 2009, an increase of approximately \$2.0 million, or 8.6 percent, primarily due to an approximate \$0.9 million increase related to the issuance of \$250 million of long-term debt in June 2010 and an approximate \$0.8 million increase due to a lower allowance for borrowed funds used during construction during the second quarter of 2010 as compared to the same period in 2009.

Income Tax Expense. Income tax expense was approximately \$30.5 million during the three months ended June 30, 2010 as compared to approximately \$24.6 million during the same period in 2009, an increase of approximately \$5.9 million, or 24.0 percent, primarily due to higher pre-tax income in the second quarter of 2010 as compared to the same period in 2009 and the write-off of previously recognized Oklahoma investment tax credits primarily due to expenditures no longer eligible for the Oklahoma investment tax credit related to the change in the tax method of accounting for capitalization of repairs expense.

Six Months Ended June 30, 2010 as Compared to Six Months Ended June 30, 2009

Operating Income

OG&E's operating income increased approximately \$29.6 million, or 25.7 percent, during the six months ended June 30, 2010 as compared to the same period in 2009 primarily due to a higher gross margin partially offset by higher other operation and maintenance expense, higher depreciation and amortization expense and higher taxes other than income as discussed below.

Gross Margin

Gross margin was approximately \$475.2 million during the six months ended June 30, 2010 as compared to approximately \$402.7 million during the same period in 2009, an increase of approximately \$72.5 million, or 18.0 percent. The gross margin increased primarily due to:

- increased price variance, which included revenues from various rate riders, including the Windspeed rider, the OU Spirit rider, the Smart Grid rider and the system hardening rider, and higher revenues from the sales and customer mix, which increased the gross margin by approximately \$36.3 million;

- the \$48.3 million Oklahoma rate increase in which the majority of the annual increase is recovered during the summer months, which increased the gross margin by approximately \$18.9 million;
- cooler weather in the first quarter of 2010 and warmer weather in the second quarter of 2010 in OG&E's service territory, which increased the gross margin by approximately \$13.4 million;
- revenues from the Arkansas rate increase, which increased the gross margin by approximately \$3.5 million; and
- new customer growth in OG&E's service territory, which increased the gross margin by approximately \$3.0 million.

These increases in the gross margin were partially offset by lower other revenues due to fewer transmission requests from others on OG&E's system, which decreased the gross margin by approximately \$2.5 million.

Cost of goods sold for OG&E consists of fuel used in electric generation, purchased power and transmission related charges. Fuel expense was approximately \$381.4 million during the six months ended June 30, 2010 as compared to approximately \$278.2 million during the same period in 2009, an increase of approximately \$103.2 million, or 37.1 percent, primarily due to higher natural gas prices and increased natural gas generation due to ongoing maintenance at some of OG&E's coal-fired power plants. OG&E's electric generating capability is fairly evenly divided between coal and natural gas and provides for flexibility to use either fuel to the best economic advantage for the Company and its customers. Purchased power costs were approximately \$98.8 million during the six months ended June 30, 2010 as compared to approximately \$80.1 million during the same period in 2009, an increase of approximately \$18.7 million, or 23.3 percent, primarily due to an increase in purchases in the energy imbalance service market to meet OG&E's generation load requirements and an increase in short-term power agreements resulting in short-term spot market purchases for both reliability and economic purposes.

Operating Expenses

Other operation and maintenance expenses were approximately \$195.1 million during the six months ended June 30, 2010 as compared to approximately \$163.2 million during the same period in 2009, an increase of approximately \$31.9 million, or 19.5 percent. The increase in other operation and maintenance expenses was primarily due to:

- an increase of approximately \$11.5 million in contract technical and construction services attributable to increased spending for ongoing maintenance at some of OG&E's power plants in the first half of 2010 as compared to the same period in 2009;
- an increase of approximately \$10.0 million in employee benefits expense primarily due to an increase in postretirement benefits due to an increase in medical costs and changes in actuarial assumptions in 2010, a reclassification in May 2009 of 2006 and 2007 pension settlement costs to a regulatory asset, as prescribed in the Arkansas rate case settlement, and an increase in pension expense due to a decrease in the amount deferred as a pension regulatory asset in OG&E's Oklahoma jurisdiction resulting from OG&E's 2009 Oklahoma rate case;
- an increase of approximately \$6.8 million in salaries and wages expense primarily due to salary increases in 2010, increased incentive compensation expense and increased overtime expense due to the storms in January and May 2010;
- an increase of approximately \$2.6 million in intercompany allocations due to increased spending at the holding company;
- an increase of approximately \$2.4 million due to increased spending on vegetation management related to system hardening, which expenses are being recovered through a rider; and
- an increase of approximately \$1.7 million in injuries and damages.

These increases in other operation and maintenance expenses were partially offset by:

- an increase of approximately \$3.4 million in capitalized labor primarily due to certain January and May 2010 storm costs being recorded as a regulatory asset as Deferred Storm Expenses (see Note 1) and certain costs being capitalized in conjunction with OG&E's Smart Grid Program during the first half of 2010; and
- a decrease of approximately \$1.2 million due to lower bad debt expense.

Depreciation and amortization expense was approximately \$100.3 million during the six months ended June 30, 2010 as compared to approximately \$91.5 million during the same period in 2009, an increase of approximately \$8.8 million,

or 9.6 percent, primarily due to additional assets being placed into service, including OU Spirit that was placed into service in November and December 2009 and the Windspeed transmission line that was placed into service on March 31, 2010.

Taxes other than income were approximately \$34.9 million during the six months ended June 30, 2010 as compared to approximately \$32.4 million during the same period in 2009, an increase of approximately \$2.5 million, or 7.7 percent, primarily due to higher ad valorem taxes.

Additional Information

Other Income. Other income was approximately \$3.3 million during the six months ended June 30, 2010 as compared to approximately \$8.8 million during the same period in 2009, a decrease in other income of approximately \$5.5 million, or 62.5 percent. Other income decreased by approximately \$4.5 million due to a decreased level of gains recognized in the guaranteed flat bill program during the first half of 2010 from higher than expected usage resulting from cooler weather in the first quarter of 2010 and warmer weather in the second quarter of 2010 in addition to more customers participating in the guaranteed flat bill program during the first half of 2010.

Interest Expense. Interest expense were approximately \$49.4 million during the six months ended June 30, 2010 as compared to approximately \$47.5 million during the same period in 2009, an increase of approximately \$1.9 million, or 4.0 percent, primarily due to an approximate \$0.8 million increase related to the issuance of \$250 million of long-term debt in June 2010 and an approximate \$0.8 million increase due to a lower allowance for borrowed funds used during construction during the first half of 2010 as compared to the same period in 2009.

Income Tax Expense. Income tax expense was approximately \$41.2 million during the six months ended June 30, 2010 as compared to approximately \$23.7 million during the same period in 2009, an increase of approximately \$17.5 million, or 73.8 percent, primarily due to higher pre-tax income in the first half of 2010 as compared to the same period in 2009, an adjustment for the elimination of the tax deduction for the Medicare Part D subsidy (discussed in Note 6 of Condensed Consolidated Financial Statements) and the write-off of previously recognized Oklahoma investment tax credits primarily due to expenditures no longer eligible for the Oklahoma investment tax credit related to the change in the tax method of accounting for capitalization of repairs expense.

Enogex (Natural Gas Transportation and Storage and Natural Gas Gathering and Processing)

Three Months Ended June 30, 2010	Transportation and Storage	Gathering and Processing	Eliminations	Total
<i>(In millions)</i>				
Operating revenues	\$ 97.1	\$ 235.4	\$ (62.5)	\$ 270.0
Cost of goods sold	60.9	168.6	(62.5)	167.0
Gross margin on revenues	36.2	66.8	---	103.0
Other operation and maintenance	12.6	23.5	---	36.1
Depreciation and amortization	5.4	12.5	---	17.9
Taxes other than income	3.4	1.6	---	5.0
Operating income	\$ 14.8	\$ 29.2	\$ ---	\$ 44.0

Three Months Ended June 30, 2009	Transportation and Storage	Gathering and Processing	Eliminations	Total
<i>(In millions)</i>				
Operating revenues	\$ 101.0	\$ 142.3	\$ (52.4)	\$ 190.9
Cost of goods sold	60.7	98.7	(52.4)	107.0
Gross margin on revenues	40.3	43.6	---	83.9
Other operation and maintenance	9.7	19.9	---	29.6
Depreciation and amortization	5.3	10.6	---	15.9
Impairment of assets	0.8	0.3	---	1.1
Taxes other than income	3.2	1.5	---	4.7
Operating income	\$ 21.3	\$ 11.3	\$ ---	\$ 32.6

Six Months Ended June 30, 2010	Transportation and Storage	Gathering and Processing	Eliminations	Total
<i>(In millions)</i>				
Operating revenues	\$ 208.2	\$ 483.3	\$ (137.3)	\$ 554.2
Cost of goods sold	127.1	348.6	(137.3)	338.4
Gross margin on revenues	81.1	134.7	---	215.8
Other operation and maintenance	23.6	44.8	---	68.4
Depreciation and amortization	10.8	24.9	---	35.7
Taxes other than income	7.3	3.5	---	10.8
Operating income	\$ 39.4	\$ 61.5	\$ ---	\$ 100.9

Six Months Ended June 30, 2009	Transportation and Storage	Gathering and Processing	Eliminations	Total
<i>(In millions)</i>				
Operating revenues	\$ 209.3	\$ 280.8	\$ (109.1)	\$ 381.0
Cost of goods sold	126.9	194.8	(109.1)	212.6
Gross margin on revenues	82.4	86.0	---	168.4
Other operation and maintenance	19.6	43.0	---	62.6
Depreciation and amortization	10.0	20.7	---	30.7
Impairment of assets	0.8	0.3	---	1.1
Taxes other than income	6.8	2.8	---	9.6
Operating income	\$ 45.2	\$ 19.2	\$ ---	\$ 64.4

Operating Data

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Gathered volumes – TBtu/d (A)	1.33	1.25	1.30	1.25
Incremental transportation volumes – TBtu/d (B)	0.41	0.57	0.44	0.49
Total throughput volumes – TBtu/d	1.74	1.82	1.74	1.74
Natural gas processed – TBtu/d	0.83	0.70	0.78	0.67
NGLs sold (keep-whole) – million gallons	50	26	92	48
NGLs sold (purchased for resale) – million gallons	121	85	220	154
NGLs sold (percent-of-liquids) – million gallons	8	9	15	17
Total NGLs sold – million gallons	179	120	327	219
Average sales price per gallon	\$ 0.86	\$ 0.66	\$ 0.94	\$ 0.64
Estimated realized keep-whole spreads (C)	\$ 4.74	\$ 3.50	\$ 5.21	\$ 3.20

(A) Trillion British thermal units per day (“TBtu/d”).

(B) Incremental transportation volumes consist of natural gas moved only on the transportation pipeline.

(C) The estimated realized keep-whole spread is an approximation of the spread between the weighted-average sales price of the retained NGLs commodities and the purchase price of the replacement natural gas shrink. The spread is based on the market commodity spread less any gains or losses realized from keep-whole hedging transactions. The market commodity spread is estimated using the average of the Oil Price Information Service daily average posting at the Conway, Kansas market for the NGLs and the Inside FERC monthly index posting for Panhandle Eastern Pipe Line Co., Texas, Oklahoma, for the forward month contract for natural gas prices.

Three Months Ended June 30, 2010 as Compared to Three Months Ended June 30, 2009

Operating Income

Enogex’s operating income increased approximately \$11.4 million, or 35.0 percent, during the three months ended June 30, 2010 as compared to the same period in 2009. These increases are primarily due to higher processing spreads, higher NGLs prices, higher natural gas prices, increased volumes and higher gallons per million cubic foot (“GPM”) of natural gas associated with expansion projects. The fourth quarter 2009 addition of the new higher efficiency Clinton processing plant enabled Enogex to optimize recoveries across all processing plants. In the normal course of Enogex’s business, the operation of its gathering, processing and transportation assets results in the creation of physical natural gas

long/short positions. These physical positions can result from gas imbalances, actual versus contractual settlement differences, fuel tracker obligations and natural gas received in-kind for compensation or reimbursements. Enogex actively manages its monthly net position through either selling excess gas or purchasing additional gas needs from third parties through OERI. During the three months ended June 30, 2010, volume changes and realized margin on physical gas long/short positions decreased the gross margin by approximately \$1.4 million, net of corresponding imbalance and fuel tracker obligations. Also, in the normal course of Enogex's business, Enogex maintains natural gas inventory to provide operational support for its pipeline deliveries. All natural gas inventory held by Enogex is recorded at the lower of cost or market which could result in adjustments at the end of a reporting period.

Operation and maintenance expense increased approximately \$6.5 million, or 22.0 percent, primarily due to salary increases in 2010, an increase in non-capitalized project costs and increased costs associated with the settlement of the November 2008 pipeline rupture, as discussed in Note 12 of Notes to the Condensed Consolidated Financial Statements.

Depreciation and amortization expense increased approximately \$2.0 million, or 12.6 percent, primarily due to property, plant and equipment placed into service in 2009 and the first half of 2010.

There was no impairment of assets during the three months ended June 30, 2010 while during the same period in 2009, there was an impairment of assets of approximately \$1.1 million due to the cancellation of certain projects as producers reduced the level of drilling activity due to the downturn in the economic environment and the impairment of idle assets on which the determination was made that they will not be returned to service.

Transportation and Storage

The transportation and storage business contributed approximately \$36.2 million of Enogex's consolidated gross margin during the three months ended June 30, 2010 as compared to approximately \$40.3 million in the same period in 2009, a decrease of approximately \$4.1 million, or 10.2 percent. The transportation operations contributed approximately \$30.6 million of Enogex's consolidated gross margin during the three months ended June 30, 2010 as compared to approximately \$34.2 million in the same period in 2009. The storage operations contributed approximately \$5.6 million of Enogex's consolidated gross margin during the three months ended June 30, 2010 as compared to approximately \$6.1 million in the same period in 2009. The transportation and storage gross margin decreased primarily due to:

- lower crosshaul volumes as fewer customers moved natural gas to eastern markets in the second quarter of 2010 as there were smaller differences in natural gas prices at various U.S. market locations, which decreased the gross margin by approximately \$3.3 million; and
- an increase in the imbalance liability, net of fuel recoveries and natural gas length positions, which decreased the gross margin by approximately \$1.6 million.

These decreases in the transportation and storage gross margin were partially offset by new capacity lease service under the Midcontinent Express Pipeline, LLC ("MEP") and Gulf Crossing capacity leases that were placed into service in June 2009 that increased transportation fees by approximately \$1.8 million.

Operation and maintenance expense for the transportation and storage business was approximately \$2.9 million, or 29.9 percent, higher during the three months ended June 30, 2010 as compared to the same period in 2009 primarily due to salary increases in 2010 and an increase in third-party engineering and inspections services.

Gathering and Processing

The gathering and processing business contributed approximately \$66.8 million of Enogex's consolidated gross margin during the three months ended June 30, 2010 as compared to approximately \$43.6 million in the same period in 2009, an increase of approximately \$23.2 million, or 53.2 percent. The gathering operations contributed approximately \$29.1 million of Enogex's consolidated gross margin during the three months ended June 30, 2010 as compared to approximately \$27.2 million in the same period in 2009. The processing operations contributed approximately \$37.7 million of Enogex's consolidated gross margin during the three months ended June 30, 2010 as compared to approximately \$16.4 million in the same period in 2009.

During the three months ended June 30, 2010, Enogex realized a higher gross margin in its gathering and processing operations primarily as the result of continued growth in gathered volumes, higher processing spreads, higher NGLs prices and higher natural gas prices, net of Enogex's continued effort to convert customers from keep-whole to fixed-fee processing arrangements. Enogex's processing plants saw a 19.1 percent increase in inlet volumes and an increase in NGLs production as recent expansion projects have added richer natural gas to Enogex's system. The fourth quarter 2009 completion of the

new higher efficiency Clinton processing plant allowed Enogex to optimize recoveries across all processing plants. Overall, the above factors resulted in the following:

- increased gross margin on keep-whole processing of approximately \$12.0 million;
- increased fixed processing fees of approximately \$4.1 million; and
- increased gross margin on NGLs retained under percent-of-liquids (“POL”) contracts of approximately \$3.0 million.

Other factors that contributed to the increase in the gathering and processing gross margin were:

- an increase in condensate revenues associated with the gathering and processing operations due to increases in prices and volumes as a result of several new expansion projects with higher GPM gas, which increased the gross margin by approximately \$2.7 million; and
- increased gathering volumes associated with expansion projects, which increased the gathering fees by approximately \$1.6 million.

Other operation and maintenance expense for the gathering and processing business was approximately \$3.6 million, or 18.1 percent, higher during the three months ended June 30, 2010 as compared to the same period in 2009 primarily due to an increase in non-capitalized project costs and increased costs associated with the settlement of the November 2008 pipeline rupture, as discussed in Note 12 of Notes to the Condensed Consolidated Financial Statements.

Enogex Consolidated Information

Interest Expense. Enogex’s consolidated interest expense was approximately \$7.2 million during the three months ended June 30, 2010 as compared to approximately \$6.4 million during the same period in 2009, an increase of approximately \$0.8 million, or 12.5 percent, primarily due to a decrease in capitalized interest related to lower capital expenditures in the second quarter of 2010 as compared to the same period in 2009.

Income Tax Expense. Enogex’s consolidated income tax expense was approximately \$13.9 million during the three months ended June 30, 2010 as compared to approximately \$9.8 million during the same period in 2009, an increase of approximately \$4.1 million, or 41.8 percent, primarily due to higher pre-tax income in the second quarter of 2010 as compared to the same period in 2009.

Six Months Ended June 30, 2010 as Compared to Six Months Ended June 30, 2009

Operating Income

Enogex’s operating income increased approximately \$36.5 million, or 56.7 percent, during the six months ended June 30, 2010 as compared to the same period in 2009. These increases are primarily due to higher processing spreads, higher NGLs prices, higher natural gas prices, increased volumes and higher GPM of natural gas associated with expansion projects. The fourth quarter 2009 addition of the new higher efficiency Clinton processing plant enabled Enogex to optimize recoveries across all processing plants. In the normal course of Enogex’s business, the operation of its gathering, processing and transportation assets results in the creation of physical natural gas long/short positions. These physical positions can result from gas imbalances, actual versus contractual settlement differences, fuel tracker obligations and natural gas received in-kind for compensation or reimbursements. Enogex actively manages its monthly net position through either selling excess gas or purchasing additional gas needs from third parties through OERI. During the six months ended June 30, 2010, volume changes and realized margin on physical gas long/short positions increased the gross margin by approximately \$3.1 million, net of corresponding imbalance and fuel tracker obligations. Also, in the normal course of Enogex’s business, Enogex maintains natural gas inventory to provide operational support for its pipeline deliveries. All natural gas inventory held by Enogex is recorded at the lower of cost or market which could result in adjustments at the end of a reporting period.

Operation and maintenance expense increased approximately \$5.8 million, or 9.3 percent, primarily due to salary increases in 2010, an increase in non-capitalized project costs and increased costs associated with the settlement of the November 2008 pipeline rupture, as discussed in Note 12 of Notes to the Condensed Consolidated Financial Statements.

Depreciation and amortization expense increased approximately \$5.0 million, or 16.3 percent, primarily due to property, plant and equipment placed into service in 2009 and the first half of 2010.

There was no impairment of assets during the six months ended June 30, 2010 while during the same period in 2009, there was an impairment of assets of approximately \$1.1 million due to the cancellation of certain projects as producers

reduced the level of drilling activity due to the downturn in the economic environment and the impairment of idle assets on which the determination was made that they will not be returned to service.

Taxes other than income increased approximately \$1.2 million, or 12.5 percent, primarily due to an increase in ad valorem taxes as a result of property placed into service in 2009 and the first half of 2010.

Transportation and Storage

The transportation and storage business contributed approximately \$81.1 million of Enogex's consolidated gross margin during the six months ended June 30, 2010 as compared to approximately \$82.4 million in the same period in 2009, a decrease of approximately \$1.3 million, or 1.6 percent. The transportation operations contributed approximately \$64.3 million of Enogex's consolidated gross margin during the six months ended June 30, 2010 as compared to approximately \$68.4 million in the same period in 2009. The storage operations contributed approximately \$16.8 million of Enogex's consolidated gross margin during the six months ended June 30, 2010 as compared to approximately \$14.0 million in the same period in 2009. The transportation and storage gross margin decreased primarily due to:

- decreased crosshaul volumes as fewer customers moved natural gas to eastern markets in the first half of 2010 as there were smaller differences in natural gas prices at various U.S. market locations, which decreased the gross margin by approximately \$7.4 million;
- an increase in the imbalance liability, net of fuel recoveries and natural gas length positions, which decreased the gross margin by approximately \$2.4 million;
- lower realized margins on operational storage hedges as the result of lower transacted volumes during the first half of 2010 as compared to the same period in 2009, which decreased the gross margin by approximately \$2.3 million; and
- decreased low/high pressure revenues due to a customer shipping its production through the Section 311 firm East side service, which decreased the gross margin by approximately \$1.1 million.

These decreases in the transportation and storage gross margin were partially offset by:

- capacity lease service under the MEP and Gulf Crossing capacity leases that were placed into service in June 2009 that increased transportation fees by approximately \$6.3 million;
- no adjustment of natural gas storage inventory during the first half of 2010 as compared to an approximate \$5.8 million lower of cost or market adjustment to the natural gas storage inventory during the six months ended June 30, 2009 due to lower natural gas prices; and
- implementation of the Section 311 firm East side service in April 2009 that increased transportation fees by approximately \$1.1 million, net of an approximate \$1.5 million refund for the second quarter 2010 service outage as maintenance activities were being conducted.

Operation and maintenance expense for the transportation and storage business was approximately \$4.0 million, or 20.4 percent, higher during the six months ended June 30, 2010 as compared to the same period in 2009 primarily due to salary increases in 2010 and an increase in third-party engineering and inspection services.

Gathering and Processing

The gathering and processing business contributed approximately \$134.7 million of Enogex's consolidated gross margin during the six months ended June 30, 2010 as compared to approximately \$86.0 million in the same period in 2009, an increase of approximately \$48.7 million, or 56.6 percent. The gathering operations contributed approximately \$59.2 million of Enogex's consolidated gross margin during the six months ended June 30, 2010 as compared to approximately \$51.4 million in the same period in 2009. The processing operations contributed approximately \$75.5 million of Enogex's consolidated gross margin during the six months ended June 30, 2010 as compared to approximately \$34.6 million in the same period in 2009.

During the six months ended June 30, 2010, Enogex realized a higher gross margin in its gathering and processing operations primarily as the result of continued growth in gathered volumes, higher processing spreads, higher NGLs prices and higher natural gas prices, net of Enogex's continued effort to convert customers from keep-whole to fixed-fee processing arrangements. Enogex's processing plants saw a 17.5 percent increase in inlet volumes and an increase in NGLs production as recent expansion projects have added richer natural gas to Enogex's system. Additionally, several plants were in ethane rejection for part of the first half of 2009 as compared to ethane recovery during the majority of the first six months of 2010.

The fourth quarter 2009 completion of the new higher efficiency Clinton processing plant allowed Enogex to optimize recoveries across all processing plants. Overall, the above factors resulted in the following:

- increased gross margin on keep-whole processing of approximately \$17.9 million;
- increased fixed processing fees of approximately \$8.2 million; and
- increased gross margin on NGLs retained under POL contracts of approximately \$6.6 million.

Other factors that contributed to the increase in the gathering and processing gross margin were:

- an increase in condensate revenues associated with the gathering and processing operations due to increases in prices and volumes as a result of cooler weather in the first quarter of 2010 and several new expansion projects with higher GPM gas, which increased the gross margin by approximately \$9.1 million;
- higher volumes and realized margin on sales of physical natural gas long/short positions associated with gathering operations, which increased the gross margin by approximately \$5.5 million, net of imbalance and fuel tracker obligations; and
- increased gathered volumes associated with expansion projects, which increased the gathering fees by approximately \$2.1 million.

Other operation and maintenance expense for the gathering and processing business was approximately \$1.8 million, or 4.2 percent, higher during the six months ended June 30, 2010 as compared to the same period in 2009 primarily due to increased costs associated with the settlement of the November 2008 pipeline rupture, as discussed in Note 12 of Notes to the Condensed Consolidated Financial Statements, partially offset by a decrease in non-capitalized project costs.

Enogex Consolidated Information

Interest Expense. Enogex's consolidated interest expense was approximately \$15.4 million during the six months ended June 30, 2010 as compared to approximately \$12.3 million during the same period in 2009, an increase of approximately \$3.1 million, or 25.2 percent, primarily due to a decrease in capitalized interest related to lower capital expenditures in the first half of 2010 as compared to the same period in 2009.

Income Tax Expense. Enogex's consolidated income tax expense was approximately \$34.2 million during the six months ended June 30, 2010 as compared to approximately \$19.5 million during the same period in 2009, an increase of approximately \$14.7 million, or 75.4 percent, primarily due to higher pre-tax income in the first half of 2010 as compared to the same period in 2009 and an adjustment for the elimination of the tax deduction for the Medicare Part D subsidy (discussed in Note 6 of Condensed Consolidated Financial Statements).

OERI (Natural Gas Marketing)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
<i>(In millions)</i>				
Operating revenues	\$ 189.0	\$ 117.2	\$ 434.7	\$ 309.5
Cost of goods sold	192.9	116.6	437.2	304.4
Gross margin on revenues	(3.9)	0.6	(2.5)	5.1
Other operation and maintenance	2.1	2.7	4.8	5.3
Taxes other than income	---	0.1	0.2	0.3
Operating loss	\$ (6.0)	\$ (2.2)	\$ (7.5)	\$ (0.5)

Three Months Ended June 30, 2010 as Compared to Three Months Ended June 30, 2009

Operating Loss

OERI's operating loss was approximately \$6.0 million during the three months ended June 30, 2010 as compared to approximately \$2.2 million during the same period in 2009, an increase of approximately \$3.8 million, primarily due to a lower gross margin as discussed below.

Gross Margin

Gross margin was a loss of approximately \$3.9 million during the three months ended June 30, 2010 as compared to a gain of approximately \$0.6 million during the same period in 2009, a decrease in the gross margin of approximately \$4.5 million, primarily due to smaller differences in natural gas prices at various U.S. market locations which resulted in a reduced spread that OERI was able to realize from delivering gas under its transportation contracts, which decreased the gross margin from transportation by approximately \$2.4 million.

Additional Information

Income Tax Benefit. Income tax benefit was approximately \$2.4 million during the three months ended June 30, 2010 as compared to approximately \$0.9 million during the same period in 2009, an increase of approximately \$1.5 million, primarily due to a higher pre-tax loss during the three months ended June 30, 2010 as compared to the same period in 2009.

Six Months Ended June 30, 2010 as Compared to Six Months Ended June 30, 2009

Operating Loss

OERI's operating loss was approximately \$7.5 million during the six months ended June 30, 2010 as compared to approximately \$0.5 million during the same period in 2009, an increase in operating loss of approximately \$7.0 million, primarily due to a lower gross margin as discussed below.

Gross Margin

Gross margin was a loss of approximately \$2.5 million during the six months ended June 30, 2010 as compared to a gain of approximately \$5.1 million during the same period in 2009, a decrease in the gross margin of approximately \$7.6 million, primarily due to:

- smaller differences in natural gas prices at various U.S. market locations which resulted in a reduced spread that OERI was able to realize from delivering gas under its transportation contracts, which decreased the gross margin from transportation by approximately \$5.1 million; and
- lower realized gains on storage withdrawals, which decreased the gross margin by approximately \$1.5 million.

Additional Information

Income Tax Benefit. Income tax benefit was approximately \$3.1 million during the six months ended June 30, 2010 as compared to approximately \$0.3 million during the same period in 2009, an increase of approximately \$2.8 million, primarily due to a higher pre-tax loss during the six months ended June 30, 2010 as compared to the same period in 2009.

Non-GAAP Financial Measures

The Company has included in this Form 10-Q the non-GAAP financial measures Ongoing Earnings and Ongoing EPS. The Company defines Ongoing Earnings as GAAP net income less the charge for the Medicare Part D tax subsidy and Ongoing EPS as GAAP EPS less the charge for the Medicare Part D tax subsidy. The Medicare Part D tax subsidy represents a charge which management believes will not be recurring on a regular basis. Management believes that the presentation of Ongoing Earnings and Ongoing EPS provides useful information to investors, as it provides them an additional relevant comparison of the Company's performance across periods.

The Company provides a reconciliation of Ongoing Earnings and Ongoing EPS to its most directly comparable financial measures as calculated and presented in accordance with GAAP. The most directly comparable GAAP measure for Ongoing Earnings is GAAP net income which includes the impact of the charge for the Medicare Part D tax subsidy. The most directly comparable GAAP measure for Ongoing EPS is GAAP EPS which includes the charge for the Medicare Part D tax subsidy. The non-GAAP financial measure of Ongoing Earnings and Ongoing EPS should not be considered as an alternative to GAAP net income attributable to the Company or GAAP EPS. Ongoing Earnings and Ongoing EPS are not a presentation made in accordance with GAAP and have important limitations as analytical tools. They should not be considered in isolation or as a substitute for analysis of the Company's results as reported under GAAP. Because these non-GAAP financial measures exclude some, but not all, items that affect net income and EPS and is defined differently by different companies in the Company's industry, the Company's definition of Ongoing Earnings and Ongoing EPS may not be comparable to a similarly titled measure of other companies.

To compensate for the limitations of these non-GAAP financial measures as analytical tools, the Company believes it is important to review the comparable GAAP measures and understand the differences between the measures.

Reconciliation of Ongoing Earnings (Loss) to GAAP Net Income for the Six Months Ended June 30, 2010 and 2009

<i>(In millions)</i>	Six Months Ended June 30, 2010 Ongoing Earnings	Medicare Part D Tax Subsidy	Six Months Ended June 30, 2010 GAAP Net Income	Six Months Ended June 30, 2009 GAAP and Ongoing Net Income (A)
OG&E	\$ 68.2	\$ (7.0)	\$ 61.2	\$ 57.7
Enogex	51.7	(2.0)	49.7	31.4
Holding Company	(7.0)	(2.4)	(9.4)	(1.8)
Consolidated	\$ 112.9	\$ (11.4)	\$ 101.5	\$ 87.3

(A) There were no one-time charges for the six months ended June 30, 2009 therefore, ongoing and GAAP net income are the same.

Reconciliation of Ongoing EPS to GAAP EPS for the Six Months Ended June 30, 2010 and 2009

<i>(In millions)</i>	Six Months Ended June 30, 2010 Ongoing EPS	Medicare Part D Tax Subsidy	Six Months Ended June 30, 2010 GAAP EPS	Six Months Ended June 30, 2009 GAAP and Ongoing EPS (B)
OG&E	\$ 0.69	\$ (0.07)	\$ 0.62	\$ 0.60
Enogex	0.52	(0.02)	0.50	0.33
Holding Company	(0.07)	(0.02)	(0.09)	(0.02)
Consolidated	\$ 1.14	\$ (0.11)	\$ 1.03	\$ 0.91

(B) There were no one-time charges for the six months ended June 30, 2009 therefore, ongoing and GAAP EPS are the same.

Enogex has included in this Form 10-Q the non-GAAP financial measure EBITDA. Enogex defines EBITDA as net income attributable to Enogex LLC before interest, income taxes and depreciation and amortization. EBITDA is used as a supplemental financial measure by external users of the Company's financial statements such as investors, commercial banks and others, to assess:

- the financial performance of Enogex's assets without regard to financing methods, capital structure or historical cost basis;
- Enogex's operating performance and return on capital as compared to other companies in the midstream energy sector, without regard to financing or capital structure; and
- the viability of acquisitions and capital expenditure projects and the overall rates of return on alternative investment opportunities.

Enogex provides a reconciliation of EBITDA to its most directly comparable financial measure as calculated and presented in accordance with GAAP. The GAAP measure most directly comparable to EBITDA is net income attributable to Enogex LLC. The non-GAAP financial measure of EBITDA should not be considered as an alternative to GAAP net income attributable to Enogex LLC. EBITDA is not a presentation made in accordance with GAAP and has important limitations as an analytical tool. EBITDA should not be considered in isolation or as a substitute for analysis of Enogex's results as reported under GAAP. Because EBITDA excludes some, but not all, items that affect net income and is defined differently by different companies in Enogex's industry, Enogex's definition of EBITDA may not be comparable to a similarly titled measure of other companies.

To compensate for the limitations of EBITDA as an analytical tool, Enogex believes it is important to review the comparable GAAP measure and understand the differences between the measures.

Reconciliation of EBITDA to net income attributable to Enogex LLC

(In millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Net income attributable to Enogex LLC	\$ 22.3	\$ 16.0	\$ 49.7	\$ 31.4
Add:				
Interest expense, net	7.2	6.4	15.4	12.2
Income tax expense	13.9	9.8	34.2	19.5
Depreciation and amortization	17.9	15.9	35.7	30.7
EBITDA	\$ 61.3	\$ 48.1	\$ 135.0	\$ 93.8

Financial Condition

The balance of Cash and Cash Equivalents was approximately \$7.3 million and \$58.1 million at June 30, 2010 and December 31, 2009, respectively, a decrease of approximately \$50.8 million, or 87.4 percent. See “Cash Flows” for a discussion of the changes in Cash and Cash Equivalents.

The balance of Accounts Receivable was approximately \$315.5 million and \$291.4 million at June 30, 2010 and December 31, 2009, respectively, an increase of approximately \$24.1 million, or 8.3 percent, primarily due to an increase in billings to OG&E’s customers reflecting warmer weather in June 2010 as compared to December 2009 partially offset by a decrease in NGLs prices and the timing of customer payments received at Enogex and a decrease in average prices and volumes at OERI.

The balance of Accrued Unbilled Revenues was approximately \$81.6 million and \$57.2 million at June 30, 2010 and December 31, 2009, respectively, an increase of approximately \$24.4 million, or 42.7 percent, primarily due to higher usage by OG&E’s customers and higher seasonal electric rates.

The balance of Income Taxes Receivable was approximately \$7.1 million and \$157.7 million at June 30, 2010 and December 31, 2009, respectively, a decrease of approximately \$150.6 million, or 95.5 percent, primarily due to an income tax refund received in February 2010 related to a carry back of the 2008 tax loss resulting from a change in tax method of accounting for capitalization of repairs expense.

The balance of Fuel Inventories was approximately \$140.5 million and \$118.5 million at June 30, 2010 and December 31, 2009, respectively, an increase of approximately \$22.0 million, or 18.6 percent, primarily due to higher coal and natural gas inventory balances at OG&E due to higher volumes and higher average prices and a higher natural gas inventory balance at OERI due to higher volumes and higher average prices.

The balance of Construction Work in Progress was approximately \$250.5 million and \$335.4 million at June 30, 2010 and December 31, 2009, respectively, a decrease of approximately \$84.9 million, or 25.3 percent, primarily due to the costs associated with the Windspeed transmission line constructed by OG&E which was placed in service on March 31, 2010 being reclassified to Property, Plant and Equipment In Service partially offset by increased spending on various distribution, transmission and generation projects at OG&E as well as increases from the purchase of compressors and a natural gas processing plant at Enogex.

The balance of Income Taxes Recoverable from Customers, Net was approximately \$39.8 million and \$19.1 million at June 30, 2010 and December 31, 2009, respectively, an increase of approximately \$20.7 million, primarily due to a write-off of the deferred tax benefit associated with future Medicare Part D subsidy payments pursuant to the tax law changes in the Patient Protection and Affordable Care Act of 2009 and the Health Care and Education Reconciliation Act of 2010, which were signed into law in March 2010.

The balance of Short-Term Debt was approximately \$112.9 million and \$175.0 million at June 30, 2010 and December 31, 2009, respectively, a decrease of approximately \$62.1 million, or 35.5 percent, primarily due to a decrease in commercial paper borrowings in the first half of 2010 due to OG&E’s issuance of \$250 million in long-term debt in June 2010 partially offset by an increase in commercial paper borrowings in the first quarter of 2010 to repay the remaining balance of Enogex’s \$400 million 8.125% senior notes which matured on January 15, 2010.

The balance of Accrued Taxes was approximately \$55.8 million and \$37.0 million at June 30, 2010 and December 31, 2009, respectively, an increase of approximately \$18.8 million or 50.8 percent, primarily due to current year income tax accruals and ad valorem taxes.

The balance of Long-Term Debt Due Within One Year was approximately \$289.2 million at December 31, 2009 with no balance at June 30, 2010, due to the repayment of the remaining balance of Enogex's \$400 million 8.125% senior notes which matured on January 15, 2010.

The balance of Fuel Clause Over Recoveries was approximately \$137.4 million and \$187.5 million at June 30, 2010 and December 31, 2009, respectively, a decrease of approximately \$50.1 million, or 26.7 percent, primarily due to the fact that the amount billed to retail customers was lower than OG&E's cost of fuel. The fuel recovery clauses are designed to smooth the impact of fuel price volatility on customers' bills. As a result, OG&E under recovers fuel costs in periods of rising fuel prices above the baseline charge for fuel and over recovers fuel costs when prices decline below the baseline charge for fuel. Provisions in the fuel clauses are intended to allow OG&E to amortize under and over recovery balances.

The balance of Long-Term Debt was approximately \$2,402.6 million and \$2,088.9 million at June 30, 2010 and December 31, 2009, respectively, an increase of approximately \$313.7 million, or 15.0 percent, primarily due to OG&E's issuance of \$250 million of long-term debt in June 2010 and from borrowings on Enogex's revolving credit agreement.

The balance of Accrued Benefit Obligations was approximately \$337.5 million and \$369.3 million at June 30, 2010 and December 31, 2009, respectively, a decrease of approximately \$31.8 million, or 8.6 percent, primarily due to pension plan contributions during the second quarter of 2010.

Off-Balance Sheet Arrangements

Except as discussed below, there have been no significant changes in the Company's off-balance sheet arrangements from those discussed in the Company's 2009 Form 10-K.

OG&E Railcar Lease Agreement

At June 30, 2010, OG&E had a noncancellable operating lease with purchase options, covering 1,462 coal hopper railcars to transport coal from Wyoming to OG&E's coal-fired generation units. Rental payments are charged to Fuel Expense and are recovered through OG&E's tariffs and fuel adjustment clauses. At the end of the lease term, which is January 31, 2011, OG&E has the option to either purchase the railcars at a stipulated fair market value or renew the lease. If OG&E chooses not to purchase the railcars or renew the lease agreement and the actual fair value of the railcars is less than the stipulated fair market value, OG&E would be responsible for the difference in those values up to a maximum of approximately \$31.5 million.

On February 10, 2009, OG&E executed a short-term lease agreement for 270 railcars in accordance with new coal transportation contracts with BNSF Railway and Union Pacific. These railcars were needed to replace railcars that have been taken out of service or destroyed. The lease agreement expired with respect to 135 railcars on November 2, 2009 and was not replaced. The lease agreement with respect to the remaining 135 railcars expired on March 5, 2010 and is now continuing on a month-to-month basis with a 30-day notice required by either party to terminate the agreement.

OG&E is also required to maintain all of the railcars it has under lease to transport coal from Wyoming and has entered into agreements with Progress Rail Services and WATCO, both of which are non-affiliated companies, to furnish this maintenance.

Liquidity and Capital Requirements

The Company's primary needs for capital are related to acquiring or constructing new facilities and replacing or expanding existing facilities at OG&E and Enogex. Other working capital requirements are expected to be primarily related to maturing debt, operating lease obligations, hedging activities, delays in recovering unconditional fuel purchase obligations, fuel clause under and over recoveries and other general corporate purposes. The Company generally meets its cash needs through a combination of cash generated from operations, short-term borrowings (through a combination of bank borrowings and commercial paper) and permanent financings. See "Future Sources of Financing – Short-Term Debt" for information regarding the Company's revolving credit agreements and commercial paper.

Net Available Liquidity

At June 30, 2010, the Company had approximately \$7.3 million of cash and cash equivalents. At June 30, 2010, the Company had approximately \$1,047.6 million of net available liquidity under its revolving credit agreements.

Potential Collateral Requirements

Derivative instruments are utilized in managing the Company's commodity price exposures and in OERI's asset management, marketing and trading activities and hedging activities executed on behalf of the Company. Agreements governing the derivative instruments may require the Company to provide collateral in the form of cash or a letter of credit in the event mark-to-market exposures exceed contractual thresholds or the Company's credit ratings are lowered. Future collateral requirements are uncertain, and are subject to terms of the specific agreements and to fluctuations in natural gas and NGLs market prices.

Cash Flows

(In millions)	Six Months Ended June 30,	
	2010	2009
Net cash provided from operating activities	\$ 341.5	\$ 186.9
Net cash used in investing activities	(291.6)	(472.9)
Net cash (used in) provided from financing activities	(100.7)	323.8

The increase of approximately \$154.6 million, or 82.7 percent, in net cash provided from operating activities during the six months ended June 30, 2010 as compared to the same period in 2009 was primarily due to:

- an increase in cash receipts for sales at Enogex and OERI due to an increase in natural gas prices and NGLs prices and volumes in the first half of 2010 as compared to the same period in 2009;
- an income tax refund received in February 2010 related to a carry back of the 2008 tax loss resulting from a change in tax method of accounting for capitalization of repairs expense;
- a cash collateral payment to counterparties of OERI related to OERI's NGLs hedge positions in the first half of 2009; and
- cash received in the first half of 2010 from the implementation of rate increases and riders at OG&E.

These increases in net cash provided from operating activities were partially offset by:

- an increase in payments for purchases at Enogex and OERI due to an increase in natural gas prices and NGLs prices and volumes in the first half of 2010 as compared to the same period in 2009; and
- higher fuel refunds at OG&E in the first half of 2010 as compared to the same period in 2009.

The decrease of approximately \$181.3 million, or 38.3 percent, in net cash used in investing activities during the six months ended June 30, 2010 as compared to the same period in 2009 primarily related to higher levels of capital expenditures in 2009 related to OU Spirit and the Windspeed transmission line constructed by OG&E which was placed in service on March 31, 2010 and pipeline and processing projects at Enogex.

The decrease of approximately \$424.5 million in net cash provided from financing activities during the six months ended June 30, 2010 as compared to the same period in 2009 was primarily due to:

- repayment of the remaining balance of Enogex's \$400 million 8.125% senior notes which matured on January 15, 2010;
- a decrease in short-term debt borrowings in the first half of 2010;
- a decrease in the issuance of common stock in the first half of 2010; and
- proceeds received from the issuance of \$200 million of long-term debt at Enogex in June 2009.

These decreases in net cash provided from financing activities were partially offset by proceeds received from the issuance of \$250 million of long-term debt at OG&E in June 2010.

Future Capital Requirements and Financing Activities

Capital Expenditures

The Company's consolidated estimates of capital expenditures are approximately: 2010 - \$870 million, 2011 - \$1,135 million, 2012 - \$835 million, 2013 - \$610 million, 2014 - \$425 million and 2015 - \$390 million. These capital expenditures represent the base maintenance capital expenditures (i.e., capital expenditures to maintain and operate the Company's businesses) plus capital expenditures for known and committed projects (collectively referred to as the "Base Capital Expenditure Plan"). Capital expenditures estimated for the next five years and beyond are as follows:

<i>(In millions)</i>	Less than 1 year (2010)	1-3 years (2011-2012)	3-5 years (2013-2014)	More than 5 years	Total
OG&E Base Transmission	\$ 45	\$ 40	\$ 35	\$ 20	\$ 140
OG&E Base Distribution	215	465	460	230	1,370
OG&E Base Generation	50	70	70	35	225
OG&E Other	25	50	50	25	150
Total OG&E Base Transmission, Distribution, Generation and Other	335	625	615	310	1,885
OG&E Known and Committed Projects:					
Transmission Projects:					
Sunnyside-Hugo (345 kV)	25	175	---	---	200
Sooner-Rose Hill (345 kV)	15	45	---	---	60
Windspeed (345 kV)	25	---	---	---	25
Balanced Portfolio 3E Projects	10	205	120	---	335
SPP Priority Projects (A)	---	230	100	---	330
Total Transmission Projects	75	655	220	---	950
Other Projects:					
Smart Grid Program (B)	40	120	60	10	230
Crossroads (C)	160	290	---	---	450
System Hardening	10	25	---	---	35
OU Spirit	10	---	---	---	10
Other	15	25	---	---	40
Total Other Projects	235	460	60	10	765
Total OG&E Known and Committed Projects	310	1,115	280	10	1,715
Total OG&E (D)	645	1,740	895	320	3,600
Enogex (Base Maintenance and Known and Committed Projects)	205	180	90	45	520
OGE Energy and OERI	20	50	50	25	145
Total capital expenditures	\$ 870	\$ 1,970	\$ 1,035	\$ 390	\$ 4,265

(A) On June 30, 2010, the Southwest Power Pool issued notices to construct to OG&E to build two 345 kilovolt transmission lines as discussed in Note 13 of Notes to Condensed Consolidated Financial Statements.

(B) These capital expenditures are net of the Smart Grid \$130 million grant approved by the U.S. Department of Energy.

(C) These capital expenditures assume the 227.5 MW configuration.

(D) The Base Capital Expenditure Plan above excludes any environmental expenditures associated with Best Available Retrofit Technology ("BART") requirements due to the uncertainty regarding BART costs. As discussed in "– Environmental Laws and Regulations" below, pursuant to a proposed regional haze agreement OG&E has agreed to install low nitrogen oxide ("NOX") burners and related equipment at the three affected generating stations. Preliminary estimates indicate the cost will be approximately \$100 million (plus or minus 30 percent). For further information, see "– Environmental Laws and Regulations" below.

Additional capital expenditures beyond those identified in the table above, including additional incremental growth opportunities in electric transmission assets and at Enogex, will be evaluated based upon their impact upon achieving the Company's financial objectives. The capital expenditure projections related to Enogex in the table above reflect base market conditions at August 4, 2010 and do not reflect the potential opportunity for a set of growth projects that could materialize.

Pension Plan Funding

In the second quarter of 2010, the Company contributed approximately \$40 million to its pension plan and currently expects to contribute an additional \$10 million to its pension plan during the remainder of 2010. Any remaining expected contributions to its pension plan during 2010 would be discretionary contributions, anticipated to be in the form of cash, and are not required to satisfy the minimum regulatory funding requirement specified by the Employee Retirement Income Security Act of 1974, as amended.

Fuel Refund

As a result of an interim fuel filing, beginning in July 2010, OG&E expects to refund to its customers approximately \$100 million of prior fuel over recoveries over the next six months.

Security Ratings

Access to reasonably priced capital is dependent in part on credit and security ratings. On June 28, 2010, Fitch Ratings downgraded OG&E's issuer default rating from A+ to A and OG&E's senior unsecured debt rating from AA- to A+. All other ratings at OGE Energy and Enogex remained unchanged and with a stable outlook. Fitch indicated that the downgrade at OG&E was primarily due to OG&E's cash flow credit metrics decline over its forecast horizon due to large capital expenditures and the non-cash return for allowance for funds used during construction. The downgrade did not trigger any collateral requirements or change fees under the revolving credit agreement.

Future Sources of Financing

Management expects that cash generated from operations, proceeds from the issuance of long and short-term debt and proceeds from the sales of common stock to the public through the Company's Automatic Dividend Reinvestment and Stock Purchase Plan or other offerings will be adequate over the next three years to meet anticipated cash needs and to fund future growth opportunities. The Company utilizes short-term borrowings (through a combination of bank borrowings and commercial paper) to satisfy temporary working capital needs and as an interim source of financing capital expenditures until permanent financing is arranged.

Registration Statement Filing

On May 6, 2010, the Company filed a Registration Statement on Form S-3 pursuant to which it may offer from time to time a currently indeterminate number of shares of the Company's common stock, and a currently indeterminate principal amount of debt securities of the Company and debt securities of OG&E. The Company expects to issue equity when market conditions are favorable and when the need arises.

Issuance of New Long-Term Debt

On June 8, 2010, OG&E issued \$250 million of 5.85% senior notes due June 1, 2040. The proceeds from the issuance were added to the Company's general funds and are intended to fund OG&E's ongoing capital expenditure program or to be used for working capital. Pending such use, the funds have been temporarily invested. OG&E expects to issue additional long-term debt from time to time when market conditions are favorable and when the need arises.

Short-Term Debt and Credit Facilities

Short-term borrowings generally are used to meet working capital requirements. The Company borrows on a short-term basis, as necessary, by the issuance of commercial paper and by borrowings under its revolving credit agreements. The short-term debt balance was approximately \$112.9 million and \$175.0 million at June 30, 2010 and December 31, 2009, respectively, and was comprised entirely of outstanding commercial paper borrowings at OGE Energy. At June 30, 2010, Enogex had approximately \$65.0 million in outstanding borrowings under its revolving credit agreement with no outstanding borrowings at December 31, 2009. As Enogex's credit agreement matures on March 31, 2013, borrowings thereunder are classified as long-term debt in the Company's Condensed Consolidated Balance Sheets. 60; The following table provides information regarding the Company's revolving credit agreements and available cash at June 30, 2010.

Revolving Credit Agreements and Available Cash

Entity	Aggregate Commitment	Amount Outstanding	Weighted-Average Interest Rate	Maturity
<i>(In millions)</i>				
OGE Energy	\$ 596.0	\$ 112.9	0.38%	December 6, 2012
OG&E	389.0	9.5	---	December 6, 2012
Enogex	250.0	65.0	0.66%	March 31, 2013
	1,235.0	187.4	0.46%	
Cash	7.3	N/A	N/A	N/A
Total	\$ 1,242.3	\$ 187.4	0.46%	

OG&E has the necessary regulatory approvals to incur up to \$800 million in short-term borrowings at any time for a two-year period beginning January 1, 2009 and ending December 31, 2010. See Note 9 of Notes to the Condensed Consolidated Financial Statements for a discussion of the Company's short-term debt activity.

Critical Accounting Policies and Estimates

The Condensed Consolidated Financial Statements and Notes to Condensed Consolidated Financial Statements contain information that is pertinent to Management's Discussion and Analysis. In preparing the Condensed Consolidated Financial Statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and contingent liabilities at the date of the Condensed Consolidated Financial Statements and the reported amounts of revenues and expenses during the reporting period. Changes to these assumptions and estimates could have a material effect on the Company's Condensed Consolidated Financial Statements. However, the Company believes it has taken reasonable, but conservative, positions where assumptions and estimates are used in order to minimize the negative financial impact to the Company that could result if actual results vary from the assumptions and estimates. In management's opinion, the areas of the Company where the most significant judgment is exercised is in the valuation of pension plan assumptions, impairment estimates, contingency reserves, asset retirement obligations, fair value and cash flow hedges, regulatory assets and liabilities, unbilled revenues for OG&E, operating revenues for Enogex, natural gas purchases for Enogex, the allowance for uncollectible accounts receivable and the valuation of purchase and sale contracts. The selection, application and disclosure of the Company's critical accounting estimates have been discussed with the Company's Audit Committee and are discussed in detail in Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's 2009 Form 10-K.

Accounting Pronouncements

See Notes to Condensed Consolidated Financial Statements for a discussion of new accounting pronouncements that are applicable to the Company.

Commitments and Contingencies

Except as disclosed otherwise in this Form 10-Q and the Company's 2009 Form 10-K, management, after consultation with legal counsel, does not currently anticipate that liabilities arising out of these pending or threatened lawsuits, claims and contingencies will have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows. See Notes 12 and 13 of Notes to Condensed Consolidated Financial Statements in this Form 10-Q and Notes 13 and 14 of Notes to Consolidated Financial Statements and Item 3 of Part I of the 2009 Form 10-K for a discussion of the Company's commitments and contingencies.

Environmental Laws and Regulations

The activities of OG&E and Enogex are subject to stringent and complex Federal, state and local laws and regulations governing environmental protection including the discharge of materials into the environment. These laws and regulations can restrict or impact OG&E's and Enogex's business activities in many ways, such as restricting the way it can handle or dispose of its wastes, requiring remedial action to mitigate pollution conditions that may be caused by its operations or that are attributable to former operators, regulating future construction activities to avoid endangered species or enjoining some or all of the operations of facilities deemed in noncompliance with permits issued pursuant to such environmental laws and regulations. These environmental laws and regulations are discussed in detail in Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's 2009 Form 10-K. Except as set forth below, there have been no material changes to such items.

RICE MACT Amendments

On March 5, 2009, the U.S. Environmental Protection Agency (“EPA”) initiated rulemaking concerning new national emission standards for hazardous air pollutants for existing reciprocating internal combustion engines by proposing amendments to the National Emission Standards for Hazardous Air Pollutants for Reciprocating Internal Combustion Engine Maximum Achievable Control Technology (“proposed RICE MACT Amendments”). On March 3, 2010, the EPA published final rules on a portion of its original proposed amendments and established national emission standards for hazardous air pollutants for three types of compression ignition reciprocating internal combustion engines (“2010 CI RICE MACT Amendments”). The 2010 CI RICE MACT Amendments were effective May 3, 2010 and are expected to have an insignificant impact to the Company. The remaining provisions of the proposed RICE MACT Amendments are still under review by the EPA and the EPA has stated that it anticipates that it will finalize its requirements for existing stationary spark ignition engines by August 2010. The costs that may be incurred to comply with these remaining proposed regulations, including the testing and modification of the spark ignition engines, are uncertain at this time. The current compliance deadline is three years from the effective date of the enacted rules.

Regional Haze

On June 15, 2005, the EPA issued final amendments to its 1999 regional haze rule. These regulations are intended to protect visibility in national parks and wilderness areas (“Class I areas”) throughout the United States. In Oklahoma, the Wichita Mountains are the only area covered under the regulation. However, Oklahoma’s impact on parks in other states must also be evaluated. Sulfates and nitrate aerosols can lead to the degradation of visibility. The state of Oklahoma joined with eight other central states to address these visibility impacts.

OG&E was required to evaluate the installation of BART to address regional haze at sources built between 1962 and 1977. The Oklahoma Department of Environmental Quality (“ODEQ”) made a preliminary determination to accept an application for a waiver from BART requirements for the Horseshoe Lake generating station based on modeling showing no significant impact on visibility in nearby Class I areas. The Horseshoe Lake waiver was included in the ODEQ regional haze state implementation plan (“SIP”) submitted to the EPA on February 18, 2010.

Waivers could not be obtained for the BART-eligible units at the Seminole, Muskogee and Sooner generating stations. OG&E submitted a BART compliance plan for Seminole on March 30, 2007 committing to installation of NOX controls on all three units. On May 30, 2008, OG&E filed BART evaluations for the affected generating units at the Muskogee and Sooner generating stations. In this filing, OG&E indicated its intention to install low NOX combustion technology at its affected generating stations and to continue to burn low sulfur coal at the four coal-fired generating units at its Muskogee and Sooner generating stations. OG&E did not propose the installation of scrubbers at these four coal-fired generating units because OG&E concluded that, consistent with the EPA’s regulations on BART, the installation of scrubbers (at an estimated cost of more than \$1.0 billion) would not be cost-effective. The ODEQ published a draft SIP for public review on November 13, 2009. This draft SIP suggested that scrubbers would be needed to comply with the regional haze regulations, but noted OG&E’s cost-effectiveness analysis. Following negotiations with the ODEQ, in February 2010 OG&E and the ODEQ entered into an Agreement (“Agreement”) which specifies that BART for reducing NOX emissions at all seven BART-eligible units at the Seminole, Muskogee and Sooner generating stations should be the installation of low NOX burners with overfire air (and flue gas recirculation on two of the affected units) and accompanying emission rate and annual emission tonnage limits. Preliminary estimates based on recent industry experience and cost projections estimate the total cost of the NOX-related equipment at the three affected generating stations at approximately \$100 million (plus or minus 30 percent). After OG&E obtains estimates from vendors based on a detailed engineering design, it will have a more firm estimate of the exact cost of the NOX-related equipment subject to changes in the cost of basic materials. Under the Agreement, the specified BART for reducing sulfur dioxide (“SO2”) at the four coal-fired units at the Muskogee and Sooner generating stations would be continued use of low sulfur coal and emission rate and annual emission tonnage limits consistent with such use of low sulfur coal. If the EPA approves Oklahoma’s regional haze SIP, implementation of these BART requirements would be required within five years of the approval.

Under the Agreement, there also would be an alternative compliance obligation in the event that the EPA disapproves the aforementioned BART determination and the underlying conclusion that dry flue gas desulfurization units with Spray Dryer Absorber (“Dry Scrubbers”) are not cost-effective. In such an event, and only after OG&E has exhausted all judicial and administrative appeals of the EPA disapproval, OG&E would have two options. First, OG&E could choose to install Dry Scrubbers (or meet the corresponding SO2 emissions limits associated with Dry Scrubbers) by January 1, 2018. Second, OG&E could choose to comply with the regional haze regulations by implementing a fuel switching alternative.

This alternative would require OG&E to achieve a combined annual SO₂ emission limit by December 31, 2026 that is equivalent to: (i) the SO₂ emission limits associated with installing and operating Dry Scrubbers on two of the BART-eligible coal fired units and (ii) being at or below the SO₂ emissions that would result from switching the other two coal-fired units to natural gas. If OG&E has elected to comply with this alternative and if, prior to January 1, 2022, any of these units is required by any environmental law other than the regional haze rule to install flue gas desulfurization equipment or achieve an SO₂ emissions rate lower than 0.10 lbs/ Million British thermal unit, and if OG&E proceeds to take all necessary steps to comply with such legal requirement, the enforceable emission limits in the operating permits for the affected coal units would be adjusted to reflect the installation of that equipment or the emission rates specified under such legal requirement and OG&E would no longer be required to undertake the 2026 emission levels.

The ODEQ included the Agreement in its regional haze SIP that it submitted to the EPA on February 18, 2010. It is anticipated that the EPA will take final action on the SIP for regional haze during the first quarter of 2011. The possible EPA actions range from approval of the regional haze SIP to disapproval of the regional haze SIP combined with the issuance of a Federal implementation plan for regional haze in Oklahoma. OG&E cannot predict what action the EPA will take.

Until the EPA takes final action on the regional haze SIP, the total cost of compliance, including capital expenditures, cannot be estimated by OG&E with a reasonable degree of certainty. OG&E expects that any necessary expenditures for the installation of emission control equipment will qualify as part of a pre-approval plan to handle state and federally mandated environmental upgrades which will be recoverable in Oklahoma from OG&E's retail customers under House Bill 1910, which was enacted into law in May 2005.

Climate Change

On April 1, 2010, the EPA and the U.S. Department of Transportation's National Highway Traffic Safety Administration issued a joint rule to establish new greenhouse gas emissions regulations that affect tailpipe standards for model years 2012 – 2016 light-duty vehicles. This rule makes greenhouse gas emissions subject to regulation under the Federal Clean Air Act for stationary sources as well as for mobile sources. As a result, OG&E's facilities may be required to include greenhouse gas emission limits in permits issued pursuant to the Federal Clean Air Act. On June 3, 2010, the EPA published the final rule tailoring the applicability criteria that determine which stationary sources and modification projects become subject to permitting requirements for greenhouse gas ("GHG") emissions under the Prevention of Significant Deterioration ("PSD") and Title V programs of the Federal Clean Air Act ("Tailoring Rule"). The Tailoring Rule establishes a two-step process for implementing regulation of GHGs under the PSD and Title V programs. The Tailoring Rule became effective August 2, 2010. The effects of the Tailoring Rule cannot be determined until the EPA publishes guidance regarding how control requirements will be established.

Sulfur Dioxide

The Federal Clean Air Act includes an acid rain program to reduce SO₂ emissions. Reductions were obtained through a program of emission (release) allowances issued by the EPA to power plants covered by the acid rain program. Each allowance permits one ton of SO₂ to be released from the chimney. Plants may only release as much SO₂ as they have allowances. Allowances may be banked and traded or sold nationwide. Beginning in 2000, OG&E became subject to more stringent SO₂ emission requirements in Phase II of the acid rain program. These lower limits had no significant financial impact due to OG&E's earlier decision to burn low sulfur coal. In 2009, OG&E's SO₂ emissions were below the allowable limits.

On June 2, 2010, the EPA released its final rule strengthening the primary, health-based, national ambient air quality standards ("NAAQS") for SO₂. The Final Rule revokes the existing 24-hour and annual standards and establishes a new one-hour standard at a level of 75 parts per billion. The EPA intends to complete attainment designations within two years of promulgation of the revised SO₂ standard, which is expected by June 2012. States with areas designated nonattainment in 2012 would need to submit a SIP to the EPA by early 2014 outlining actions that will be taken to meet the standards as expeditiously as possible, but no later than August 2017. The Company will continue to monitor the EPA's attainment designation activities.

Transport Rule

On July 6, 2010 the EPA proposed a rule ("Transport Rule") that would require 31 states and the District of Columbia to reduce power plant emissions that contribute to ozone and fine particle pollution in other states. Of the 31 states, 28 states would be required to reduce both annual SO₂ and NO_x emissions and 26 states, including Oklahoma, would be required to reduce NO_x emissions during only the ozone season (May-September) because they contribute to downwind

states’ ozone pollution. The Company is reviewing the proposed rule and any potential impact it may have, and may submit written comments to the EPA.

Coal Ash

As previously reported in the Company’s 2009 Form 10-K, the EPA had announced that it was considering regulation of coal ash. On June 21, 2010 the EPA published its proposed rules for regulation of coal ash. The proposal includes two options for the disposal of coal ash, one option that treats it as hazardous waste and another option that treats it as non-hazardous waste. The Company is currently reviewing the proposed rules and any potential impact they may have to its operations and may submit written comments to the EPA.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Except as set forth below, the market risks set forth in Part II, Item 7A of the Company’s 2009 Form 10-K appropriately represent, in all material respects, the market risks affecting the Company.

Commodity Price Risk

The market risks inherent in the Company’s market risk sensitive instruments, positions and anticipated commodity transactions are the potential losses in value arising from adverse changes in the commodity prices to which the Company is exposed. These market risks can be classified as trading, which includes transactions that are entered into voluntarily to capture subsequent changes in commodity prices, or non-trading, which includes the exposure some of the Company’s assets have to commodity prices.

Trading Activities

The trading activities of OERI are conducted throughout the year subject to daily and monthly trading stop loss limits set by the Risk Oversight Committee. Those trading stop loss limits currently are \$2.5 million. The daily loss exposure from trading activities is measured primarily using value-at-risk (“VaR”), which estimates the potential losses the trading activities could incur over a specified time horizon and confidence level. Currently, the Company utilizes the variance/covariance method for calculating VaR. The VaR limit set by the Risk Oversight Committee for the Company’s trading activities, assuming a 95 percent confidence level, currently is \$1.5 million. These limits are designed to mitigate the possibility of trading activities having a material adverse effect on the Company’s operating income.

A sensitivity analysis has been prepared to estimate the Company’s exposure to market risk created by trading activities. The value of trading positions is a summation of the fair values calculated for each net commodity position based upon quoted market prices. Market risk is estimated as the potential loss in fair value resulting from a hypothetical 20 percent adverse change in quoted market prices. The result of this analysis, which may differ from actual results, is as follows at:

June 30 (In millions)	2010	2009
Commodity market risk, net	\$ 0.1	\$ 0.3

Non-Trading Activities

The prices of natural gas and NGLs and NGLs processing spreads are subject to fluctuations resulting from changes in supply and demand. The changes in these prices have a direct effect on the compensation the Company receives for operating some of its assets. To partially reduce non-trading commodity price risk, the Company utilizes risk mitigation tools such as default processing fees and ethane rejection capabilities to protect its downside exposure while maintaining its upside potential. Additionally, the Company hedges, through the utilization of derivatives and other forward transactions, the effects these market fluctuations have on the Company’s operating income. Because the commodities covered by these hedges are substantially the same commodities that the Company buys and sells in the physical market, no special studies other than monitoring the degree of correlation between the derivative and cash markets are deemed necessary.

Management may designate certain derivative instruments for the purchase or sale of physical commodities, purchase or sale of electric power and fuel procurement as normal purchases and normal sales contracts. Normal purchases and normal sales contracts are not recorded in Price Risk Management 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 its 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.

A sensitivity analysis has been prepared to estimate the Company's exposure to the market risk of the Company's non-trading activities. The Company's daily net commodity position consists of natural gas inventories, commodity purchase and sales contracts, financial and commodity derivative instruments and anticipated natural gas processing spreads and fuel recoveries. Quoted market prices are not available for all of the Company's non-trading positions; therefore, the value of non-trading positions is a summation of the forecasted values calculated for each commodity based upon internally generated forward price curves. Market risk is estimated as the potential loss in fair value resulting from a hypothetical 20 percent adverse change in such prices over the next 12 months. The result of this analysis, which may differ from actual results, is as follows at:

June 30 (In millions)	2010	2009
Commodity market risk, net	\$ 10.9	\$ 4.9

The increase in downside commodity market risk reflected in the table above is primarily due to favorable commodity price conditions at June 30, 2010 as compared to June 30, 2009. These favorable conditions increased the Company's per unit exposure. During 2009, the Company reduced its volumetric exposure to commodity market risk by converting a portion of its agreements from commodity market based compensation to fixed-fee based compensation. Absent these conversions, the commodity market risk at June 30, 2010 would have been even greater.

Item 4. Controls and Procedures.

The Company maintains a set of disclosure controls and procedures designed to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms. In addition, the disclosure controls and procedures ensure that information required to be disclosed is accumulated and communicated to management, including the chief executive officer ("CEO") and chief financial officer ("CFO"), allowing timely decisions regarding required disclosure. As of the end of the period covered by this report, based on an evaluation carried out under the supervision and with the participation of the Company's management, including the CEO and CFO, of the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15(d)-15(e) under the Securities Exchange Act of 1934), the CEO and CFO have concluded that the Company's disclosure controls and procedures are effective.

No change in the Company's internal control over financial reporting has occurred during the Company's most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934).

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

Reference is made to Part I, Item 3 of the Company's 2009 Form 10-K for a description of certain legal proceedings presently pending. Except as set forth below and in Notes 12 and 13 of Notes to Condensed Consolidated Financial Statements in this Form 10-Q, there are no new significant cases to report against the Company or its subsidiaries and there have been no material changes in the previously reported proceedings.

1. *Hull v. Enogex LLC.* On November 14, 2008, a natural gas gathering pipeline owned by Enogex ruptured in Grady County, near Alex, Oklahoma, resulting in a fire that caused injuries to one resident and destroyed three residential structures. After the incident, Enogex coordinated and assisted the affected residents. Enogex resolved matters with two of the residents and Enogex continued to seek resolution with a remaining resident. This resident filed a legal action in May 2009 in the District Court of Cleveland County, Oklahoma, against OGE Energy and Enogex. This matter was resolved by the parties on April 8, 2010. The ultimate resolution of this incident was not material to the Company in light of previously established reserves and insurance coverage.

2. *Oxley Litigation.* OG&E has been sued by John C. Oxley D/B/A Oxley Petroleum et al. in the District Court of Haskell County, Oklahoma. This case has been pending for more than 11 years. The plaintiffs alleged that OG&E breached the terms of contracts covering several wells by failing to purchase gas from the plaintiffs in amounts set forth in

the contracts. The plaintiffs' most recent Statement of Claim describes approximately \$2.7 million in take-or-pay damages (including interest) and approximately \$36 million in contract repudiation damages (including interest), subject to the limitation described below. In 2001, OG&E agreed to provide the plaintiffs with approximately \$5.8 million of consideration and the parties agreed to arbitrate the dispute. The arbitration hearing was completed and the final briefs were provided to the arbitration panel on March 17, 2010. On May 19, 2010, the panel issued an arbitration award in an amount less than the consideration previously paid by OG&E and, as a result, OG&E did not owe any additional amount. The Company now considers this case closed.

3. *Franchise Fee Lawsuit.* On June 19, 2006, two OG&E customers brought a putative class action, on behalf of all similarly situated customers, in the District Court of Creek County, Oklahoma, challenging certain charges on OG&E's electric bills. The plaintiffs claim that OG&E improperly charged sales tax based on franchise fee charges paid by its customers. The plaintiffs also challenge certain franchise fee charges, contending that such fees are more than is allowed under Oklahoma law. OG&E's motion for summary judgment was denied by the trial judge. In January 2007, the Oklahoma Supreme Court "arrested" the District Court action until, and if, the propriety of the complaint of billing practices is determined by the OCC. In September 2008, the plaintiffs filed an application with the OCC asking the OCC to modify its order which authorizes OG&E to collect the challenged franchise fee charges. On December 9, 2009 the OCC issued an order dismissing the plaintiffs' request for a modification of the 1994 OCC order which authorized OG&E to collect and remit sales tax on franchise fee charges. In its December 9, 2009 order, the OCC advised the plaintiffs that the ruling does not address the question of whether OG&E's collection and remittance of such sales tax should be discontinued prospectively. On April 19, 2010, the OCC issued a final order dismissing with prejudice the applicants' claims for recovery of previously paid taxes on franchise fees and approving the closing of this matter. On June 10, 2010, the plaintiffs filed a motion in the District Court of Creek County, Oklahoma, asking the court to proceed with the original class action. On July 8, 2010, a hearing in this matter was held and the court granted the plaintiffs motion to lift the stay of discovery previously imposed by the Oklahoma Supreme Court but denied any other specific relief pending further action by the court. On August 4, 2010, OG&E filed an application to assume original jurisdiction and a petition for a writ of prohibition with the Oklahoma Supreme Court. While OG&E cannot predict the precise outcome of this lawsuit, based on the information known at this time, OG&E believes that this lawsuit will not have a material adverse effect on the Company's consolidated financial position or results of operations.

4. *Will Price, et al. v. El Paso Natural Gas Co., et al. (Price I).* On September 24, 1999, various subsidiaries of the Company were served with a class action petition filed in the District Court of Stevens County, Kansas by Quinque Operating Company and other named plaintiffs alleging the mismeasurement of natural gas on non-Federal lands. On April 10, 2003, the court entered an order denying class certification. On May 12, 2003, the plaintiffs (now Will Price, Stixon Petroleum, Inc., Thomas F. Boles and the Cooper Clark Foundation, on behalf of themselves and other royalty interest owners) filed a motion seeking to file an amended class action petition, and the court granted the motion on July 28, 2003. In its amended petition (the "Fourth Amended Petition"), OG&E and Enogex Inc. were omitted from the case but two of the Company's other subsidiary entities remained as defendants. The plaintiffs' Fourth Amended Petition seeks class certification and alleges that approximately 60 defendants, including two of the Company's subsidiary entities, have improperly measured the volume of natural gas. The Fourth Amended Petition asserts theories of civil conspiracy, aiding and abetting, accounting and unjust enrichment. In their briefing on class certification, the plaintiffs seek to also allege a claim for conversion. The plaintiffs seek unspecified actual damages, attorneys' fees, costs and pre-judgment and post-judgment interest. The plaintiffs also reserved the right to seek punitive damages.

Discovery was conducted on the class certification issues, and the parties fully briefed these same issues. A hearing on class certification issues was held April 1, 2005. In May 2006, the court heard oral argument on a motion to intervene filed by Colorado Consumers Legal Foundation, which is claiming entitlement to participate in the putative class action. The court has not yet ruled on the motion to intervene.

The class certification issues were briefed and argued by the parties in 2005 and proposed findings of facts and conclusions of law on class certification were filed in 2007. On September 18, 2009, the court entered its order denying class certification. On October 2, 2009, the plaintiffs filed for a rehearing of the court's denial of class certification. On February 10, 2010 the court heard arguments on the rehearing request and by an order dated March 31, 2010, the court denied the plaintiffs' request for rehearing.

The Company intends to vigorously defend this action. At this time, the Company is unable to provide an evaluation of the likelihood of an unfavorable outcome and an estimate of the amount or range of potential loss to the Company.

5. *Will Price, et al. v. El Paso Natural Gas Co., et al. (Price II).* On May 12, 2003, the plaintiffs (same as those in the Fourth Amended Petition in Price I above) filed a new class action petition in the District Court of Stevens

County, Kansas naming the same defendants and asserting substantially identical legal and/or equitable theories as in the Fourth Amended Petition of the Price I case. OG&E and Enogex Inc. were not named in this case, but two subsidiary entities of the Company were named in this case. The plaintiffs allege that the defendants mismeasured the Btu content of natural gas obtained from or measured for the plaintiffs. In their briefing on class certification, the plaintiffs seek to also allege a claim for conversion. The plaintiffs seek unspecified actual damages, attorneys’ fees, costs and pre-judgment and post-judgment interest. The plaintiffs also reserved the right to seek punitive damages.

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The Company intends to vigorously defend this action. At this time, the Company is unable to provide an evaluation of the likelihood of an unfavorable outcome and an estimate of the amount or range of potential loss to the Company.

Item 1A. Risk Factors.

There have been no significant changes in the Company’s risk factors from those discussed in the Company’s 2009 Form 10-K, which are incorporated herein by reference.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The shares indicated below represent shares of Company common stock purchased on the open market by the trustee for the Company’s qualified defined contribution retirement plan and reflect shares purchased with employee contributions as well as the portion attributable to the Company’s matching contributions.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plan
4/1/10 – 4/30/10	17,100	\$ 38.58	N/A	N/A
5/1/10 – 5/31/10	114,100	\$ 38.12	N/A	N/A
6/1/10 – 6/30/10	34,400	\$ 36.15	N/A	N/A

N/A – not applicable

Item 6. Exhibits.

<u>Exhibit No.</u>	<u>Description</u>
3.01	OGE Energy Corp. Restated Certificate of Incorporation.
3.02	OGE Energy Corp. Amended By-laws dated May 20, 2010.
4.01	Supplemental Indenture No. 11 dated as of June 1, 2010 between OG&E and UMB Bank, N.A., as trustee, creating the Senior Notes. (Filed as Exhibit 4.01 to OG&E's Form 8-K filed June 8, 2010 (File No. 1-1097) and incorporated by reference herein)
31.01	Certifications Pursuant to Rule 13a-14(a)/15d-14(a) As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.01	Certification Pursuant to 18 U.S.C. Section 1350 As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.01	Copy of Settlement Agreement with Oklahoma Corporation Commission Staff, the Oklahoma Attorney General and others relating to OG&E's Smart Grid application. (Filed as Exhibit 99.02 to OGE Energy's Form 8-K filed June 1, 2010 (File No. 1-12579) and incorporated by reference herein)
99.02	Copy of Settlement Agreement with Oklahoma Corporation Commission Staff, the Oklahoma Attorney General and others relating to OG&E's Crossroads application. (Filed as Exhibit 99.01 to OGE Energy's Form 8-K filed July 1, 2010 (File No. 1-12579) and incorporated by reference herein)
99.03	Copy of OCC Order with Oklahoma Corporation Commission Staff, the Oklahoma Attorney General and others relating to OG&E's Smart Grid application. (Filed as Exhibit 99.02 to OGE Energy's Form 8-K filed July 7, 2010 (File No. 1-12579) and incorporated by reference herein)
99.04	Copy of OCC Order with Oklahoma Corporation Commission Staff, the Oklahoma Attorney General and others relating to OG&E's Crossroads application.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Schema Document.
101.PRE	XBRL Taxonomy Presentation Linkbase Document.
101.LAB	XBRL Taxonomy Label Linkbase Document.
101.CAL	XBRL Taxonomy Calculation Linkbase Document.
101.DEF	XBRL Definition Linkbase Document.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

OGE ENERGY CORP.
(Registrant)

By /s/ Scott Forbes
Scott Forbes
Controller and Chief Accounting Officer

August 5, 2010

**RESTATED
CERTIFICATE OF INCORPORATION
OF OGE ENERGY CORP.**

I.

The name of this corporation shall be “OGE Energy Corp.”

II.

The address of its Registered Office in the State of Oklahoma is 321 N. Harvey, in the City of Oklahoma City, County of Oklahoma and the name of its Registered Agent at such address is Ms. Patricia Horn.

III.

The purpose for which this corporation is formed is to engage in any lawful act or activity for which corporations may be organized under the general corporation law of Oklahoma.

IV.

A. AUTHORIZED CAPITAL STOCK. The total number of shares which the corporation shall have the authority to issue shall be 130,000,000 shares, of which 125,000,000 shares shall be Common Stock, par value \$.01 per share, and 5,000,000 shares shall be Preferred Stock, par value \$.01 per share.

B. COMMON STOCK. The Board of Directors is hereby authorized to cause shares of Common Stock, par value \$.01 per share, to be issued from time to time for such consideration as may be fixed from time to time by the Board of Directors, or by way of stock split pro rata to the holders of the Common Stock. The Board of Directors may also determine the proportion of the proceeds received from the sale of such stock which shall be credited upon the books of the corporation to Capital or Capital Surplus.

Each share of the Common Stock shall be equal in all respects to every other share of the Common Stock. Subject to any special voting rights of the holders of Preferred Stock fixed by or pursuant to the provisions of Section C of this Article IV, the shares of Common Stock shall entitle the holders thereof to one vote for each share upon all matters upon which shareholders have the right to vote.

No holder of shares of Common Stock shall be entitled as such as a matter of right to subscribe for or purchase any part of any new or additional issue of stock, or securities convertible into stock, of any class whatsoever, whether now or hereafter authorized, and whether issued for cash, property, services or otherwise.

After the requirements with respect to preferential dividends on Preferred Stock (fixed by or pursuant to the provisions of Section C of this Article IV), if any, shall have been met and after the corporation shall have complied with all the requirements, if any, with respect to the setting aside of sums as sinking funds or redemption or purchase accounts (fixed by or pursuant to the provisions of Section C of this Article IV) and subject further to any other conditions which may be fixed by or pursuant to the provisions of Section C of this Article IV, then, but not otherwise, the holders of Common Stock shall be entitled to receive dividends, if any, as may be declared from time to time by the Board of Directors.

After distribution in full of the preferential amount (fixed by or pursuant to the provisions of Section C of this Article IV), if any, to be distributed to the holders of Preferred Stock in the event of voluntary or involuntary liquidation, distribution or sale of assets, dissolution or winding up of the corporation, the holders of the Common Stock shall be entitled to receive all the remaining assets of the corporation, tangible and intangible, of whatever kind available for distribution to shareholders, ratably in proportion to the number of shares of Common Stock held by each.

C. PREFERRED STOCK. Shares of Preferred Stock may be divided into and issued in such series, on such terms and for such consideration as may from time to time be determined by the Board of Directors of the corporation. Each series shall be so designated as to distinguish the shares thereof from the shares of all other series and classes. All shares of Preferred Stock shall be identical, except as to variations between different series in the relative rights and preferences as

permitted or contemplated by the next succeeding sentence. Authority is hereby vested in the Board of Directors of the corporation to establish out of shares of Preferred Stock which are authorized and unissued from time to time one or more series thereof and to fix and determine the following relative rights and preferences of shares of each such series:

- (1) the distinctive designation of, and the number of shares which shall constitute, the series and the "stated value" or "nominal value," if any, thereof;
- (2) the rate or rates of dividends applicable to shares of such series, which rate or rates may be expressed in terms of a formula or other method by which such rate or rates shall be calculated from time to time, and the dividend periods, including the date or dates on which dividends are payable;
- (3) the price at and the terms and conditions on which shares of such series may be redeemed;
- (4) the amount payable upon shares of such series in the event of the involuntary liquidation of the corporation;
- (5) the amount payable upon shares of such series in the event of the voluntary liquidation of the corporation;
- (6) sinking fund provisions for the redemption or purchase of shares of such series;
- (7) the terms and conditions on which shares of such series may be converted, if such shares are issued with the privilege of conversion;
- (8) the voting powers, if any, of the holders of shares of the series which may, without limiting the generality of the foregoing, include (i) the right to one or less than one vote per share on any or all matters voted upon by the shareholders and (ii) the right to vote, as a series by itself or together with other series of Preferred Stock or together with all series of Preferred Stock as a class, upon such matters, under such circumstances and upon such conditions as the Board of Directors may fix, including, without limitation, the right, voting as a series by itself or together with other series of Preferred Stock or together with all series of Preferred Stock as a class, to elect one or more directors of this corporation in the event there shall have been a failure to pay dividends on any one or more series of Preferred Stock or under such other circumstances and upon such conditions as the Board of Directors may determine; *provided, however*, that in no event shall a share of Preferred Stock have more than one vote; and
- (9) any other such rights and preferences as are not inconsistent with the Oklahoma General Corporation Act.

No holder of any share of any series of Preferred Stock shall be entitled to vote for the election of directors or in respect of any other matter except as may be required by the Oklahoma General Corporation Act, as amended, or as is permitted by the resolution or resolutions adopted by the Board of Directors authorizing the issue of such series of Preferred Stock.

D. OTHER PROVISIONS

(1) The relative powers, preferences, and rights of each series of Preferred Stock in relation to the powers, preferences and rights of each other series of Preferred Stock shall, in each case, be as fixed from time to time by the Board of Directors in the resolution or resolutions adopted pursuant to authority granted in Section C of this Article IV, and the consent by class or series vote or otherwise, of the holders of the Preferred Stock or such of the series of the Preferred Stock as are from time to time outstanding shall not be required for the issuance by the Board of Directors of any other series of Preferred Stock whether the powers, preferences and rights of such other series shall be fixed by the Board of Directors as senior to, or on a parity with, the powers, preferences and rights of such outstanding series, or any of them, *provided, however*, that the Board of Directors may provide in such resolution or resolutions adopted with respect to any series of Preferred Stock that the consent of the holders of a majority (or such greater proportion as shall be therein fixed) of the outstanding shares of such series voting thereon shall be required for the issuance of any or all other series of Preferred Stock.

(2) Subject to the provisions of paragraph 1 of this Section D, shares of any series of Preferred Stock may be issued from time to time as the Board of Directors shall determine and on such terms and for such consideration as shall be fixed by the Board of Directors.

(3) Common Stock may be issued from time to time as the Board of Directors shall determine and on such terms and for such consideration as shall be fixed by the Board of Directors.

(4) No holder of any of the shares of any class or series of shares or securities convertible into such shares of any class or series of shares, or of options, warrants or other rights to purchase or acquire shares of any class or series of shares or of other securities of the corporation shall have any preemptive right to purchase, acquire, subscribe for any unissued shares of any class or series or any additional shares of any class or series to be issued by reason of any increase of the authorized capital stock of the corporation of any class or series, or bonds, certificates of indebtedness, debentures or other securities convertible into or exchangeable for shares of any class or series, or carrying any right to purchase or acquire shares of any class or series, but any such unissued shares, additional authorized issue of shares of any class or series of shares or securities convertible into or exchangeable for shares, or carrying any right to purchase or acquire shares, may be issued and disposed of pursuant to resolution of the Board of Directors to such persons, firms, corporations or associations, and upon such terms, as may be deemed advisable by the Board of Directors in the exercise of its sole discretion.

(5) The corporation reserves the right to increase or decrease its authorized capital shares, or any class or series thereof or to reclassify the same and to amend, alter, change or repeal any provision contained in the Certificate of Incorporation or in any amendment thereto, in the manner now or hereafter prescribed by law, but subject to such conditions and limitations as are hereinbefore prescribed, and all rights conferred upon shareholders in the Certificate of Incorporation of this corporation, or any amendment thereto, are granted subject to this reservation.

V.

Reserved.

VI.

(A) VOTE REQUIRED FOR CERTAIN BUSINESS COMBINATIONS.

(1) In addition to any affirmative vote required by law or this Article VI or any other Article hereof, and except as otherwise expressly provided in Section B of this Article VI:

(a) any merger or consolidation of the corporation or any Subsidiary (as hereinafter defined) with (i) any Interested Shareholder (as hereinafter defined) or (ii) any other corporation (whether or not itself an Interested Shareholder) which is, or after such merger or consolidation would be, an Affiliate (as hereinafter defined) of an Interested Shareholder; or

(b) any sale, lease, exchange, mortgage, pledge, transfer or other disposition (in one transaction or a series of transactions) to or with any Interested Shareholder or any Affiliate of any Interested Shareholder of any assets of the corporation or any Subsidiary having an aggregate Fair Market Value of \$25,000,000 or more; or

(c) the issuance or transfer by the corporation or any Subsidiary (in one transaction or a series of transactions) of any securities of the corporation or any Subsidiary to any Interested Shareholder or any Affiliate of any Interested Shareholder in exchange for cash, securities or other property (or a combination thereof) having an aggregate Fair Market Value of \$25,000,000 or more, other than the issuance of securities upon the conversion of convertible securities of the corporation or any Subsidiary which were not acquired by such Interested Shareholder (or such Affiliate) from the corporation or a Subsidiary; or

(d) the adoption of any plan or proposal for the liquidation or dissolution of the corporation proposed by or on behalf of an Interested Shareholder or any Affiliate of any Interested Shareholder; or

(e) any reclassification of securities (including any reverse stock split), or recapitalization of the corporation, or any merger or consolidation of the corporation with any of its Subsidiaries or any other transaction (whether or not with or into or otherwise involving an Interested Shareholder) which has the effect, directly or indirectly, of increasing the proportionate share of the outstanding shares of any class or series of stock or securities convertible into stock of the corporation or any Subsidiary which is directly or indirectly owned by any Interested Shareholder or any Affiliate of any Interested Shareholder;

shall require the affirmative vote of the holders of at least 80% of the voting power of the then outstanding shares of stock of the corporation entitled to vote generally in the election of directors (the "Voting Stock"), voting together as a single class (it being understood that for purposes of this Article VI, each share of the Voting Stock shall have the number of votes granted to it pursuant to Article IV hereof). Such affirmative vote shall be required notwithstanding the fact that no vote may be required, or that a lesser percentage may be specified, by law, by any provision hereof, or in any agreement with any national securities exchange or otherwise.

(2) The term "Business Combination" as used in this Article VI shall mean any transaction which is referred to in any one or more subparagraphs (a) through (e) of paragraph 1 of this Section A.

(B) WHEN HIGHER VOTE IS NOT REQUIRED. The provisions of Section A of this Article VI shall not be applicable to any particular Business Combination, and such Business Combination shall require only such affirmative vote as is required by law and any other provision of any Article hereof, if all of the conditions specified in either of the following paragraphs (1) and (2) are met:

(1) The Business Combination shall have been approved by a majority of the Disinterested Directors (as hereinafter defined).

(2) All of the following conditions shall have been met:

(a) The aggregate amount of the cash and the Fair Market Value (as hereinafter defined) as of the date of the consummation of the Business Combination of any consideration other than cash to be received per share by holders of Common Stock in such Business Combination shall be at least equal to the higher of the following:

I. (if applicable) the Highest Per Share Price (as hereinafter defined) (including the brokerage commissions, transfer taxes and soliciting dealers' fees) paid in order to acquire any shares of Common Stock beneficially owned by the Interested Shareholder which were acquired beneficially by such Interested Shareholder (X) within the two-year period immediately prior to the first public announcement of the proposal of the Business Combination (the "Announcement Date") or (Y) in the transaction in which it became an Interested Shareholder, whichever is higher; and

II. the Fair Market Value per share of Common Stock on the Announcement Date or on the date on which the Interested Shareholder became an Interested Shareholder (such later date is referred to in this Article VI as the "Determination Date"), whichever is higher.

(b) The aggregate amount of the cash and the Fair Market Value as of the date of the consummation of the Business Combination of consideration other than cash to be received per share by holders of shares of any class or series of outstanding Voting Stock other than the Common Stock shall be at least equal to the highest of the following (it being intended that the requirements of this subparagraph (b) shall be required to be met with respect to every such class or series of outstanding Voting Stock, whether or not the Interested Shareholder beneficially owns any shares of a particular class or series of Voting Stock):

I. (if applicable) the Highest Per Share Price (as hereinafter defined) (including any brokerage commissions, transfer taxes and soliciting dealers' fees) paid in order to acquire any shares of such class or series of Voting Stock beneficially owned by the Interested Shareholder which were acquired beneficially by such Interested Shareholder (X) within the two-year period

immediately prior to the Announcement Date or (Y) in the transaction in which it became an Interested Shareholder, whichever is higher;

II. (if applicable) the highest preferential amount per share to which the holders of shares of such class or series of Voting Stock are entitled in the event of any voluntary or involuntary liquidation, dissolution or winding up of the corporation; and

III. the Fair Market Value per share of such class or series of Voting Stock on the Announcement Date or on the Determination Date, whichever is higher.

(c) The consideration to be received by holders of a particular class or series of outstanding Voting Stock (including Common Stock) shall be in cash or in the same form as was previously paid in order to acquire beneficially shares of such class or series of Voting Stock that are beneficially owned by the Interested Shareholder and, if the Interested Shareholder beneficially owns shares of any class or series of Voting Stock that were acquired with varying forms of consideration, the form of consideration to be received by holders of such class or series of Voting Stock shall be either cash or the form used to acquire beneficially the largest number of shares of such class or series of Voting Stock beneficially acquired by it prior to the Announcement Date.

(d) After such Interested Shareholder has become an Interested Shareholder and prior to the consummation of such Business Combination: (i) except as approved by a majority of the Disinterested Directors, there shall have been no failure to declare and pay at the regular dates therefor the full amount of any dividends (whether or not cumulative) payable on any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation; (ii) there shall have been (x) no reduction in the annual rate of dividends paid on the Common Stock (except as necessary to reflect any subdivision of the Common Stock), except as approved by a majority of the Disinterested Directors, and (y) an increase in such annual rate of dividends (as necessary to prevent any such reduction) in the event of any reclassification (including any reverse stock split), recapitalization, reorganization or any similar transaction which has the effect of reducing the number of outstanding shares of the Common Stock, unless the failure so to increase such annual rate was approved by a majority of the Disinterested Directors; and (iii) such Interested Shareholder shall have not become the beneficial owner of any additional shares of Voting Stock except as part of the transaction which results in such Interested Shareholder becoming an Interested Shareholder.

(e) After such Interested Shareholder has become an Interested Shareholder, such Interested Shareholder shall not have received the benefit, directly or indirectly (except proportionally as a stockholder), of any loans, advances, guarantees, pledges or other financial assistance or any tax credits or other tax advantages provided by the corporation, whether in anticipation of or in connection with such Business Combination or otherwise.

(f) A proxy or information statement describing the proposed Business Combination and complying with the requirements of the Securities Exchange Act of 1934 and the rules and regulations thereunder (or any subsequent provisions replacing such Act, rules or regulations) shall be mailed to public shareholders of the corporation at least 30 days prior to the consummation of such Business Combination (whether or not such proxy or information statement is required to be mailed pursuant to such Act or subsequent provisions).

(C) CERTAIN DEFINITIONS. For the purposes of this Article VI:

(1) A "person" shall mean any individual, firm, corporation or other entity.

(2) "Interested Shareholder" shall mean any person (other than the corporation or any Subsidiary) who or which:

(a) is the beneficial owner, directly or indirectly of more than 10% of the voting power of the outstanding Voting Stock; or

(b) is an Affiliate of the corporation and at any time within the two-year period immediately prior to the date in question was the beneficial owner, directly or indirectly, of 10% or more of the voting power of the then outstanding Voting Stock; or

(c) is an assignee of or has otherwise succeeded to any shares of Voting Stock that were at any time within the two-year period immediately prior to the date in question beneficially owned by any Interested Stockholder, if such assignment or succession shall have occurred in the course of a transaction or series of transactions not involving a public offering within the meaning of the Securities Act of 1933.

(3) A person shall be a “beneficial owner” of any Voting Stock:

(a) which such person or any of its Affiliates or Associates (as hereinafter defined) beneficially owns, directly or indirectly; or

(b) which such person or any of its Affiliates or Associates has (i) the right to acquire (whether such right is exercisable immediately or only after the passage of time), pursuant to any agreement, arrangement or understanding or upon the exercise of conversion rights, exchange rights, warrants or options, or otherwise, or (ii) the right to vote or direct the vote pursuant to any agreement, arrangement or understanding; or

(c) which are beneficially owned, directly or indirectly, by any other person with which such person or any of its Affiliates or Associates has any agreement, arrangement or understanding for the purposes of acquiring, holding, voting or disposing of any shares of Voting Stock.

(4) For the purposes of determining whether a person is an Interested Shareholder pursuant to paragraph 2 of this Section C, the number of shares of Voting Stock deemed to be outstanding shall include shares deemed owned through application of paragraph 3 of this Section C but shall not include any other shares of Voting Stock which may be issuable pursuant to any agreement, arrangement or understanding or upon exercise of conversion rights, warrants or options, or otherwise.

(5) “Affiliate” or “Associate” shall have the respective meanings ascribed to such terms in Rule 12b-2 of the General Rules and Regulations, under the Securities Exchange Act of 1934, as in effect on November 16, 1995.

(6) “Subsidiary” means any corporation of which a majority of any class of equity security is owned, directly or indirectly, by the corporation or by a Subsidiary of the corporation or by the corporation and one or more Subsidiaries; *provided, however*, that for the purposes of the definition of Interested Shareholder set forth in paragraph 2 of this Section C, the term “Subsidiary” shall mean only a corporation of which a majority of each class of equity security is owned, directly or indirectly, by the corporation.

(7) “Disinterested Director” means any member of the Board of Directors of the corporation who is unaffiliated with, and not a nominee or representative of, the Interested Shareholder and was a member of the Board of Directors prior to the time that the Interested Shareholder became an Interested Shareholder, and any successor of a Disinterested Director who is unaffiliated with, and not a nominee or representative of, the Interested Shareholder and who is recommended to succeed a Disinterested Director by a majority of Disinterested Directors then on the Board of Directors.

(8) “Fair Market Value” means: (a) in the case of stock, the highest closing sale price during the 30-day period immediately preceding the date in question of a share of such stock on the Composite Tape for New York Stock Exchange-Listed Stocks, or, if such stock is not quoted on the Composite Tape on the New York Stock Exchange, or, if such stock is not listed on such Exchange, on the principal United States securities exchange registered under the Securities Exchange Act of 1934 on which such stock is listed, or, if such stock is not listed on any such exchange, the highest closing sales price or bid quotation with respect to a share of such stock during the 30-day period preceding the date in question on the National Association of Securities Dealers, Inc. Automated Quotations System or any system then in use, or if no such quotations are available, the fair market value on the date in question of a share of such stock as determined by a majority of the Disinterested Directors in good faith, in each

case with respect to any class of stock, appropriately adjusted for any dividend or distribution in shares of such stock or any stock split or reclassification of outstanding shares of such stock into a greater number of shares of such stock or any combination or reclassification of outstanding shares of such stock into a smaller number of shares of such stock; and (b) in the case of stock of any class or series which is not traded on any United States registered securities exchange nor in the over-the-counter market or in the case of property other than cash or stock, the fair market value of such property on the date in question as determined by a majority of the Disinterested Directors in good faith.

(9) References to “Highest Per Share Price” shall in each instance, with respect to any class of stock, reflect an appropriate adjustment for any dividend or distribution in shares of such stock or any stock split or reclassification of outstanding shares of such stock into a greater number of shares of such stock or any combination or reclassification of outstanding shares of such stock into a smaller number of shares of such stock.

(10) In the event of any Business Combination in which the corporation survives, the phrase “consideration other than cash to be received” as used in subparagraphs (a) and (b) of paragraph (2) of Section B of this Article VI shall include the shares of Common Stock and/or the shares of any other class of outstanding Voting Stock retained by the holders of such shares.

(D) **POWERS OF THE BOARD OF DIRECTORS.** A majority of the Disinterested Directors of the corporation shall have the power and duty to determine, on the basis of information known to them after reasonable inquiry, all facts necessary to determine compliance with this Article VI, including without limitation, (a) whether a person is an Interested Shareholder, (b) the number of shares of Voting Stock beneficially owned by any person, (c) whether a person is an Affiliate or Associate of another, (d) whether the assets which are the subject of any Business Combination have, or the consideration to be received for the issuance or transfer of securities by the corporation or any Subsidiary in any Business Combination has, an aggregate Fair Market Value of \$25,000,000 or more and (e) whether the requirements of Section B of this Article VI have been met.

(E) **NO EFFECT ON FIDUCIARY OBLIGATIONS OF INTERESTED SHAREHOLDERS.** Nothing contained in this Article VI shall be construed to relieve any Interested Shareholder from any fiduciary obligation imposed by law.

(F) **AMENDMENT OR REPEAL.** Notwithstanding any other provisions of this Article VI or of any other Article hereof, or of the By-laws of the corporation (and notwithstanding the fact that a lesser percentage may be specified from time to time by law, this Article VI, any other Article hereof, or the By-laws of the corporation), the provisions of this Article VI may not be altered, amended or repealed in any respect, nor may any provision inconsistent therewith be adopted, unless such alteration, amendment, repeal or adoption is approved by the affirmative vote of the holders of at least 80% of the combined voting power of the then outstanding Voting Stock, voting together as a single class.

VII.

(A) **ELECTION AND TERMS OF DIRECTORS.** Except as may otherwise be provided in or fixed by or pursuant to the provisions of Article IV hereof relating to the rights of the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation to elect directors under specified circumstances, the directors elected at or prior to the annual meeting of shareholders in 2010 shall be classified, with respect to the time for which they severally hold office, into three classes, as nearly equal in number as possible, with each class of directors to serve for a term expiring at the annual meeting of shareholders held in the third year following the year of their election and until their successors are elected and qualified, subject to earlier death, resignation or removal. At each annual meeting of shareholders of the corporation after the annual meeting of shareholders in 2010 and except as may otherwise be provided in or fixed by or pursuant to the provisions of Article IV hereof relating to the rights of the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation to elect directors under specified circumstances, the directors shall be elected for terms expiring at the next annual meeting of shareholders and until their successors are elected and qualified, subject to earlier death, resignation or removal; provided that the directors elected at or prior to the 2010 annual meeting of shareholders shall continue to serve until their terms expire. In each case, directors shall hold office until their successors are elected and qualified.

(B) **SHAREHOLDER NOMINATION OF DIRECTOR CANDIDATES AND INTRODUCTION OF BUSINESS.** Advance notice of shareholder nominations for the election of directors, and advance notice of business to be

brought by shareholders before an annual meeting of shareholders, shall be given in the manner provided in the By-laws of the corporation.

(C) **NEWLY CREATED DIRECTORSHIPS AND VACANCIES.** Except as may otherwise be provided in or fixed by or pursuant to the provisions of Article IV hereof relating to the rights of the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation to elect directors under specified circumstances: (i) newly created directorships resulting from any increase in the number of directors and any vacancies on the Board of Directors resulting from death, resignation, disqualification, removal or other cause shall be filled by the affirmative vote of a majority of the remaining directors then in office, even though less than a quorum of the Board of Directors; (ii) any director elected in accordance with the preceding clause (i) shall hold office until the next annual meeting of shareholders and until such director's successor shall have been elected and qualified; and (iii) no decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

(D) **REMOVAL.** Except as may otherwise be provided in or fixed by or pursuant to the provisions of Article IV hereof relating to the rights of the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation to elect directors under specified circumstances, any director may be removed from office, with or without cause, only by the affirmative vote of the holders of at least a majority of the combined voting power of the then outstanding shares of the corporation's stock entitled to vote generally, voting together as a single class. Whenever in this Article VII or in Article VIII hereof or in Article IX hereof, the phrase "the then outstanding shares of the corporation's stock entitled to vote generally" is used, such phrase shall mean each then outstanding share of Common Stock and of any other class or series of the corporation's stock that is entitled to vote generally in the election of directors and whose voting privileges are not generally restricted by any of the provisions of any Article hereof.

(E) **AMENDMENT OR REPEAL.** Notwithstanding any other provisions of this Article VII or of any other Article hereof or of the By-laws of the corporation (and notwithstanding the fact that a lesser percentage may be specified from time to time by law, this Article VII, any other Article hereof, or the By-laws of the corporation), the provisions of this Article VII may not be altered, amended or repealed in any respect, nor may any provision inconsistent therewith be adopted, unless such alteration, amendment, repeal or adoption is approved by the affirmative vote of the holders of at least 80% of the combined voting power of the then outstanding shares of the corporation's stock entitled to vote generally, voting together as a single class.

VIII.

Any action required or permitted to be taken by the shareholders of the corporation must be effected at a duly called annual or special meeting of such holders and, except as otherwise mandated by Oklahoma law, may not be effected without such a meeting by any consent in writing by such holders. Except as otherwise mandated by Oklahoma law and except as may otherwise be provided in or fixed by or pursuant to the provisions of Article IV hereof relating to the rights of the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation to elect directors under specified circumstances, special meetings of shareholders of the corporation may be called only by the Board of Directors pursuant to a resolution approved by a majority of the entire Board of Directors or by the President of the corporation. Notwithstanding any other provisions of this Article VIII or of any other Article hereof or of the By-laws of the corporation (and notwithstanding the fact that a lesser percentage may be specified from time to time by law, this Article VIII, any other Article hereof, or the By-laws of the corporation), the provisions of this Article VIII may not be altered amended or repealed in any respect, nor may any provision inconsistent therewith be adopted, unless such alteration, amendment, repeal or adoption is approved by the affirmative vote of the holders of at least 80% of the combined voting power of the then outstanding shares of the corporation's stock entitled to vote generally, voting together as a single class.

IX.

The Board of Directors shall have power to adopt, amend and repeal the By-laws of the corporation to the maximum extent permitted from time to time by Oklahoma law; *provided, however*, that any By-laws adopted by the Board of Directors under the powers conferred hereby may be amended or repealed by the Board of Directors or by the shareholders having voting power with respect thereto, except that, and notwithstanding any other provisions of this Article IX or of any other Article hereof or of the By-laws of the corporation (and notwithstanding the fact that a lesser percentage may be specified from time to time by law, this Article IX, any other Article hereof or the By-laws of the corporation), no provision of Section 1.1 of Article 1 of the By-laws, or of Section 4.2, Section 4.12 or Section 4.14 of Article IV of the By-laws, or of Section 5.2 or Section 5.3 of Article V the By-laws may be altered, amended or repealed in any respect, nor may any provision inconsistent therewith be adopted, unless such alteration, amendment, repeal or adoption is approved by the

affirmative vote of the holders of at least 80% of the combined voting power of the then outstanding shares of the corporation's stock entitled to vote generally, voting together as a single class. Notwithstanding any other provisions of this Article IX or of any other Article hereof or of the By-laws of the corporation (and notwithstanding the fact that a lesser percentage may be specified from time to time by law, this Article IX, any other Article hereof or the By-laws of the corporation), the provisions of this Article IX may not be altered, amended or repealed in any respect, nor may any provision inconsistent therewith be adopted, unless such alteration, amendment, repeal or adoption is approved by the affirmative vote of the holders of at least 80% of the combined voting power of the then outstanding shares of the corporation's stock entitled to vote generally, voting together as a single class.

X.

A director of the corporation shall not be personally liable to the corporation or its shareholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the corporation or its shareholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 1053 of the Oklahoma General Corporation Act, or (iv) for any transaction from which the director derived any improper personal benefit. If the Oklahoma General Corporation Act is amended after approval by the shareholders of this Article to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the corporation shall be eliminated or limited to the fullest extent permitted by the Oklahoma General Corporation Act, as so amended.

Any repeal or modification of the foregoing paragraph by the shareholders of the corporation shall not adversely affect any right or protection of a director of the corporation existing at the time of such repeal or modification.

XI.

(A) RIGHT TO INDEMNIFICATION. Each person who was or is made a party or is threatened to be made a party to or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "proceeding"), by reason of the fact that he or she is or was a director, officer or employee of the corporation or is or was serving at the request of the corporation as a director, officer or employee of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to an employee benefit plan (hereinafter an "indemnatee"), whether the basis of such proceeding is alleged action in an official capacity as a director, officer or employee or in any other capacity while serving as a director, officer or employee, shall be indemnified and held harmless by the corporation to the fullest extent authorized by the Oklahoma General Corporation Act, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the corporation to provide broader indemnification rights than such law permitted the corporation to provide prior to such amendment), against all expense, liability and loss (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid in settlement) reasonably incurred or suffered by such indemnatee in connection therewith and such indemnification shall continue as to an indemnatee who had ceased to be a director, officer or employee and shall inure to the benefit of the indemnatee's heirs, executor and administrators; *provided, however*, that, except as provided in Section B of this Article XI with respect to proceedings to enforce rights to indemnification, the corporation shall indemnify any such indemnatee in connection with a proceeding (or part thereof) initiated by such indemnatee only if such proceeding (or part thereof) was authorized by the Board of Directors of the corporation. Any person who is or was a director or officer of a subsidiary of the corporation shall be deemed to be serving in such capacity at the request of the corporation for purposes of this Article XI. The right to indemnification conferred in this Article shall include the right to be paid by the corporation the expenses incurred in defending any such proceeding in advance of its final disposition (hereinafter an "advancement of expenses"); *provided, however*, that, if the Oklahoma General Corporation Act requires, an advancement of expenses incurred by an indemnatee in his or her capacity as a director or officer (and not in any other capacity in which service was or is rendered by such indemnatee, including, without limitation, service with respect to an employee benefit plan) shall be made only upon delivery to the corporation of an undertaking (hereinafter an "undertaking"), by or on behalf of such indemnatee, to repay all amounts so advanced if it shall ultimately be determined by final judicial decision from which there is no further right to appeal (hereinafter, a "final adjudication") that such indemnatee is not entitled to be indemnified for such expenses under this Article or otherwise. The rights to indemnification and advancement of expenses conferred in this Section A shall be a contract right.

(B) RIGHT OF INDEMNITEE TO BRING SUIT. If a claim under Section A of this Article XI is not paid in full by the corporation within sixty days after a written claim has been received by the corporation, except in the case of a claim for an advancement of expenses, in which case the applicable period shall be twenty days, the indemnatee may at any time thereafter bring suit against the corporation to recover the unpaid amount of the claim. If successful in whole or in part

in any such suit or in a suit brought by the corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the indemnitee also shall be entitled to be paid the expense of prosecuting or defending such suit. In (i) any suit brought by the indemnitee to enforce a right to indemnification hereunder (but not in a suit brought by the indemnitee to enforce a right to an advancement of expenses) it shall be a defense that, and in (ii) any suit by the corporation to recover an advancement of expenses pursuant to the terms of an undertaking the corporation shall be entitled to recover such expenses upon a final adjudication that, the indemnitee has not met the applicable standard of conduct set forth in the Oklahoma General Corporation Act. Neither the failure of the corporation (including its Board of Directors, independent legal counsel, or its shareholders) to have made a determination prior to the commencement of such suit that indemnification of the indemnitee is proper in the circumstances because the indemnitee has met the applicable standard of conduct set forth in the Oklahoma General Corporation Act, nor an actual determination by the corporation (including its Board of Directors, independent legal counsel, or its shareholders) that the indemnitee has not met such applicable standard of conduct, shall create a presumption that the indemnitee has not met the applicable standard of conduct or, in the case of such a suit brought by the indemnitee, be a defense to such suit. In any suit brought by the indemnitee to enforce a right to indemnification or to an advancement of expenses hereunder, or by the corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the burden of proving that the indemnitee is not entitled to be indemnified or to such advancement of expenses under this Article XI or otherwise shall be on the corporation.

(C) NON-EXCLUSIVITY OF RIGHTS. The rights to indemnification and to the advancement of expenses conferred in this Article XI shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, these Articles of Incorporation, any By-law, any agreement, any vote of shareholders or disinterested directors or otherwise.

(D) INSURANCE. The corporation may maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of the corporation or another corporation, partnership, joint venture, trust or other enterprise against any expense, liability or loss, whether or not the corporation would have the power to indemnify such person against such expense, liability or loss under the Oklahoma General Corporation Act.

(E) INDEMNIFICATION OF AGENTS. The corporation may, to the extent authorized from time to time by the Board of Directors, grant rights to indemnification and to the advancement of expenses to any agent of the corporation and to any person serving at the request of the corporation as an agent of another corporation or of a partnership, joint venture, trust or other enterprise to the fullest extent of the provisions of this Article XI with respect to the indemnification and advancement of expenses of directors, officers and employees of the corporation.

(F) REPEAL OR MODIFICATION. Any repeal or modification of any provision of this Article XI by the shareholders of the corporation shall not adversely affect any rights to indemnification and to advancement of expenses that any person may have at the time of such repeal or modification with respect to any acts or omissions occurring prior to such repeal or modification.

XII.

Of the then allotted shares of Preferred Stock described in Article IV hereof, the Board of Directors on August 7, 1995, established a series of Preferred Stock in the amount and with the designation, voting powers, preferences and relative, participating, options or other special rights and the qualifications, limitations or restrictions as follows:

SECTION 1. DESIGNATION AND AMOUNT. The shares of such series shall be designated "Series A Preferred Stock" and the number of shares constituting such series shall be 1,250,000. Shares of Series A Preferred Stock shall have a par value of \$.01 per share.

SECTION 2. DIVIDENDS AND DISTRIBUTIONS.

(A) Subject to the possible prior and superior rights of the holders of any shares of preferred stock of the Company ranking prior and superior to the shares of Series A Preferred Stock with respect to dividends, each holder of Series A Preferred Stock shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available for that purpose: (i) quarterly dividends payable in cash on January 20, April 20, July 20 and October 20 in each year (each such date being a "Quarterly Dividend Payment Date"), commencing on the first Quarterly Dividend Payment Date after the first issuance of such share of Series A Preferred Stock, in an amount per share (rounded to the nearest cent) equal to the greater of (a) \$5.00 or (b) subject to the provision for adjustment hereinafter set forth, 100 times the aggregate

per share amount of all cash dividends declared on shares of the Common Stock of the Company, par value \$.01 per share (the "Common Stock"), since the immediately preceding Quarterly Dividend Payment Date, or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of a share of Series A Preferred Stock and (ii) subject to the provision for adjustment hereinafter set forth, quarterly distributions (payable in kind) on each Quarterly Dividend Payment Date in an amount per share equal to 100 times the aggregate per share amount of all non-cash dividends or other distributions (other than a dividend payable in shares of Common stock or a subdivision of the outstanding shares of Common Stock, by reclassification or otherwise) declared on shares of Common Stock since the immediately preceding Quarterly Dividend Payment Date, or with respect to the first Quarterly Dividend Payment Date, since the first issuance of a share of Series A Preferred Stock. If the quarterly Dividend Payment Date is a Saturday, Sunday or legal holiday, then such Quarterly Dividend Payment Date shall be the first immediately preceding calendar day which is not a Saturday, Sunday or legal holiday. In the event that the Company shall at any time after August 7, 1995 (the "Rights Declaration Date") (i) declare any dividend on outstanding shares of Common Stock payable in shares of Common Stock, (ii) subdivide outstanding shares of Common Stock, or (iii) combine outstanding shares of Common Stock into a smaller number of shares, then in each such case, the amount to which the holder of a share of Series A Preferred Stock was entitled immediately prior to such event pursuant to the preceding sentence shall be adjusted by multiplying such amount by a fraction, the numerator of which shall be the number of shares of Common Stock that are outstanding immediately after such event, and the denominator of which shall be the number of shares of Common Stock that were outstanding immediately prior to such event.

(B) The Company shall declare a dividend or distribution on shares of Series A Preferred Stock as provided in paragraph A above immediately after it declares a dividend or distribution on the shares of Common Stock (other than a dividend payable in shares of Common Stock); *provided, however*, that, in the event no dividend or distribution shall have been declared on the Common Stock during the period between any Quarterly Dividend Payment Date and the next subsequent Quarterly Dividend Payment Date, a dividend of \$5.00 per share on the Series A Preferred Stock shall nevertheless be payable on such subsequent Quarterly Dividend Payment Date.

(C) Dividends shall begin to accrue and shall be cumulative on each outstanding share of Series A Preferred Stock from the Quarterly Dividend Payment Date next preceding the date of issuance of such share of Series A Preferred Stock, unless the date of issuance of such share is prior to the record date for the first Quarterly Dividend Payment Date, in which case, dividends on such share shall begin to accrue from the date of issuance of such share, or unless the date of issuance is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of shares of Series A Preferred Stock entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date, in either of which events such dividends shall begin to accrue and be cumulative from such Quarterly Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on shares of Series A Preferred Stock in an amount less than the aggregate amount of all such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all shares of Series A Preferred Stock at the time outstanding. The Board of Directors may fix a record date for the determination of holders of shares of Series A Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be no more than 60 days prior to the date fixed for the payment thereof.

(D) Dividends payable on the Series A Preferred Stock for the initial dividend period and for any period less than a full quarterly period, shall be computed on the basis of a 360-day year of 30-day months.

SECTION 3. VOTING RIGHTS. The holders of shares of Series A Preferred Stock shall have the following voting rights:

(A) Each share of Series A Preferred Stock shall entitle the holder thereof to one vote on all matters submitted to a vote of the shareholders of the Company.

(B) Except as otherwise provided herein or by law, the holders of shares of Series A Preferred Stock and the holders of shares of Common Stock shall vote together as one class on all matters submitted to a vote of shareholders of the Company.

(C) If at the time of any annual meeting of shareholders for the election of directors a "default in preference dividends" on the Series A Preferred Stock shall exist, the holders of the Series A Preferred Stock shall have the right at such meeting, voting together as a single class, to the exclusion of the holders of Common Stock, to elect two (2) directors of the Company. Such right shall continue until there are no dividends in arrears upon the Series A Preferred Stock. Either or both of the two directors to be elected by the holders of Series A Preferred Stock may be to fill a vacancy or vacancies created by

an increase by the Board of Directors in the number of directors constituting the Board of Directors. Each director elected by the holders of Preferred Stock (a "Preferred Director") shall continue to serve as such director for the full term for which he or she shall have been elected, notwithstanding that prior to the end of such term a default in preference dividends shall cease to exist. Any Preferred Director may be removed by, and shall not be removed except by, the vote of the holders of record of the outstanding Series A Preferred Stock voting together as a single class, at a meeting of the shareholders or of the holders of Preferred Stock called for the purpose. So long as a default in preference dividends on the Series A Preferred Stock shall exist, (i) any vacancy in the office of a Preferred Director may be filled (except as provided in the following clause (ii)) by an instrument in writing signed by the remaining Preferred Director and filed with the Company and (ii) in the case of the removal of any Preferred Director, the vacancy may be filled by the vote of the holders of the outstanding Series A Preferred Stock voting together as a single class, at the same meeting at which such removal shall be voted. Each director appointed as aforesaid by the remaining Preferred Director shall be deemed, for all purposes hereof, to be a Preferred Director. For the purposes hereof, a "default in preference dividends" on the Preferred Stock shall be deemed to have occurred whenever the amount of accrued and unpaid dividends upon the Series A Preferred Stock shall be equivalent to six (6) full quarterly dividends or more, and having so occurred, such default shall be deemed to exist thereafter until, but only until, all accrued dividends on all Series A Preferred Stock then outstanding shall have been paid to the end of the last preceding quarterly dividend period. The provisions of this paragraph C shall govern the election of Directors by holders of Series A Preferred Stock during any default in preference dividends notwithstanding any provisions of the Company's Certificate of Incorporation to the contrary.

(D) Except as set forth herein, holders of shares of Series A Preferred Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of shares of Common Stock as set forth herein) for taking any corporate action.

SECTION 4. CERTAIN RESTRICTIONS.

(A) Until all accrued and unpaid dividends and distributions, whether or not declared, on outstanding shares of Series A Preferred Stock shall have been paid in full, the Company shall not:

(i) declare or pay any dividends on, make any other distributions on, or redeem or purchase or otherwise acquire for consideration any shares of junior stock;

(ii) declare or pay dividends on or make any other distributions on any shares of parity stock, except dividends paid ratably on shares of Series A Preferred Stock and shares of all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of such Series A Preferred Stock and all such shares are then entitled;

(iii) redeem or purchase or otherwise acquire for consideration shares of any junior stock, *provided, however*, that the Company may at any time redeem, purchase or otherwise acquire shares of any such junior stock in exchange for shares of any other junior stock;

(iv) purchase or otherwise acquire for consideration any shares of Series A Preferred Stock or any shares of parity stock, except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of such shares upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

(B) The Company shall not permit any subsidiary of the Company to purchase or otherwise acquire for consideration any shares of stock of the Company unless the Company could, under paragraph A of this Section 4, purchase or otherwise acquire such shares at such time and in such manner.

SECTION 5. REACQUIRED SHARES. Any shares of Series A Preferred Stock purchased or otherwise acquired by the Company in any manner whatsoever shall be retired and canceled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued Preferred Stock and may be reissued as part of a new series of Preferred Stock subject to the conditions and restrictions on issuance set forth in the Certificate of Incorporation of the Company creating a series of Preferred Stock or any similar shares or as otherwise required by law.

SECTION 6. LIQUIDATION, DISSOLUTION OR WINDING UP.

(A) Upon any voluntary or involuntary liquidation, dissolution or winding up of the Company, no distributions shall be made (i) to the holders of shares of junior stock unless the holders of Series A Preferred Stock shall have received, subject to adjustment as hereinafter provided in paragraph B, the greater of either (a) \$100.00 per share plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment, or (b) an amount per share equal to 100 times the aggregate per share amount to be distributed to holders of shares of Common Stock or (ii) to the holders of shares of parity stock, unless simultaneously therewith distributions are made ratably on shares of Series A Preferred Stock and all other shares of such parity stock in proportion to the total amounts to which the holders of shares of Series A Preferred Stock are entitled under clause (i)(a) of this sentence and to which the holders of shares of such parity stock are entitled, in each case, upon such liquidation, dissolution or winding up.

(B) In the event the Company shall at any time after the Rights Declaration Date (i) declare any dividend on outstanding shares of Common Stock payable in shares of Common Stock, (ii) subdivide outstanding shares of Common Stock, or (iii) combine outstanding shares of Common Stock into a smaller number of shares, then in each such case, the aggregate amount to which holders of Series A Preferred Stock were entitled immediately prior to such event pursuant to clause (i)(b) of paragraph A of this Section 6 shall be adjusted by multiplying such amount by a fraction, the numerator of which shall be the number of shares of Common Stock that are outstanding immediately after such event, and the denominator of which shall be the number of shares of Common Stock that were outstanding immediately prior to such event.

SECTION 7. CONSOLIDATION, MERGER, ETC. In case the Company shall enter into any consolidation, merger, combination or other transactions in which the shares of Common Stock are exchanged for or converted into other stock or securities, cash and/or any other property, then in any such case, each share of Series A Preferred Stock shall at the same time be similarly exchanged for or converted into an amount per share (subject to the provision for adjustment hereinafter set forth) equal to 100 times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is converted or exchanged. In the event the Company shall at any time after the Rights Declaration Date (i) declare any dividend on outstanding shares of Common Stock payable in shares of Common Stock, (ii) subdivide outstanding shares of Common Stock, or (iii) combine outstanding shares of Common Stock into a smaller number of shares, then in each such case, the amount set forth in the immediately preceding sentence with respect to the exchange or conversion of shares of Series A Preferred Stock shall be adjusted by multiplying such amount by a fraction, the numerator of which shall be the number of shares of Common Stock that are outstanding immediately after such event, and the denominator of which shall be the number of shares of Common Stock that were outstanding immediately prior to such event.

SECTION 8. REDEMPTION. The shares of Series A Preferred Stock shall not be redeemable.

SECTION 9. RANKING. The shares of Series A Preferred Stock shall rank junior to all other series of the Preferred Stock and to any other class of preferred stock that hereafter may be issued by the Company as to the payment of dividends and the distribution of assets, unless the terms of any such series or class shall provide otherwise.

SECTION 10. AMENDMENT. The provisions of this Certificate of Designation shall not hereafter be amended, either directly or indirectly, or through merger or consolidation with another corporation, in any manner that would alter or change the powers, preferences or special rights of the Series A Preferred Stock so as to affect them adversely without the affirmative vote of the holders of at least a majority of the outstanding shares of Series A Preferred Stock, voting separately as a class.

SECTION 11. FRACTIONAL SHARES. The Series A Preferred Stock may be issued in fractions of a share, which fractions shall entitle the holder, in proportion to such holder's fractional shares, to exercise voting rights, receive dividends, participate in distributions, and to have the benefit of all other rights of holders of Series A Preferred Stock.

SECTION 12. CERTAIN DEFINITIONS. As used herein with respect to the Series A Preferred Stock, the following terms shall have the following meanings:

(1) The term "junior stock" (i) as used in Section 4, shall mean the Common Stock and any other class or series of capital stock of the Company hereafter authorized or issued over which the Series A Preferred Stock has preference or priority as to the payment of dividends, and (ii) as used in Section 6, shall mean the

Common Stock and any other class or series of capital stock of the Company over which the Series A Preferred Stock has preference or priority in the distribution of assets on any liquidation, dissolution or winding up of the Company.

(2) The term “parity stock” (i) as used in Section 4, shall mean any class or series of stock of the Company hereafter authorized or issued ranking *pari passu* with the Series A Preferred Stock as to dividends, and (ii) as used in Section 6, shall mean any class or series of stock of the Company ranking *pari passu* with the Series A Preferred Stock in the distribution of assets on any liquidation, dissolution or winding up.

**BY-LAWS
of
OGE ENERGY CORP.**

(Effective as of May 20, 2010)

**ARTICLE 1.
AMENDMENTS**

Section 1.1. Amendment of By-Laws. Subject to the provisions of the Corporation's Restated Certificate of Incorporation, these By-laws may be amended or repealed at any regular meeting of the shareholders (or at any special meeting thereof duly called for that purpose) by the holders of at least a majority of the voting power of the shares represented and entitled to vote thereon at such meeting at which a quorum is present; provided that in the notice of such special meeting notice of such purpose shall be given. Subject to the laws of the State of Oklahoma, the Corporation's Restated Certificate of Incorporation and these By-laws, the Board of Directors may by majority vote of those present at any meeting at which a quorum is present amend these By-laws, or adopt such other By-laws as in their judgment may be advisable for the regulation of the conduct of the affairs of the Corporation.

**ARTICLE 2.
OFFICES**

Section 2.1. Registered Office. The Corporation shall continuously maintain a registered office in the State of Oklahoma which may, but need not be, the same as its place of business, and a registered agent whose business office is identical with such registered office.

Section 2.2. Other Offices. The Corporation may also have offices at such other places both within and without the State of Oklahoma as the Board of Directors may from time to time determine or the business of the corporation may require.

**ARTICLE 3.
SHARES**

Section 3.1. Form of Shares. Shares either shall be represented by certificates or shall be uncertificated shares.

3.1.1. Signing of Certificates. Certificates representing shares of the corporation shall be signed by the appropriate officers and may be sealed with the seal or a facsimile of the seal of the Corporation if the corporation uses a seal. If a certificate is countersigned by a transfer agent or registrar, other than an employee of the corporation, any other signatures may be

facsimile. Each certificate representing shares shall be consecutively numbered or otherwise identified, and shall also state the name of the person to whom issued, the number and class of shares (with designation of series, if any), the date of issue, that the corporation is organized under Oklahoma law, and any other information required by law.

3.1.2. Uncertificated Shares. Unless prohibited by the Restated Certificate of Incorporation, the Board of Directors may provide by resolution that some or all of any class or series of shares shall be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate until the certificate (or such documentation as may be allowed under Section 3.2 below) has been surrendered to the Corporation. Within a reasonable time after the issuance or transfer of uncertificated shares, the Corporation shall send the registered owner thereof a written notice of all information that would appear on a certificate. Except as otherwise expressly provided by law, the rights and obligations of the holders of uncertificated shares shall be identical to those of the holders of certificates representing shares of the same class and series.

3.1.3. Identification of Shareholders. The name and address of each shareholder, the number and class of shares held and the date on which the shares were issued shall be entered on the books of the Corporation. The person in whose name shares stand on the books of the Corporation shall be deemed the owner thereof for all purposes as regards the Corporation.

Section 3.2. Lost, Stolen or Destroyed

Certificates. If a certificate representing shares has allegedly been lost, stolen or destroyed, the Board of Directors may in its discretion, except as may be required by law, direct that a new certificate be issued upon such identification and other reasonable requirements as it may impose.

Section 3.3. **Transfers of Shares.** Transfer of shares of the Corporation shall be recorded on the books of the Corporation. Transfer of shares represented by a certificate, except in the case of a lost or destroyed certificate, shall be made on surrender for cancellation of the certificate for such shares. A certificate presented for transfer must be duly endorsed and accompanied by proper guaranty of signature or other appropriate assurances that the endorsement is effective. Transfer of an uncertificated share shall be made on receipt by the Corporation of an instruction from the registered owner or other appropriate person. The instruction shall be in writing or a communication in such form as may be agreed upon in writing by the Corporation.

ARTICLE 4. **SHAREHOLDERS**

Section 4.1. **Annual Meeting.** The annual meeting of the shareholders for the election of directors and the transaction of any other proper business shall be held at a time and date to be annually designated by the Board of Directors.

Section 4.2. **Special Meetings.** Except as otherwise mandated by Oklahoma law and except as may otherwise be provided in or fixed by or pursuant to the provisions of Article IV of the Corporation's Restated Certificate of Incorporation relating to the rights of the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation to elect directors under specified circumstances, special meetings of shareholders of the Corporation may be called only by the Board of Directors pursuant to a resolution approved by a majority of the entire Board of Directors or by the President of the Corporation.

Section 4.3. **Place of Meeting.** The Board of Directors may designate the place of meeting for any annual or special meeting of shareholders. In the absence of any such designation, the place of meeting shall be the principal place of business of the Corporation.

Section 4.4. **Notice of Meetings.** For all meetings of shareholders, a written or printed notice of the meeting shall be delivered, personally or by mail, to each shareholder of record entitled to vote at such meeting, which notice shall state the place, date and hour of the meeting. For all special meetings and when and as otherwise required by law, the notice shall state the

purpose or purposes of the meeting. The notice of the meeting shall be given not less than 10 nor more than 60 days before the date of the meeting, or in the case of a meeting involving a merger, consolidation, share exchange, dissolution or sale, lease or an exchange of all or substantially all, of the property or assets of the corporation not less than 20 nor more than 60 days before the date of such meeting. If mailed, such notice shall be deemed to have been delivered when deposited in the United States mail, postage prepaid, directed to the shareholder at his or her address as it appears on the records of the corporation. When a meeting is adjourned to another time or place, notice need not be given of the adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken unless otherwise required by law.

Section 4.5. **Quorum of Shareholders.** The holders of a majority of the outstanding shares of the corporation entitled to vote, present in person or represented by proxy, shall constitute a quorum at any meeting of shareholders unless a greater or lesser number is required by the certificate of incorporation. At any adjourned meeting at which a quorum is present or represented, any business may be transacted which might have been transacted at the original meeting, unless otherwise required by law. Withdrawal of shareholders from any meeting shall not cause failure of a duly constituted quorum at the meeting, unless otherwise required by law.

Section 4.6. **Manner of Acting.** The affirmative vote of holders of a majority of the shares represented at a meeting and entitled to vote on a matter at which a quorum is present shall be valid action by the shareholders, unless voting by a greater number of shareholders or voting by class or classes of shareholders is required by law or the certificate of incorporation.

Section 4.7. **Fixing of Record Date.** If no record date is fixed for the determination of shareholders entitled to notice of or to vote at a meeting of shareholders, or shareholders entitled to receive payment of a dividend, or in order to make a determination of shareholders for any other proper purpose, the date on which notice of the meeting is mailed or the date on which the resolution of the Board of Directors declaring such dividend is adopted, as the case may be, shall be the record date for such determination of shareholders. If a record date is specifically set for the purpose of determining shareholders entitled to notice of or to vote at any meeting of shareholders, or shareholders entitled to receive payment of any dividend, or in order to make a determination of shareholders for any other proper purpose, the Board of Directors may fix in advance a

date as the record date for any such determination of shareholders, such date in any case to be not more than 60 days (or such longer period as is then permitted by Oklahoma law) and, for a meeting of shareholders, not less than 10 days, or in the case of a merger, consolidation, share exchange, dissolution or sale, lease or exchange of assets, not less than 20 days, immediately preceding such meeting. When a determination of shareholders entitled to vote at any meeting of shareholders has been made as provided in this Section, such determination shall apply to any adjournment thereof.

Section 4.8. Voting Lists. The officer or agent having charge of the transfer book for shares of the Corporation shall make, within 20 days after the record date for a meeting of shareholders or 10 days before such meeting, whichever is earlier, a complete list of the shareholders entitled to vote at such meeting, arranged in alphabetical order, with the address of and the number of shares held by each, which list, for a period of 10 days prior to such meeting, shall be kept on file at the registered office of the corporation and shall be subject to inspection by any shareholders, and to copying at the shareholder's expense, at any time during usual business hours. Such list shall also be produced and kept open at the time and place of the meeting and shall be subject to the inspection of any shareholder during the whole time of the meeting. The original share ledger or transfer book, or a duplicate thereof kept in the State of Oklahoma, shall be prima facie evidence as to who are the shareholders entitled to examine such list or share ledger or transfer book or to vote at any meeting of shareholders.

Section 4.9. Proxies. A shareholder may appoint a proxy to vote or otherwise act for him or her by signing an appointment form and delivering it to the person so appointed. All appointments of proxies shall be in accordance with Oklahoma law. An appointment of a proxy is revocable by the shareholder unless the appointment form conspicuously states that it is irrevocable and the appointment is coupled with an interest in the shares or in the corporation generally.

Section 4.10. Voting of Shares by Certain Holders. Shares of a corporation held by the Corporation in a fiduciary capacity may be voted and shall be counted in determining the total number of outstanding shares entitled to vote at any given time.

4.10.1. Shares Held by Corporation. Shares registered in the name of another corporation, domestic or foreign, may be voted by any officer, agent, proxy or other legal representative authorized to vote such shares under the laws of the state of incorporation of such corporation. This Corporation shall treat the president or other person holding the chief executive office of

such other corporation as authorized to vote such shares. However, such other corporation may designate any other person or any other holder of an office of the corporate shareholder to this Corporation as the person or officeholder authorized to vote such shares. Such persons or offices indicated shall be registered by this Corporation on the transfer books for shares and included in any voting list prepared in accordance with Section 4.8 of this Article.

4.10.2. Shares Held by Fiduciary. Shares registered in the name of a deceased person, a minor ward or a person under legal disability may be voted by his or her administrator, executor, or court appointed guardian, either in person or by proxy, without a transfer of such shares into the name of such administrator, executor, or court appointed guardian. Shares registered in the name of a trustee may be voted by him or her, either in person or by proxy.

4.10.3. Shares Held by Receiver. Shares registered in the name of a receiver may be voted by such receiver, and shares held by or under the control of a receiver may be voted by such receiver without the transfer thereof into his or her name if authority to do so is contained in an appropriate order of the court by which such receiver was appointed.

4.10.4. Shares Pledged. A shareholder whose shares are pledged shall be entitled to vote such shares until the shares have been transferred into the name of the pledgee, and thereafter the pledgee shall be entitled to vote the shares so transferred.

Section 4.11. Inspectors. At any meeting of shareholders, the chairman of the meeting may, or upon the request of any shareholder shall, appoint one or more persons as inspectors for such meeting. Inspectors shall:

4.11.1. Vote Count and Report. Determine the validity and effect of proxies; ascertain and report the number of shares represented at the meeting; count all votes and report the results; and perform such other acts as are required and appropriate to conduct all elections with impartiality and fairness to the shareholders.

4.11.2. Written Reports. Each report shall be in writing and such report shall be signed by the inspector or by a majority of them if there be more than one inspector acting at such meeting. If there is more than one inspector, the report of a majority shall be the report of the inspectors. The report of the inspector or inspectors on the number of shares represented at the meeting and the results of the voting shall be prima facie evidence thereof.

Section 4.12. Informal Action by Shareholders. Any action required or permitted to be taken by the shareholders of the Corporation must be effected at a duly called annual or special meeting of such holders

and, except as otherwise mandated by Oklahoma law, may not be effected without such a meeting by any consent in writing by such holders.

Section 4.13. Waiver of Notice. Whenever any notice whatever is required to be given under the provisions of the law, the certificate of incorporation or these By-laws, a waiver thereof in writing signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice. Attendance at any meeting shall constitute waiver of notice thereof unless the person at the meeting objects to the holding of the meeting because proper notice was not given.

Section 4.14. Notice of Shareholder Business. At an annual meeting of the shareholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, business must be (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (b) otherwise properly brought before the meeting by or at the direction of the Board of Directors, or (c) otherwise properly be requested to be brought before the meeting by a shareholder. For business to be properly requested to be brought before an annual meeting by a shareholder, the shareholder must have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a shareholder's notice must be delivered to or mailed and received at the principal executive offices of the Corporation, not less than 90 days prior to the meeting; provided, however, that in the event that the date of the meeting is not publicly announced by the Corporation by mail, press release or otherwise more than 90 days prior to the meeting, notice by the shareholder to be timely must be delivered to the Secretary of the Corporation not later than the close of business on the seventh day following the day on which such announcement of the date of the meeting was communicated to shareholders. A shareholder's notice to the Secretary shall set forth as to each matter the shareholder proposes to bring before the annual meeting (a) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (b) the name and address, as they appear on the Corporation's books, of the shareholder proposing such business, (c) the class and number of shares of the Corporation which are beneficially owned by the shareholder, and (d) any material interest of the shareholder in such business. Notwithstanding anything in the By-laws to the contrary, no business shall be conducted at an annual meeting except in accordance with the procedures set forth in this Section 4.14. The Chairman of an annual meeting shall, if the facts

warrant, determine and declare to the meeting that business was not properly brought before the meeting and in accordance with the provisions of this Section 4.14, and if he should so determine, he shall so declare to the meeting that any such business not properly brought before the meeting shall not be transacted.

ARTICLE 5. **DIRECTORS**

Section 5.1. General Powers and Qualification. The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors. Directors need not be residents of the State of Oklahoma or shareholders of the Corporation.

Section 5.2. Number, Tenure and Resignation. The number of directors of the Corporation shall be fixed from time to time by the Board of Directors, but shall be no more than 15; provided, however, that no decrease in the number of directors shall have the effect of shortening the term of any incumbent director. Except as may otherwise be provided in or fixed by or pursuant to the provisions of Article IV of the Corporation's Restated Certificate of Incorporation relating to the rights of the holders of any class or series of stock having a preference over the Corporation's Common Stock as to dividends or upon liquidation to elect directors under specified circumstances, the directors elected at or prior to the annual meeting of shareholders in 2010 shall be classified, with respect to the time for which they severally hold office, into three classes, as nearly equal in number as possible, with each class of directors to serve for a term expiring at the annual meeting of shareholders held in the third year following the year of their election and until their successors are elected and qualified, subject to earlier death, resignation or removal. At each annual meeting of the shareholders after the annual meeting of shareholders in 2010 and except as may otherwise be provided in or fixed by or pursuant to the provisions of Article IV of the Corporation's Restated Certificate of Incorporation relating to the rights of the holders of any class or series of stock having a preference over the Corporation's Common Stock as to dividends or upon liquidation to elected directors under specified circumstances, the directors shall be elected for terms expiring at the next annual meeting of shareholders and until their successors are elected and qualified, subject to earlier death, resignation or removal; provided that the directors elected at or prior to the 2010 annual meeting of shareholders shall continue to serve until their terms expire. In each case, directors shall hold office until their successors are elected and qualified.

Advance notice of shareholder nominations for the election of directors shall be given in the manner provided in Section 5.3 of this Article 5.

Except as may otherwise be provided in or fixed by or pursuant to the provisions of Article IV of the

Corporation's Restated Certificate of Incorporation relating to the rights of the holders of any class or series of stock having a preference over the Corporation's Common Stock as to dividends or upon liquidation to elect directors under specified circumstances: (i) newly created directorships resulting from any increase in the number of directors and any vacancies on the Board of Directors resulting from death, resignation, disqualification, removal or other cause shall be filled by the affirmative vote of a majority of the remaining directors then in office, even though less than quorum of the Board of Directors, (ii) any director elected in accordance with the preceding clause (i) shall hold office until the next annual meeting of shareholders and until such director's successor shall have been elected and qualified and (iii) no decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

Except as may otherwise be provided in or fixed by or pursuant to the provisions of Article IV of the Corporation's Restated Certificate of Incorporation relating to the rights of the holders of any class or series of stock having a preference over the Corporation's Common Stock as to dividends or upon liquidation to elect directors under specified circumstances, any director may be removed from office, with or without cause, only by the affirmative vote of the holders of at least a majority of the combined voting power of the then outstanding shares of the Corporation's stock entitled to vote generally (as defined in Article VII of the Corporation's Restated Certificate of Incorporation), voting together as a single class.

Section 5.3. Notification of Nominations. Except as may otherwise be provided in or fixed by or pursuant to the provisions of Article IV of the Corporation's Restated Certificate of Incorporation relating to the rights of the holders of any class or series of stock having a preference over the Corporation's Common Stock as to dividends or upon liquidation to elect directors under specified circumstances, nominations for the election of directors may be made by the Board of Directors or a committee appointed by the Board of Directors or by any shareholder entitled to vote in the election of directors generally. However, any shareholder entitled to vote in the election of directors generally may nominate one or more persons for election as directors at a meeting only if written notice of such shareholder's intent to make such nomination or nominations has been given, either by personal delivery or by United States mail, postage prepaid, to the Secretary of the Corporation not later than (i) with respect to an election to be held at an annual meeting of shareholders, 90 days in advance of such meeting, and (ii) with respect to an election to be held at a special meeting of stockholders for the election of directors, the

close of business on the seventh day following the date on which notice of such meeting is first given to shareholders. Each such notice shall set forth (a) the name and address of the shareholder who intends to make the nomination and of the person or persons to be nominated; (b) a representation that the shareholder is a holder of record of stock of the Company entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (c) a description of all arrangements or understandings between the shareholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the shareholder; (d) such other information regarding each nominee proposed by such shareholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission, had the nominee been nominated, or intended to be nominated, by the Board of Directors; and (e) the consent of each nominee to serve as a director of the Corporation if so elected. The Chairman of the meeting may refuse to acknowledge the nomination of any person not made in compliance with the foregoing procedure. A director may resign at any time by written notice to the board, its chairman, or the president or secretary of the Corporation. The resignation is effective on the date it bears, or its designated effective date.

Section 5.4. Quorum of Directors. A majority of the number of directors fixed in Section 5.2 of this Article shall constitute a quorum for the transaction of business at any meeting of the Board of Directors; provided, however, that if less than a majority of the number of directors fixed in Section 5.2 of this Article is present at a meeting, a majority of the directors present may adjourn the meeting at any time without further notice, unless otherwise required by law.

Section 5.5. Manner of Acting. The act of a majority of the directors present at a meeting at which a quorum is present shall be the act of the Board of Directors, unless the act of a greater number is required by law or these By-laws.

Section 5.6. Regular Meetings. Regular meetings of the Board of Directors may be held without notice at such time and place as shall from time to time be determined by the Board of Directors.

Section 5.7. Special Meetings. Special meetings of the Board of Directors may be called by or at the request of the Chairman of the Board or any two directors. The person or persons authorized to call special meetings of the Board of Directors may fix the place for holding any special meeting of the Board of Directors called by them.

Section 5.8. Notice. Notice of any special meeting of the Board of Directors shall be given at least one day prior to the meeting by written notice delivered personally, by mail, cable, facsimile, telegram, or telex to each director at his or her business address. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Board of Directors need be specified in the notice or waiver of notice of such meeting. The attendance of a director at any meeting shall constitute a waiver of notice of such meeting, except where a director attends a meeting for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened.

Section 5.9. Presumption of Assent. A director of the Corporation who has been present at a meeting of the Board of Directors at which action on any corporate matter is taken shall be conclusively presumed to have assented to the action taken, unless his or her dissent shall have been entered in the minutes of the meeting or unless he or she shall have filed his or her written dissent to such action with the person acting as the secretary of the meeting before the adjournment thereof, or shall have forwarded such dissent by registered mail or certified mail to the Secretary of the Corporation immediately after the adjournment of the meeting. No director who voted in favor of any action may dissent from such action after adjournment of the meeting.

Section 5.10. Committees. A majority of the directors may, by resolution passed by a majority of the number of directors fixed by the shareholders under Section 5.2 of this Article, create one or more committees and appoint members of the board to serve on the committee or committees. Each committee shall have two or more members, who serve at the pleasure of the board. To the extent specified in the resolution of the Board of Directors establishing a committee each committee shall have and exercise all the authority of the Board of Directors, provided, however, that no such committee shall have the authority to take any action that under Oklahoma law can only be taken by the Board of Directors.

Section 5.11. Informal Action by Directors. Any action required by the Oklahoma General Corporation Act to be taken at a meeting of the Board of Directors of the Corporation, or any other action which may be taken at a meeting of the Board of Directors or a committee thereof, may be taken without a meeting if a consent in writing, setting forth the action so taken, shall be signed by all of the directors entitled to vote with respect to the subject matter thereof, or by all members of such committee, as the case may be.

5.11.1. Effective Date. The consent shall be evidenced by one or more written approvals, each of

which sets forth the action taken and bears the signature of one or more directors. All the approvals evidencing the consent shall be delivered to the secretary to be filed in the corporate records. The action taken shall be effective when all the directors or all members of a committee have approved the consent unless the consent specifies a different effective date.

5.11.2. Effect of Consent. Any consent signed by all the directors or all the members of a committee shall have the same effect as a unanimous vote, and may be stated as such in any document filed with the Secretary of State under the Oklahoma General Corporation Law.

Section 5.12. Meeting by Conference Telephone. Members of the Board of Directors or of any committee of the Board of Directors may participate in and act at any meeting of the board or committee by means of conference telephone or other communications equipment through which all persons participating in the meeting can hear each other. Participation in such a meeting shall be equivalent to attendance and presence in person at the meeting of the person or persons so participating.

Section 5.13. Compensation. The Board of Directors, by the affirmative vote of a majority of the directors then in office, and irrespective of any personal interest of any of its members, shall have authority to establish reasonable compensation of all directors for services to the Corporation as directors, officers, or otherwise.

ARTICLE 6.
OFFICERS

Section 6.1. **Number.** The officers of the Corporation may consist of a Chairman of the Board, a President, one or several vice presidents, a treasurer, one or more assistant treasurers (if elected by the Board of Directors), a secretary, one or more assistant secretaries (if elected by the Board of Directors), and such other officers as may be elected in accordance with the provisions of this Article. Any two or more offices may be held by the same person.

Section 6.2. **Election and Term of Office.** The officers of the Corporation shall be elected annually by the Board of Directors at the first meeting of the Board of Directors held after each annual meeting of shareholders. If the election of officers shall not be held at such meeting, such election shall be held as soon thereafter as reasonably practicable. Subject to the provisions of Section 6.3 hereof, each officer shall hold office until the last to occur of the next annual meeting of the Board of Directors or until the election and qualification of his or her successor.

Section 6.3. **Removal of Officers.** Any officer elected or appointed by the Board of Directors may be removed by the Board of Directors whenever in its judgment the best interests of the Corporation would be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed.

Section 6.4. **Vacancies; New Offices.** A vacancy occurring in any office may be filled and new offices may be created and filled, at any time, by the Board of Directors.

Section 6.5. **Chairman of the Board and Chief Executive Officer.** The Chairman of the Board shall be the chief executive officer of the Corporation. He or she shall be in charge of the day to day business and affairs of the Corporation, subject to the direction and control of the Board of Directors and shall have the general powers and duties of supervision and management usually vested in the position of Chief Executive Officer. He or she shall preside at all meetings of the Board of Directors. He or she shall have the power to appoint such agents and employees as in his or her judgment may be necessary or proper for the transaction of the business of the Corporation. He or she may sign: (i) with the secretary or other proper officer of the Corporation thereunto authorized by the Board of Directors, stock certificates of the Corporation the issuance of which shall have been authorized by the Board of Directors; and (ii) any contracts, deeds, mortgages, bonds, or other instruments which the Board of Directors has authorized to be executed, according to the requirements of the form of the instrument.

Section 6.6. **President.** The President shall assist the Chairman of the Board in the discharge of his or her duties as the Chairman of the Board may direct, and shall perform such other duties from time to time as may be assigned to him or her by the Chairman of the Board or the Board of Directors. In the absence of the Chairman of the Board or in the event of his or her inability to act, the President shall perform the duties and exercise the authority of the Chairman of the Board.

Section 6.7. **Vice President(s).** The vice president (or in the event there is more than one vice president, each of them) shall assist the Chairman of the Board and the President in the discharge of his or her respective duties as the Chairman of the Board or the President may direct, and shall perform such other duties as from time to time may be assigned to him or her (or them) by the Chairman of the Board, the President or the Board of Directors. In the absence of the President or in the event of his or her inability to act, the vice president (or vice presidents, in the order of their election), shall perform the duties and exercise the authority of the President.

Section 6.8. **Treasurer.** The treasurer shall have charge and custody of and be responsible for all funds and securities of the Corporation, receive and give receipts for moneys due and payable to the Corporation from any source whatsoever, and deposit all such moneys in the name of the Corporation in such banks, trust companies or other depositories as shall be selected in accordance with the provisions of Article 7 of these By-laws, have charge of and be responsible for the maintenance of adequate books of account for the Corporation, and, in general, perform all duties incident to the office of treasurer and such other duties not inconsistent with these By-laws as from time to time may be assigned to him or her by the Chairman of the Board, the President or the Board of Directors.

Section 6.9. **Secretary.** The secretary shall keep the minutes of the shareholders' and the Board of Directors' meetings, see that all notices are duly given in accordance with the provisions of these By-laws or as required by law, have general charge of the corporate records and of the seal of the Corporation, have general charge of the stock transfer books of the Corporation, keep a register of the post office address of each shareholder which shall be furnished to the secretary by such shareholder, sign with the Chairman of the Board, the President, or any other officer thereunto authorized by the Board of Directors, certificates for shares of the Corporation, the issuance of which shall have been authorized by the Board of Directors, and any contracts, deeds, mortgages, bonds, or other instruments which the Board of Directors has authorized to be executed,

according to the requirements of the form of the instrument, and, in general, perform all duties incident to the office of secretary and such other duties not inconsistent with these By-laws as from time to time may be assigned to him or her by the Chairman of the Board, the President or the Board of Directors.

Section 6.10. Assistant Treasurers and Assistant Secretaries. The Board of Directors may elect one or more than one assistant treasurer and assistant secretary. In the absence of the treasurer or in the event of his or her inability to act, the assistant treasurers, in the order of their election, shall perform the duties and exercise the authority of the treasurer. In the absence of the secretary or in the event of his or her inability to act, the assistant secretaries, in the order of their election, shall perform the duties and exercise the authority of the secretary. The assistant treasurers and assistant secretaries, in general, shall perform such other duties not inconsistent with these By-laws as shall be assigned to them by the treasurer or the secretary, respectively, or by the Chairman of the Board, the President or the Board of Directors.

Section 6.11. Compensation. The compensation of all directors and officers shall be fixed from time to time by the Board of Directors. No officer shall be prevented from receiving such compensation by reason of the fact that he or she is also a director of the Corporation. All compensation so established shall be reasonable and solely for services rendered to the Corporation.

ARTICLE 7.

FISCAL MATTERS

Section 7.1. Fiscal Year. The fiscal year of the Corporation shall begin on the first day of January in each year.

Section 7.2. Contracts. The Board of Directors may authorize any officer or officers, agent or agents, to enter into any contract or execute and deliver any instrument, in the name of and on behalf of the Corporation, and such authority may be general or confined to specific instances.

Section 7.3. Loans and Indebtedness. No substantial or material loans shall be contracted on behalf of the Corporation and no evidences of indebtedness shall be issued in its name unless authorized by a resolution of the Board of Directors. Such authority may be general or confined to specific instances.

Section 7.4. Checks, Drafts, Etc. All checks, drafts or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the Corporation shall be signed by such officer or officers, agent or agents of the Corporation as the Board

of Directors shall from time to time designate.

Section 7.5. Deposits. All funds of the Corporation not otherwise employed shall be deposited from time to time to the credit of the Corporation in such banks, trust companies or other depositories as the Chairman of the Board, the President, the Treasurer or the Board of Directors may select.

ARTICLE 8.

GENERAL PROVISIONS

Section 8.1. Dividends and Distributions. The Board of Directors may from time to time declare or otherwise authorize, and the Corporation may pay distributions in money, shares or other property on its outstanding shares in the manner and upon the terms, conditions and limitations provided by law or certificate of incorporation.

Section 8.2. Corporate Seal. The Board of Directors may provide a corporate seal which shall be in the form of a circle and shall have inscribed thereon the name of the Corporation and the words "Corporate Seal, Oklahoma." The seal may be used by causing it or a facsimile thereof to be impressed or affixed or in any manner reproduced.

Section 8.3. Waiver of Notice. Whenever any notice is required to be given by law, certificate of incorporation or under the provisions of these By-laws, a waiver thereof in writing, signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice.

Section 8.4. Headings. Section or paragraph headings are inserted herein only for convenience of reference and shall not be considered in the construction of any provision hereof.

ARTICLE 9.
EMERGENCY BY-LAWS

Section 9.1. Emergency By-Laws. The emergency by-laws provided in this Article 9 shall be operative during any emergency resulting from an attack on the United States or on or during any nuclear or atomic disaster, or during the existence of any catastrophe, or other similar emergency condition, as a result of which a quorum of the Board of Directors cannot readily be convened for action. To the extent not inconsistent with these emergency by-laws, the By-Laws of the Corporation shall remain in effect during any emergency and upon its termination these emergency by-laws shall cease to be operative.

Section 9.2. Meetings. During any such emergency, a meeting of the Board of Directors may be called by any officer or director by giving two days' notice thereof to such of the directors as it may be feasible to reach at the time and by such means as may be feasible at the time. The notice shall specify the time and the place of the meeting, which shall be the principal executive offices of the Corporation or any other place specified in the notice. At any such meeting, three members of the then existing Board of Directors shall constitute a quorum, which may act by majority vote.

Section 9.3. Temporary Directors. If the number of directors who are available to act shall drop below three, additional directors, in whatever number is necessary to constitute a Board of three Directors, shall be selected automatically from the first available officers or employees in the order provided in the emergency succession list established by the Board of Directors and in effect at the time an emergency arises. Additional directors, beyond the minimum number of three directors, but not more than three additional directors, may be elected from any officers or employees on the emergency succession list.

Section 9.4. Authority. The Board of Directors is empowered with the maximum authority possible under the Oklahoma General Corporation Act, and all other applicable law, to conduct the interim management of the affairs of the Corporation in an emergency in what it considers to be in the best interests of the Corporation (including the right to amend this Article) irrespective of the provisions of the Restated Certificate of Incorporation or of the By-Laws.

Section 9.5 Liability. No officer, director or employee acting in accordance with this Article 9 shall be liable except for willful misconduct.

CERTIFICATIONS

I, Peter B. Delaney, certify that:

1. I have reviewed this quarterly report on Form 10-Q of OGE Energy Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2010

/s/ Peter B. Delaney
 Peter B. Delaney
 Chairman of the Board, President and
 Chief Executive Officer

CERTIFICATIONS

I, Sean Tauschke, certify that:

1. I have reviewed this quarterly report on Form 10-Q of OGE Energy Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2010

/s/ Sean Tauschke
Sean Tauschke
Vice President and Chief Financial Officer

Certification Pursuant to 18 U.S.C. Section 1350
As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of OGE Energy Corp. (the “Company”) on Form 10-Q for the period ended June 30, 2010, as filed with the Securities and Exchange Commission (the “Report”), each of the undersigned does hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

August 5, 2010

/s/ Peter B. Delaney

Peter B. Delaney
Chairman of the Board, President and
Chief Executive Officer

/s/ Sean Tauschke

Sean Tauschke
Vice President and Chief Financial Officer

BEFORE THE CORPORATION COMMISSION OF OKLAHOMA

IN THE MATTER OF THE APPLICATION OF)	
OKLAHOMA GAS AND ELECTRIC COMPANY)	
FOR AN ORDER GRANTING PRE-APPROVAL)	
TO CONSTRUCT THE CROSSROADS WIND)	CAUSE NO. PUD 201000037
FARM, AND AUTHORIZING A RECOVERY)	
RIDER)	ORDER NO.

HEARING: July 14, 2010, in Courtroom 301
2101 North Lincoln Blvd., Oklahoma City, OK 73105
Before the Commission *en banc* and Jacqueline T. Miller, Referee

APPEARANCES: James L. Myles, Deputy General Counsel, *representing* Public
Utility Division, Oklahoma Corporation Commission
William J. Bullard, Kimber L. Shoop, and Stephanie G. Houle, Attorneys,
representing Oklahoma Gas and Electric Company
William L. Humes and Elizabeth Ryan, Assistant Attorneys General,
representing Office of Attorney General, State of Oklahoma
Thomas P. Schroedter, James D. Satrom, and J. Fred Gist, Attorneys,
representing Oklahoma Industrial Energy Consumers
Jack G. Clark, Jr. and Ronald E. Stakem, Attorneys, *representing* OG&E
Shareholders Association
Richard K. Goodwin, Attorney, *representing* Chermac Energy
Corporation

**FINAL ORDER APPROVING JOINT STIPULATION
AND SETTLEMENT AGREEMENT**

BY THE COMMISSION:

This cause comes before the Oklahoma Corporation Commission (“Commission”) on the Referee’s recommendation for Final Order Approving Joint Stipulation and Settlement Agreement executed between Oklahoma Gas and Electric Company (“OG&E” or “Company”), the Public Utility Division (“PUD”) of the Commission, the Office of the Attorney General, State of Oklahoma (“Attorney General”), the OG&E Shareholders Association (“OG&E Shareholders”), Chermac Energy Corporation (“Chermac”) and the Oklahoma Industrial Energy Consumers (“OIEC”) all collectively referred to as the “Stipulating Parties.” A copy of the Joint Stipulation and Settlement Agreement (“Settlement Agreement”) is attached hereto as Attachment “A” and incorporated herein by reference.

SUMMARY OF PARTIES’ ALLEGATIONS

Applicant

1. Applicant **OG&E**, requested in its Application that the Commission find that Crossroads is a prudent investment for OG&E; that the Crossroads Wind Farm Facility will be “used and useful” when placed in service; that OG&E be permitted to implement a recovery rider so that the costs of Crossroads can be recovered as the turbines are placed in service; and that it is appropriate to approve a waiver from the Commission’s competitive procurement rules.
 2. Applicant submitted pre-filed testimony of Jesse B. Langston, K. Wayne Walker and Bryan J. Scott in this cause; supplemental testimonies of Mr. Langston and Mr. Scott supporting and recommending approval of the Settlement Agreement; testimony summaries of all testimony filed by its witnesses in this cause; and oral testimony of Mr. Langston and Mr. Scott supporting approval of the Settlement Agreement.
 3. Mr. Langston testified that the company believes the terms of the Settlement Agreement represent a fair, just and
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reasonable resolution of the matters in this cause, that there is a demonstrated need for Crossroads and that approval of the Settlement Agreement and Crossroads would be in the public interest.

Public Utility Division

1. **PUD** submitted pre-filed testimony of Frank Mossburg and Craig Roach in this cause and also filed supplemental testimony of Mr. Roach supporting and recommending approval of the Settlement Agreement and testimony summaries of the pre-filed testimonies of Mr. Roach and Mr. Mossburg, and Mr. Roach's supplemental testimony.
2. PUD provided the oral testimony of Mr. Roach recommending approval of the Settlement Agreement as a fair, just and reasonable resolution of the matters in this cause and stating that the Settlement Agreement is in the public interest and that OG&E has demonstrated a need for Crossroads.

Attorney General

1. William L. Humes, Assistant Attorney General, on behalf of the **Attorney General**, filed the pre-filed testimony of Mr. Daniel Peaco.
2. The Attorney General did not submit testimony addressing the Settlement Agreement, but recommended approval of the Settlement Agreement as a fair, just and reasonable resolution of the matters in this cause and stated that the record demonstrates a need for Crossroads and that approval of the Settlement Agreement is in the public interest.

Intervenor

1. **OIEC**, Intervenor, submitted pre-filed testimony of Mr. Scott Norwood and participated in the hearing.
2. OIEC did not submit testimony addressing the Settlement Agreement, but recommended approval of the Settlement Agreement as a fair, just and reasonable resolution of the matters in this cause and stated that the record demonstrates a need for Crossroads and that approval of the Settlement Agreement is in the public interest.
3. Ronald E. Stakem, Attorney, representing **OG&E Shareholders**, Intervenor, filed a Statement of Position and participated in the hearing.
4. OG&E Shareholders recommended approval of the Settlement Agreement as a fair, just and reasonable resolution of the matters in this cause and stated that the record demonstrates a need for Crossroads and that approval of the Settlement Agreement is in the public interest.
5. **Chermac**, Intervenor, filed a Statement of Position.
6. Chermac recommended approval of the Settlement Agreement as a fair, just and reasonable resolution of the matters in this cause.

DATES AND PLACES OF HEARINGS

Hearings in this cause were conducted:

April 15, 2010 – Motion to Intervene – OG&E Shareholders Association
in Courtroom B, 2101 North Lincoln Blvd., Oklahoma City, OK 73105

April 15, 2010 – Motion to Assess Attorney General's Expert Costs to OG&E
in Courtroom B, 2101 North Lincoln Blvd., Oklahoma City, OK 73105

April 15, 2010 – Motion for Protective Order
in Courtroom B, 2101 North Lincoln Blvd., Oklahoma City, OK 73105

April 15, 2010 – Motion to Establish Procedural Schedule
in Courtroom B, 2101 North Lincoln Blvd., Oklahoma City, OK 73105

April 15, 2010 – Motion for Assessment of Costs of the Commission to OG&E
in Courtroom B, 2101 North Lincoln Blvd., Oklahoma City, OK 73105

April 15, 2010 – Motion to Intervene—OIEC

in Courtroom B, 2101 North Lincoln Blvd., Oklahoma City, OK 73105

May 13, 2010 – Motion to Intervene—Chermac Energy Corp.
in Courtroom B, 2101 North Lincoln Blvd., Oklahoma City, OK 73105

May 20, 2010 – Motion to Determine Notice Requirements
in Courtroom B, 2101 North Lincoln Blvd., Oklahoma City, OK 73105

July 13, 2010—Pre-Hearing Conference
In Courtroom 301, 2101 North Lincoln Blvd., Oklahoma City, OK 73105

July 14, 2010 – Hearing on the Merits *en banc* with Referee
in Courtroom 301, 2101 North Lincoln Blvd., Oklahoma City, OK 73105

PROCEDURAL HISTORY

On April 8, 2010, OG&E filed its Application initiating this proceeding seeking an order of the Commission determining that the costs to OG&E for the construction of Crossroads and related facilities are prudent, and that the Crossroads Wind Farm Facility will be used and useful when placed in service; authorizing OG&E to implement a recovery rider to be effective until Crossroads is placed in rate base by order of the Commission; approving a waiver from the Commission's competitive procurement rules; and granting such other and further relief as the Commission may determine to be fair, just and equitable in the premises. Concurrently with its Application OG&E also filed the Redacted and Unredacted Direct Testimony of K. Wayne Walker; the Direct Testimonies of Jesse B. Langston and Bryan J. Scott; its Motion to Establish Procedural Schedule and a Motion for Protective Order. OIEC filed its Motion to Intervene on April 12, 2010. On April 13, 2010, the Attorney General filed his Entry of Appearance. Also on April 13, 2010, the PUD Staff filed its Motion for Assessment of Costs to OG&E. On April 15, 2010, OG&E Shareholders entered an oral motion to intervene before the ALJ. On April 21, 2010, the Commission issued **Order No. 574909** granting OG&E's Motion for Protective Order. The Commission issued **Order Nos. 574971** and **574972** granting OIEC's Motion to Intervene and OG&E Shareholders Oral Motion to Intervene, respectively, on April 22, 2010. The Commission issued **Order Nos. 575044** and **575045** granting PUD Staff's Motion for Assessment of Costs and the Attorney General's Motion to Assess Expert Costs, respectively, on April 26, 2010.

Chermac filed a Motion to Intervene on May 4, 2010. The Commission issued **Order No. 575455** on May 12, 2010, granting OG&E's Motion to Establish Procedural Schedule. On May 13, 2010, OG&E filed its Motion to Determine Notice Requirements. On May 21, 2010, OG&E filed the Redacted Service and Maintenance Agreement by and between OG&E and Siemens Energy; the Redacted Agreement for Supply, Erection, Installation and Commissioning of Wind Turbine Generators by and between Siemens Energy and OG&E; the Redacted Balance of Plant Engineering, Procurement and Construction Agreement by and between Res America Construction, Inc. and OG&E; and the Redacted Asset Purchase Agreement by and between Crossroads Wind Energy, LLC and OG&a mp;E.

On June 11, 2010 the Attorney General filed the Redacted and Unredacted Responsive Testimony of Daniel Peaco; the OIEC filed the Responsive Testimony of Scott Norwood; PUD filed the Unredacted and Redacted Direct Testimonies of Frank Mossburg and Craig R. Roach; Chermac filed its Statement of Position; and OG&E Shareholders filed its Statement of Position. Also on June 11, 2010, the Commission issued **Order Nos. 576086** and **576087** granting OG&E's Motion to Determine Notice Requirements and directing OG&E to publish the Notice of Hearing once each week for two consecutive weeks with the first publication being at least fifteen days prior to the hearing on the merits in *The Oklahoman* and *Tulsa World* and also in newspapers of general circulation in the following Oklahoma counties in which OG&E has customers: Alfalfa, Bryan, Dewey, Ellis, Grant, Jefferson, Johnston, Love, Major, Marshall, Woods, and Woodward; and granting Chermac's Motion to Intervene, respectively. On June 29, 2010, the Stipulating Parties filed an executed Joint Stipulation. On June 21, 2010, OG&E filed its Affidavit of Publication from *The Cherokee Messenger & Republican*. On June 23, 2010, OG&E filed its Affidavit of Publication from *The Daily Ardmoreite*. On June 28, 2010, OG&E filed its Affidavit of

Publication from the *Poteau Daily News*. On June 30, 2010, OG&E filed its Affidavit of Publication from *The Ellis County Capital*. On July 2, 2010, OG&E filed its Affidavits of Publication from the *Johnston County Capital-Democrat* and the *Sequoyah County Times*. On July 7, 2010, OG&E filed its Affidavit of Publication from the *Alva Review-Courier*. On July 8, 2010, OG&E filed its Affidavit of Publication from the *Medford Patriot-Star* and the Direct Testimony Summaries of Jesse B. Langston, K. Wayne Walker and Bryan Scott; the Supplemental Testimonies in Support of the Joint Stipulation and Settlement Agreement of Jesse B. Langston and Bryan Scott; the Supplemental Testimony Summaries of Jesse B. Langston and Bryan Scott; and its Exhibit and Witness List. Also on July 8, 2010, the PUD filed its Exhibit and Witness List and the Responsive Testimony Summaries of Frank Mossburg and Craig Roach. The OIEC filed its Exhibit and Witness List and the Responsive Testimony Summary of Scott Norwood on July 8, 2010. On July 9, 2010, OG&E filed Exhibit JBL-1 to the Supplemental Testimony of Jesse B. Langston. Additionally, PUD filed Redacted and Unredacted Supplemental Testimony of Craig Roach and the Supplemental Testimony Summary of Craig Roach. On July 13, 2010, the Referee conducted a Pre-Hearing Conference, pursuant to the approved procedural schedule in this matter. Also on July 13, 2010, OG&E filed its Affidavits of Publication for *The Tahlequah Daily Press*, *Woodward News*, *Enid News and Eagle*, *Dewey County Record*, *Tulsa World*, *Medford Patriot-Star*, *The Oklahoman*, and the *Durant Daily Democrat*. On July 19, 2010, OG&E filed original copies of Affidavits of Publication for *The Oklahoman* and the *Durant Daily Democrat*.

The Hearing on the Merits for this cause commenced before the Commission *en banc* with Referee on July 14, 2010, pursuant to the Notice of Hearing. The Commission accepted evidence and testimony of witnesses sworn and examined in connection with the Settlement Agreement. Thereafter, the Referee took the matter under advisement.

SUMMARY OF PARTIES' EVIDENCE

Applicant

1. Kimber L. Shoop, attorney for the Applicant, announced that notice of this cause was published in accordance with the notice requirements directed by the Commission in Order No. 576086.
 1. Jesse Langston, Vice-President, Utility Commercial Operations, filed pre-filed Direct Testimony on behalf of OG&E on April 8, 2010, and Supplemental Testimony Supporting the Joint Stipulation and Settlement Agreement on July 8, 2010. He stated that the purpose of his Supplemental Testimony was to sponsor the Joint Stipulation and Settlement Agreement executed by the Stipulating Parties on June 28, 2010. In addition, during the hearing, Mr. Langston provided some background on the Crossroads project.
 2. First, Mr. Langston described the Crossroads project. He testified that Crossroads is an 86-turbine, 197.8 MW wind-powered electric generation facility located in Dewey County, Oklahoma. He stated that the Crossroads facility is expected to come on-line during the second half of 2011 and will interconnect to OG&E's new 345 kV Woodward to Oklahoma City transmission line ("Windspeed"). He testified that the Crossroads facilities will utilize Siemens Energy SWT-2.3-101 wind turbine generators each with a nameplate rating of 2.3 MW. Mr. Langston further testified that each turbine will have a 101-meter rotor diameter and will be supported by an 80-meter tower (262 feet). Mr. Langston explained that this 101 meter rotor diameter is larger than the 93 meter rotor diameter on the OU Spirit turbines and such additional length blades improves the energy output for each unit. Mr. Langston testified that a separate interconnection request has been made with the Southwest Power Pool ("SPP") for an incremental 29.7 MWs of wind turbines to be located on the same site. He stated that if the additional 29.7 MWs are included, the Crossroads facility would have a capacity of 227.5 MW.
 3. Mr. Langston explained that OG&E has executed definitive agreements with Siemens for the supply and erection of turbines and with RES Americas for the preparation of the site and construction of the balance of the plant ("Balance of Plant"). He also gave a brief description of both RES Americas and Siemens. With regard to the agreement with Siemens, Mr. Langston explained that under the Siemens Turbine Supply Agreement, Siemens is obligated to solicit bids to manufacture components of the turbines in Oklahoma, including a specific requirement related to DMI Industries, which has manufacturing facilities for the production of wind towers in Tulsa, Oklahoma and is a Siemens qualified vendor. In addition, Mr. Langston explained that Siemens has agreed to jointly engage in discussions with Oklahoma State University, the University of Oklahoma, and the High Plains Technology Center Tech Partnership, and potentially
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other institutions concerning potential internship programs for students in connection with the operations of Crossroads and OU Spirit.

4. Mr. Langston testified that the Crossroads turbines will begin delivering wind energy as they come on-line during the second half of 2011. The entire facility is expected to be in service by the end of 2011. Mr. Langston testified that this large, approximately 20,000-acre site possesses the necessary attributes to support a successful large scale commercial wind energy project. He explained that the land agreements are in place to construct and interconnect the project and three meteorological towers have been collecting wind speed data during the last two years. He explained that the favorable wind speed conditions at this particular site, when combined with the large contiguous site, allow OG&E to optimize turbine placement that he believes will produce an exceptional capacity factor. In addition, Mr. Langston testified that the site is located close to major transmission facilities. Mr. Langston also explained that the Oklahoma Department of Wildlife Conservation ("ODWC") recently determined that the Crossroads site lies outside the current range of the Lesser Prairie Chicken ("LPC") and that negative impacts to the LPC is not a concern. Mr. Langston stated that OG&E does not believe it will need to perform any environmental remediation at the site and has not included any such remediation costs in this request.
 5. Mr. Langston testified that OG&E is requesting a waiver of the competitive procurement rules because the exceptional pricing and other attractive terms negotiated by OG&E are contingent upon the execution of contracts in a period of time which made it unrealistic to attempt to adhere to the process set out in the Commission's competitive procurement rules. Also, Mr. Langston explained that OG&E was obligated to seek a waiver of the competitive procurement rules because of commitments made in Cause No. PUD 200900167 and adopted by the Commission in Order No. 571788 ("OU Spirit Proceeding").
 6. Mr. Langston testified that all parties in this case executed the Settlement Agreement. He explained that the signatories of the Stipulation were OG&E, the Public Utility Division of the Oklahoma Corporation Commission, the Attorney General, Chermac Energy Corporation, the Oklahoma Industrial Energy Consumers, and the OG&E Shareholders Association.
 7. Mr. Langston described the agreements reached by the Stipulating Parties regarding whether construction of the Crossroads facility is prudent. He testified that in Section III.A, the Stipulating Parties request that the Commission issue an order granting preapproval of the Crossroads facility as described in the Settlement Agreement and finding that Crossroads is a prudent investment. Mr. Langston further testified that the Stipulating Parties also request that the Commission issue an order finding that Crossroads, when constructed, placed in service and interconnected to Windspeed, will be used and useful to OG&E's customers, subject to material compliance with expected operations. He testified that the Stipulating Parties further agreed that the operational performance of Crossroads shall be reviewed pursuant to the regular Commission reviews provided for in OAC 165:3 5-39 and OAC 165:35-35.
 8. Mr. Langston provided further testimony on the agreements reached by the Stipulating Parties regarding the recovery mechanism for costs associated with the Crossroads project. He testified that in Section III.B, the Stipulating Parties agreed on the Crossroads Rider as the mechanism through which OG&E would recover costs associated with the Crossroads project.
 9. Mr. Langston further testified that in Section III.C, the Stipulating Parties request that the Commission grant OG&E's request for a waiver from the Commission's competitive bidding requirements. He testified that the Stipulating Parties agreed that their recommendation is based on: (i) OG&E's representations that the Crossroads project will deliver significantly greater benefit to customers than other top bidders in its most recent RFP and other wind resource opportunities available to OG&E at this time, and that the opportunity to realize these benefits may be lost if action is not taken at this time; and (ii) the agreements described in the Settlement Agreement.
 10. Mr. Langston further testified on the agreements that were reached regarding Crossroads' construction costs. He testified that the Stipulating Parties, in Section III.D of the Settlement Agreement, agreed to cap OG&E's capital costs for which it is entitled recovery ("Capped Investment Amount"). He testified that this Capped Investment Amount for the 197.8 MW facility will be the lesser of (i) \$389 million as adjusted for the Krone/Dollar exchange rate on the date a Commission order is issued in this cause, plus a variance which does not exceed three percent; or (ii) a maximum cost of \$416.2 million. Mr. Langston testified that the Krone/Dollar exchange rate provision impacts approximately 40 percent of the Turbine Service Agreement. He further testified that the Capped Investment Amount approved by a Commission order adopting the Settlement Agreement will be calculated using the Danish Krone/U.S. Dollar exchange rate posted on the Yahoo Financial web site as of 9:00 a.m. Central time on the date of the Commission's action. At the hearing, Mr.
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Langston stated that, on July 13, 2010, the Krone/U.S. Dollar exchange rate was 5.89 to 1. He explained that, if this is the exchange rate on the date of a final Commission order in this proceeding, the Capped Investment Amount would actually be \$391.6 million plus a 3 percent variance for the 197.8 MW project and \$451.3 million plus a 3 percent variance for the 227.5 MW project. Mr. Langston stated that the three percent variance is intended to recognize potential increases in construction costs and possible movement in the exchange rate between the date of the Commission order and the date when OG&E can exercise its rights under the Turbine Supply Agreement.

11. Mr. Langston further testified that there is a limitation on the Capped Investment Amount. He stated that the Stipulating Parties have agreed to a “walk-away” provision should the Capped Investment Amount as of the date of the final Commission order exceed \$416.2 million. He testified that this provision is intended to reflect an adverse movement in the Danish Krone/U.S. Dollar exchange rate before the date of a Commission order that is so extraordinary as to significantly change the value to be provided by Crossroads.
 12. Mr. Langston testified as to what would happen if OG&E’s actual construction costs exceeded the Capped Investment Amount. He testified that to the extent OG&E’s total investment in Crossroads exceeds the Capped Investment Amount, the Stipulating Parties have agreed that OG&E has the option to seek recovery of any excess above the Capped Investment Amount in a general rate case. He further testified that the Settlement Agreement specifies that any construction costs incurred by OG&E in excess of the Capped Investment Amount will not be eligible for cost recovery prior to OG&E’s next general rate case and in no circumstances may that recovery include interim carrying costs on the excess Plant in Service.
 13. Mr. Langston further testified that the Capped Investment Amount discussed in Section III.D is related to the Crossroads project at 197.8 MW. He stated that the Crossroads site is large enough to support a 98-turbine, 227.5 MW wind farm, but the developer, RES Americas, initially requested interconnection service for only 197.8 MW. Mr. Langston testified that OG&E is working within the SPP interconnection study process to determine what interconnection costs an incremental 29.7 MWs would add to the project. He testified that the Stipulating Parties agreed that if those additional 29.7 MWs (twelve additional turbines including nine 2.3 MW turbines and three 3 MW turbines) can be added to the Crossroads site with incremental interconnection costs below \$4.7 million, this incremental quality of wind generation capacity would be beneficial to OG&E’s customers. ¶ 0; He testified that consequently, the Settlement Agreement provides that, subject to this contingency and other limitations described therein, OG&E’s decision to proceed with the construction of those additional twelve turbines is prudent, the turbines will be used and useful when placed in service, and the costs and associated recovery for these additional turbines shall be included in the Crossroads Rider.
 14. Mr. Langston testified that the three 3MW turbines were next generation turbines that OG&E would be one of the first in the country to own and operate. He explained that OG&E was successful in negotiating a price for these new turbines that matched the price for the 2.3 MW turbines.
 15. Mr. Langston testified that if OG&E constructs Crossroads as a 227.5 MW project the Capped Investment Amount would change. He stated that Section III.O specifies that if OG&E moves forward with the additional twelve turbines and constructs Crossroads as a 227.5 MW project, the Capped Investment Amount calculation will be the lesser of (i) \$448.8 million as adjusted for the Krone/Dollar exchange rate on the date a Commission Order; plus a variance which does not exceed three (3) percent; or (ii) a maximum cost of \$480.2 million. He further testified that in the same manner as with the Capped Investment Amount for the 197.8 MW project, the Company will have the option to request recovery of any actual costs in excess of that amount. Mr. Langston testified that there is also a Maximum Stipulated Cost associated with the 227.5 MW project. He stated that Section III.O specifies that the Settlement Agreement will not become effective if the 227.5 MW Capped Investment Amount on the date of the final order exceeds \$480.2 million and this is referred to in the Settlement Agreement as the “Alternative Maximum Stipulated Cost.”
 16. Mr. Langston further testified that an agreement has been reached regarding the recovery of Operation and Maintenance (“O&M”) costs. He testified that as specified in Section III.L of the Settlement Agreement, O&M cost recovery will be capped until after OG&E’s 2013 general rate case. He further testified that since the O&M expense cap will depend on whether the Crossroads project is constructed at 197.8 MW or 227.5 MW, Stipulation Exhibit BJS-2 identifies the capped O&M expense in 2012 and 2013 for both projects. He testified that after 2013, the appropriate level of O&M cost recovery will be determined by the Commission in the periodic rate case process.
 17. Mr. Langston testified that in Section III.F of the Settlement Agreement, OG&E has agreed to pass through to Oklahoma retail customers one hundred percent of the Oklahoma jurisdictional Renewable Energy Credit (“REC”) proceeds (after
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deduction of third-party transaction costs if applicable) generated by Crossroads' RECs during the term of and through the Crossroads Rider.

18. Mr. Langston testified that in Section III.G of the Settlement Agreement, OG&E agreed to file an application with the Commission within sixty days of a final Commission order in this proceeding requesting amendments to the current Minimum Filing Requirements (OAC 165:35-39) for the purpose of providing additional information regarding electric utility wind generation facilities and wind energy purchase power agreements ("PPAs"). He further testified that the Stipulating Parties agree to collaborate in developing the requested amendments, but agreed that this additional information shall at a minimum include the amount of Production Tax Credits ("PTCs") utilized in the reporting year. He testified that OG&E has also agreed to provide the additional information simultaneously with the filing of its Minimum Filing Requirements until such time as the proposed amendments are either adopted or rejected by the Commission.
 19. Mr. Langston further testified that the Stipulating Parties reached agreement regarding the treatment of PTCs. He testified that in Section III.H, the Stipulating Parties agreed that OG&E's Oklahoma retail customers will be credited with one hundred percent of the Oklahoma jurisdictional share of the actual Crossroads' PTCs created during the term of, and as specified in, the Crossroads Rider. He further testified that at the end of the Crossroads Rider and for the remaining life of the Crossroads project PTCs, OG&E will continue to credit its Oklahoma retail customers with one hundred percent of the Oklahoma jurisdictional share of the actual test year benefits of the PTCs (as adjusted for known and measurable changes) in the determination of the revenue requirements in each general rate proceeding.
 20. Mr. Langston testified that the Stipulating Parties agreed on how damage payments received from or bonus payments made to the wind developer or turbine manufacturer should be treated through the Crossroads Rider. He stated that the agreements with RES Americas Construction, Inc. and Siemens include certain incentive and penalty provisions that protect the interests of OG&E and its customers. He further testified that the Stipulating Parties agreed that OG&E will pass through to Oklahoma retail customers the Oklahoma jurisdictional share of all net damage payments received from the wind developer or the turbine manufacturer. He further stated that it was acknowledged by the Stipulating Parties that these damage payments would not exceed \$85 million. Mr. Langston testified that the Stipulating Parties further agreed that, in light of the benefits to customers associated with higher achieved Crossroads output and the early completion of the Crossroads project, OG&E will pass through to Oklahoma customers the Oklahoma jurisdictional share of all bonuses paid to the wind developer or the turbine manufacturer pursuant to contract and it was acknowledged by the Stipulating Parties that these bonuses would not exceed \$3.2 million.
 21. Mr. Langston testified that as described in Section III. J, one hundred percent of all margins from incremental sales of capacity and energy into the SPP Energy Imbalance Services ("EIS") market will be credited to customers. He testified that these incremental sales represent the net proceeds from sales of coal or natural gas-fired generation made possible by the availability of Crossroads.
 22. Mr. Langston further testified that in Section III.K, the Stipulating Parties agreed that OG&E would agree to certain obligations if the three-year rolling average of Crossroads megawatt-hours of production (including a credit for energy not produced due to curtailments or other events caused by system emergencies, force majeure events or transmission system issues) falls below a specified level. He stated that this level corresponds to a 41.14 percent capacity factor for the facility. Mr. Langston testified that under such circumstances, OG&E agreed to file testimony demonstrating the prudent operation of the Crossroads facility simultaneously with its filing of Minimum Filing Requirements pursuant to OAC 165:35-39. Mr. Langston testified that as he explained in his direct testimony, using probability analysis, OG&E determined that there is a ten percent probability that the capacity factor could be 41.14 percent or lower. He further testified that the Company contends that if a 41.14 percent capacity factor is achieved Crossroads will produce significant production cost savings for customers; nevertheless, OG&E agreed to provide testimony specifically addressing the prudence of its operations if Crossroads' output fails to meet the agreed upon standard. Mr. Langston also stated that output levels below 41.14 percent would not necessarily be considered imprudent, but merely the agreed on level of output where OG&E would provide testimony demonstrating the facility's prudent operation.
 23. Mr. Langston testified that the Stipulating Parties reached an agreement regarding the Company's Integrated Resource analysis. He testified that in Section III.M of the Settlement Agreement, OG&E agreed to submit an interim, updated Integrated Resource Plan ("IRP") as contemplated by Subsection 37 of Chapter 35 of the Commission's Rules. He testified that for this interim updated IRP, OG&E agreed that the updated IRP analysis will specifically address the need and timing for additional wind resources in OG&E's system, including but not limited to various amounts of wind and
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timing of additional wind, including assessments of the benefits based on consideration of the operation of the SPP day-ahead market, transmission limitations/requirements for expanded wind resource development, the added costs for fossil fuel-fired power plants when those fossil fuel plants are used to accommodate variable wind generation, current expectation of the impacts of regional haze rules on OG&E's coal generation, and a range of scenarios for natural gas prices and climate legislation and other factors which may impact the amounts and timing of wind resource additions over the next ten years. He further testified that OG&E agreed to hold a collaborative technical conference for all stakeholders in order to allow all stakeholders the opportunity to provide input regarding utility objectives, assumptions, and planning scenarios to be contained in the updated IRP analysis. He stated that this technical conference will be held no less than sixty days prior to the submittal of the updated IRP. He further testified that the Stipulating Parties also agreed that OG&E shall pay for and be able to recover costs associated with third party consultants needed by the Attorney General and/or the Commission Staff to participate in the stakeholder technical conference.

24. Mr. Langston further testified that the Stipulating Parties agreed that the agreements described in Section III.M do not constitute an admission by the Stipulating Parties that OG&E has a need for future wind resources nor is it intended to relieve OG&E of its burden of proof to demonstrate that any agreements it enters into to acquire future wind energy assets or to purchase additional wind energy are reasonable or prudent.
 25. Mr. Langston also testified that in Section III.N of the Settlement Agreement, OG&E agreed not to seek Commission preapproval for the construction or acquisition of any new wind generation asset or for a long term wind purchase power agreement until it finalizes and submits a new IRP described in Section III.M of the Settlement Agreement. He stated that the Stipulating Parties agreed that this restriction would not apply to (i) preapproval of the Crossroads expansion from 197.8 MW to 227.5 MW identified in Section III.O of the Settlement Agreement; or (ii) the procurement of the Company's next incremental amount of wind energy (at least 100 MW and no more than 150 MW), which shall be awarded through a competitive procurement process. Mr. Langston further testified that the Stipulating Parties agreed that for the purposes of the wind energy competitive procurement process agreed to in Section III.N of the Settlement Agreement, the Independent Evaluator selected to participate in the process shall be either: a) a Commission staff member or a third party agreed to by OG&E, the Attorney General and Public Utility Division staff; or b) if OG&E, the Attorney General and Public Utility Division staff cannot agree to an Independent Evaluator pursuant to (a), a Commission staff member or third party appointed by the Commission after notice and hearing.
 26. Mr. Langston testified as to the evidence in the record which he believes supports a finding by the Commission that there is a need for the Crossroads project, including the substantial economic benefits accruing almost immediately to customers as well as the hedge the Crossroads project provides against prospective environmental costs and future fluctuations in natural gas costs. Mr. Langston stated that because OG&E is able to obtain the turbines at such a favorable price, the addition of Crossroads to the OG&E portfolio will provide exceptional production cost savings which will benefit OG&E's customers almost immediately and continue throughout the life of the facility. Mr. Langston testified that OG&E's analyses demonstrate that Crossroads, after taking into consideration various risk factors, will provide production cost savings to OG&E's customers under a wide range of scenarios, including under varying natural gas prices, carbon costs and capacity factors. Further, Mr. Langston testified that if approved, Crossroads would increase the amount of wind capacity in OG&E's portfolio from 554 MW (including OU Spirit and the CPV Keenan and Taloga PPAs) to 751 MW (or approximately 780 MW if Crossroads is constructed at 227.5 MW). Mr. Langston testified that this would bring the overall amount of OG&E's renewable energy to approximately 10 percent of its total resource portfolio. Mr. Langston further testified that the Company strongly believes that the addition of wind energy provides OG&E and its customers with an effective hedge against higher and volatile fuel prices, the cost imposed by the creation of a Federal renewable portfolio standard and costly carbon tax regulations, whether imposed by new laws or the Environmental Protection Agency. Mr. Langston further testified that the application was consistent with the need demonstrated in the 2010 IRP for additional wind generation by 2012, as reflected in his Direct Testimony in this cause. He also testified that the Crossroads project will help the State of Oklahoma meet the new renewable energy goal of 15 percent by 2015 that was adopted in recently enacted Oklahoma House Bill 3028.
 27. Mr. Langston concluded by testifying that, in his opinion, the Settlement Agreement is in the public interest.
1. Bryan Scott, Director of Pricing and Load, filed pre-filed Direct Testimony on behalf of OG&E on April 8, 2010 and Supplemental Testimony Supporting the Joint Stipulation and Settlement Agreement on July 8, 2010. He stated that the purpose of his Supplemental Testimony was to sponsor two exhibits attached to the Settlement Agreement which are: (1)

the Crossroads Rider recommended by the Stipulating Parties; and (2) an exhibit that presents the capped O&M expense amounts for Crossroads during 2012 and 2013 agreed to by the Stipulating Parties for Crossroads.

2. Mr. Scott testified that the Crossroads Rider is attached to the Settlement Agreement as Stipulation Exhibit BJS-1 and is designed to begin recovering the annual revenue requirement associated with the Crossroads site assets as each asset is placed in service or otherwise becomes used and useful. He further testified that this would include the turbines, roads, generation lead, building and other supporting infrastructure. He stated that the Crossroads Rider will become effective upon the issuance of the final order approving this Settlement Agreement and the submission to and approval of the Crossroads Rider tariff by the Director of the Public Utility Division. Mr. Scott testified that upon its effective date, the Crossroads Rider is designed to begin recovering the annual revenue requirement associated with each Crossroads wind turbine placed in service and the Crossroads Rider will be effective until new rates are implemented after OG&E's 2013 general rate case. He testified that in the 2013 general rate proceeding, the net depreciated balance of Crossroads' plant costs will be included in rate base. He further testified that as agreed to in the Settlement Agreement, the rate of return utilized for the Crossroads Rider will initially be calculated using the capital structure, return on equity, interest costs and tax effect as approved in Order No. 516261 in Cause No. PUD 200500151. He further testified that this rate of return will be adjusted to reflect the rate of return approved by the Commission in OG&E's 2011 rate case and the new rate of return will be applied on the effective date of the rates approved in the 2011 rate case.
 3. Mr. Scott testified that some turbines may be placed in service as early as the third quarter of 2011, but most of the turbines are expected to be placed in service during the fourth quarter of 2011 and the facility is expected to be fully operational by December 31, 2011. Mr. Scott further testified regarding why it is appropriate for the Crossroads Rider to be implemented before all of the turbines are placed in service. He stated that first, customers will benefit from the energy produced by each individual turbine as it is placed in service by lowering fuel costs. He further testified that when a turbine is placed in service, the accumulation of Allowance for Funds Used during Construction ("AFUDC") ceases. Therefore, synchronizing the recovery of costs with each turbine becoming operational (used and useful) is reasonable and fair to all parties.
 4. Mr. Scott further testified that OG&E expects to file a rate case with a test year of 2012 and implement new rates in January 2014. He testified that these new rates will include the revenue requirement for Crossroads. He further testified that the rider should be in existence from sometime in 2011 through December 2013.
 5. Mr. Scott testified regarding what is included in the Crossroads Rider. He testified that the rider will recover from OG&E's Oklahoma retail customers a revenue requirement based on the return on rate base and income taxes, O&M expense, depreciation, insurance and property taxes associated with the Crossroads project. He further testified that as agreed to in the Settlement Agreement, the Crossroads Rider also will be used to credit Oklahoma retail customers with one hundred percent of the Oklahoma jurisdictional share of the actual Crossroads PTCs created during the term of the Crossroads Rider. He further testified that the Crossroads Rider allows for the Oklahoma jurisdictional share of all net damage payments received from the wind developer or the turbine manufacturer to pass through to Oklahoma retail customers and also allows OG&E to pass through to Oklahoma customers the Oklahoma jurisdictional share of all bonuses paid to the wind developer or the turbine manufacturer pursuant to contract.
 6. Mr. Scott testified that the rider has a true-up provision to align actual costs with revenues recovered. He further testified that the rider also contains a mechanism for crediting Oklahoma retail customers for one hundred percent of the Oklahoma jurisdictional REC proceeds (after deduction of third-party transaction costs, if applicable) generation by Crossroads' RECs during the term of and through the Crossroads Rider. He stated that the REC proceeds will be allocated to jurisdictions and customer classes using an energy allocator.
 7. Mr. Scott further testified that the proceeds from the sale of Crossroads' RECs will help offset the revenue requirement for the project and will be credited to customers. He testified that OG&E originally proposed that the Crossroads' REC revenues be credited to customers under the New Renewable Energy Credits ("NREC") portion of the Renewable Transmission System Additions ("RTSA") rider, which was approved September 11, 2008, in Cause No. PUD 200800148, Commission Order No. 559353. He testified that the RTSA specifies that eighty percent of the REC revenues from new wind facilities, like Crossroads, will be credited back to customers. Mr. Scott testified that in the Settlement Agreement, the Stipulating Parties agreed that OG&E will credit customers with one hundred percent of the proceeds from sales of Crossroads' RECs through the Crossroads Rider instead of the RTSA.
 8. Mr. Scott testified that the final estimated cost of the project cannot be finally determine at this time given the Danish Krone/U.S. Dollar exchange rate and the possibility of Crossroads moving from 197.8 MW to 227.5 MW. He testified
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that Attachment 1 to Stipulation Exhibit BJS-1 contains an illustration of the estimated revenue requirement for the 197.8 MW Crossroads project at a total capital cost of \$389 million in 2012 and 2013. He stated that this \$389 million in capital cost was included as utility plant in rate base and then rate base was adjusted for accumulated depreciation, Asset Retirement Obligation ("ARO") and deferred income taxes before calculating a return using the capital structure, return on equity, interest costs and tax effect as approved in Order No. 516261 in Cause No. PUD 200500151. He further testified that OG&E's calculation also included the capped amount of O&M expense contained in Stipulation Exhibit BJS-2 of the Settlement Agreement, as well as estimated amounts for depreciation expense, ARO, insurance and ad valorem taxes. He further testified that after adding the expenses to the return on rate base, OG&E subtracted the estimated amount of PTCs from this annual amount to determine the annual revenue requirement. He stated that based on the assumptions utilized in the illustration, the approximate total company annual revenue requirement would be \$38,533,487 in 2012 and \$31,559,059 in 2013.

9. Mr. Scott further testified that Attachment 2 to Stipulation Exhibit BJS-1 contains an illustration of the estimated revenue requirement for the 227.5 MW Crossroads project at a total capital cost of \$448.8 million in 2012 and 2013. He testified that this \$448.8 million in capital cost was included as utility plant in rate base and then adjusted for accumulated depreciation, ARO and deferred income taxes before calculating a return using the capital structure, return on equity, interest costs and tax effect as approved in Order No. 516261 in Cause No. PUD 200500151. He further testified that OG&E's calculation also included the capped amount of O&M expense contained in the Settlement Agreement, as well as estimated amounts for depreciation expense, insurance, ARO and ad valorem taxes. He testified that after adding the expense to the return on rate base, OG&E subtracted the estimated amount of the PTCs from this annual amount to determine the annual revenue requirement. Mr. Scott testified that based on the assumptions utilized in the illustration, the approximate total company annual revenue requirement would be \$44,326,049 in 2012 and \$36,313,057 in 2013.
 10. Mr. Scott testified that the annual revenue requirement will be based on actual costs. He stated that this annual revenue requirements shown in the illustrations are calculated on a total company basis and do not reflect the Oklahoma jurisdictional portion of the revenue requirement.
 11. Mr. Scott testified that OG&E used its resource planning models to compare a portfolio that included Crossroads to a portfolio that did not include Crossroads. He further testified that the addition of Crossroads to the OG&E portfolio will provide production cost savings as wind energy displaces more expensive generation resources.
 12. Mr. Scott testified that, as demonstrated in Chart 1 in his Supplemental Testimony and based on the assumptions therein, there is an estimated net cost of \$1.7 million for the 197.8 MW project in 2012 and of \$1.2 million for the 227.5 MW project in 2012. He further testified that there is an estimated net savings of \$10.7 million for the 197.8 MW project in 2013 and of \$12.9 million for the 227.5 MW project in 2013.
 13. Mr. Scott testified regarding the estimated overall impact of Crossroads on an average Oklahoma residential retail customer during the first three years of the project. He testified that for the 197.8 MW project, the estimated overall impact on an average residential customer using 1,100 kWh is a \$0.54 per month increase in 2012, a \$0.04 per month reduction in 2013 and additional monthly reductions in each year subsequent to 2013. He further testified that the estimated impact of the 227.5 MW project to an average residential customer using 1,100 kWh a month is \$0.60 per month in 2012, a reduction of \$0.07 per month in 2013 and additional monthly reductions in each year subsequent to 2013. Mr. Scott testified that the calculation of estimated impacts for the major customer classes is shown by Chart 2 in his supplemental testimony. At the hearing, Mr. Scott explained that OG&E would be willing to create a revised chart for the Commission website that illustrates the estimated customer impact for not only 2012 and 2013, but also during 2011 when the Crossroads facility will be constructed.
 14. Finally, Mr. Scott testified that the Stipulating parties have agreed to actions which shifted certain risks of the project from ratepayers to OG&E's shareowners, including treatment of RECs and cap on construction costs. He also testified that, in addition, OG&E retained the risk related to regulatory lag between the period it incurs cost and the date it begins recovery under the Crossroads Rider. The parties attempted to rebalance the potential risks of Crossroads in the Settlement Agreement.
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Public Utility Division

1. Craig R. Roach, President, Boston Pacific Company, filed pre-filed Direct Testimony on behalf of the PUD of the Commission and also filed Supplemental Testimony in support of the Settlement Agreement.
2. Mr. Roach testified that the purpose of his testimony was to provide his opinion on the Settlement Agreement.
3. He testified that he supported the Settlement Agreement for three reasons. He stated that his first reason was that the Crossroads project, under OG&E's assumptions, appears to provide a levelized cost that is substantially lower than that for current market alternatives. He further testified that the second reason was the Settlement Agreement provides an adequate level of ratepayer risk protection against the three key risks created by utility-owned wind projects. He further stated that these three risks are: (i) that capital expenditures will be higher than originally estimated, (ii) that the electricity generated will be lower than predicted and (iii) that the utility will not be able to use the PTCs generated by the project because they do not have sufficient tax liability elsewhere in the company. Finally, Mr. Roach testified that he supported the Settlement Agreement because it reflects a proper definition of prudence for this case; it acknowledges Crossroads must beat the next-best alternatives to be found to be prudent. And, he further explained, that the capital cost caps and performance thresholds were driven by that definition of prudence.
4. Mr. Roach further testified that there was a need for the Crossroads project. He testified that there was evidence in the record that there was a need for wind in the most recent OG&E IRP and that the cost-benefit analysis performed by OG&E for Crossroads and the pricing comparison between Crossroads and other recent wind projects confirmed that need for Crossroads. Mr. Roach testified that the need for wind energy is different from the need for generation capacity for serving customer load; that the need for wind is based on economic benefits associated with wind energy in a resource portfolio and is always essentially "economic need"; and that need was satisfied in this case because the evidence established the project was the least cost project when compared to the next best alternative."

Attorney General

1. The Attorney General filed Responsive Testimony of Daniel Peaco, participated in the settlement discussions on June 15, 16, 22, and 24, 2010, and appeared at the hearing on the merits. The Attorney General agrees with and signed the Settlement Agreement, and recommends that the Commission approve the Settlement Agreement. The Attorney General also stated that OG&E has demonstrated a need for the Crossroads project.

Intervenors

1. OIEC filed Responsive Testimony of Scott Norwood, participated in the settlement discussions on June 15, 16, 22, and 24, 2010, and appeared at the hearing on the merits. OIEC agrees with and signed the Settlement Agreement, and recommends that the Commission approve the Settlement Agreement. In addition, at the hearing, OIEC stated that OG&E has demonstrated a need for the Crossroads project.
2. OG&E Shareholders Association filed a Statement of Position, participated in the settlement discussions on June 15, 16, 22, and 24, 2010, and appeared at the hearing on the merits. The OG&E Shareholders agrees with and signed the Settlement Agreement, and recommends that the Commission approve the Settlement Agreement. In addition, at the hearing, the OG&E Shareholders stated that OG&E has demonstrated a need for the Crossroads project.
3. Chermac Energy Corporation, filed a Statement of Position, participated in the settlement discussions on June 15, 16, 22, and 24, 2010, and appeared at the hearing on the merits. Chermac agrees with and signed the Settlement Agreement, and recommends that the Commission approve the Settlement Agreement.

FINDINGS OF FACT

1. The Commission finds that notice has been properly given in accordance with Order No. 576086, issued in this cause, with due and proper notice by publication having been made and proof of publication having been filed with the office of
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the Court Clerk at the Commission.

2. The Commission further finds that the Stipulating Parties executed a Settlement Agreement, hereto attached as Attachment "A," and incorporated herein by reference.
3. The Commission further finds that the Settlement Agreement reflects a full, final, and complete settlement of all issues in this proceeding.
4. The Commission further finds that based upon the record, the Settlement Agreement is in the public interest and should be adopted as the order of this Commission.
5. The Commission further finds that based upon the record, there is a need for the Crossroads project.
6. The Commission further finds that based upon the record, that the Crossroads Wind Farm, as described in the Settlement Agreement is fair, just and reasonable and represents a prudent investment by OG&E. The Commission further finds that, when constructed and placed in service, Crossroads will be used and useful to OG&E's customers, subject to material compliance with expected operations.
7. The Commission further finds that based upon the record and consistent with the Settlement Agreement, that OG&E is authorized to recover the costs associated with Crossroads through the Crossroads Rider attached to the Settlement Agreement as Stipulation Exhibit BJS-1, which shall become effective with the issuance of the final order approving this Settlement Agreement and the submission to and approval of the Crossroads Rider tariff by the Director of the Public Utility Division. The Crossroads Rider will be effective until new rates are implemented after OG&E's 2013 general rate case and, in that 2013 general rate proceeding, the net depreciated balance of Crossroads' plant costs will be included in rate base.
8. The Commission further finds that the Capped Investment Amount (as defined in the Settlement Agreement and as calculated pursuant to the Settlement Agreement) shall be \$407.66 million for the 198.7 MW project and \$469.68 million for the 227.5 MW project.
9. The Commission further finds that based on the record, \$407.66 million for the 198.7 MW project and \$469.68 million for the 227.5 MW project represents an investment that is fair, just and reasonable and in the public interest and is deemed prudent and will be included in the revenue requirement in OG&E's planned 2013 general rate case.
10. The Commission further finds that any finding of fact stated herein which should properly be included as a conclusion of law is so included.

CONCLUSIONS OF LAW

1. The Commission finds that it has jurisdiction with respect to the issues presented in this proceeding by virtue of Article IX, § 18 of the Oklahoma Constitution; 17 O.S. §§ 151-152; and 17 O.S. §286(C).
2. The Commission further finds that notice has been properly given and is in compliance with OAC 165:50-5-3(1) and OAC 165:5-7-51(b) of the Commission's Rules of Practice.
3. The Commission further finds that, under 17 O.S. §§ 151-152; and 17 O.S. §286(C), Crossroads should be pre-approved and is fair, just and reasonable and represents a prudent investment by OG&E. The Commission further finds that, when constructed and placed in service, Crossroads will be used and useful to OG&E's customers, subject to material compliance with expected operations.
4. The Commission further finds that the approval of the Settlement Agreement and the pre-approval of Crossroads is in the public interest.
5. Any conclusion of law stated herein which should properly be a finding of fact is so included.

ORDER

THE COMMISSION THEREFORE ORDERS that notice has been properly given in accordance with Order No. 576086, issued in this cause, with due and proper notice by publication having been made and proof of publication having been filed with the office of the Court Clerk at the Commission.

THE COMMISSION FURTHER ORDERS that the findings of fact and conclusions of law herein, are hereby adopted as the findings of fact and conclusions of law of the Commission.

THE COMMISSION FURTHER ORDERS that the Joint Stipulation and Settlement Agreement, attached hereto as Attachment "A," should be and the same is hereby approved and adopted by the Commission.

THIS ORDER SHALL BE EFFECTIVE immediately.

OKLAHOMA CORPORATION COMMISSION

/s/ Bob Anthony

BOB ANTHONY, Chairman

/s/ Jeff Cloud

JEFF CLOUD, Vice-Chairman

/s/ Dana L. Murphy

DANA L. MURPHY, Commissioner

CERTIFICATION

DONE AND PERFORMED by the Commissioners participating in the making of this order, as shown by their signatures above this 29th day of July, 2010.

[seal]

/s/ Peggy Mitchell

PEGGY MITCHELL, Secretary

REPORT OF THE REFEREE

The foregoing findings, conclusions and order are the report and recommendations of the undersigned Referee.

/s/ Jacqueline T. Miller

JACQUELINE T. MILLER

Referee, Administrative Law Judge

July 26, 2010

Date

BEFORE THE
CORPORATION COMMISSION OF OKLAHOMA

IN THE MATTER OF THE APPLICATION OF)
OKLAHOMA GAS AND ELECTRIC COMPANY)
FOR AN ORDER GRANTING PRE-APPROVAL)
TO CONSTRUCT THE CROSSROADS WIND) CAUSE NO. PUD 201000037
FARM, AND AUTHORIZING A RECOVERY)
RIDER)

JOINT STIPULATION AND SETTLEMENT AGREEMENT

June 28, 2010

I. Introduction

The undersigned parties believe it is in the public interest to effectuate a settlement of the issues in Cause No. PUD 201000037.

Therefore, now the undersigned parties to the above entitled cause present the following Joint Stipulation and Settlement Agreement (“Joint Stipulation”) for the Oklahoma Corporation Commission’s (“Commission”) review and approval as a compromise and settlement of all issues in this proceeding between the parties to this Joint Stipulation (“Stipulating Parties”). The Stipulating Parties represent to the Commission that the Joint Stipulation represents a fair, just, and reasonable settlement of these issues, that the terms and conditions of the Joint Stipulation are in the public interest, and the Stipulating Parties urge the Commission to issue an Order in this Cause adopting this Joint Stipulation.

The Stipulating Parties agree that the Commission has jurisdiction with respect to the issues presented in this proceeding by virtue of Article IX, §18 *et seq.* of the Oklahoma Constitution, 17 O.S. §152 and 17 O.S. §286(C).

It is hereby stipulated and agreed by and between the Stipulating Parties as follows:

II. Stipulated Facts

A. On April 8, 2010, Oklahoma Gas and Electric Company (“OG&E” or the “Company”) filed an application requesting that the Commission issue an order (i) determining that the costs to OG&E for the construction of the new Crossroads Wind Farm (“Crossroads”) and related facilities are prudent, and that the Crossroads facility will be used and useful when placed in service; (ii) authorizing OG&E to implement a recovery rider to be effective until Crossroads is placed in rate base by order of the Commission; and (iii) approving a waiver from the Commission’s competitive bidding rules (“Application”).

B. Crossroads is an 86-turbine, 197.8 MW wind-powered electric generation facility located in Dewey County, Oklahoma. The Crossroads facility is expected to come on-line during the second half of 2011. Crossroads will interconnect to OG&E's new 345 kV Woodward to Oklahoma City transmission line ("Windspeed"). The Crossroads facilities will utilize Siemens Energy SWT-2.3-101 wind turbine generators each with a nameplate rating of 2.3 MW. Each turbine will have a 101-meter rotor diameter and will be supported by an 80-meter tower (262 feet). A separate interconnection request has been made with the Southwest Power Pool ("SP P") for an incremental 29.7 MW. With these additional 29.7 MW, the Crossroads facility would be 227.5 MW.

III. Settlement Agreement

A. The Stipulating Parties request that the Commission issue an order granting pre-approval of Crossroads and finding that Crossroads is a prudent investment. The Stipulating Parties also request that the Commission issue an order finding that Crossroads, when constructed, placed in service and interconnected to Windspeed, will be used and useful to OG&E's customers, subject to material compliance with expected operations. The Stipulating Parties agree that the operational performance of Crossroads shall be reviewed pursuant to OAC 165:35-39 and OAC 165:35-35.

B. The Stipulating Parties also request that the Commission authorize the recovery of costs associated with Crossroads through a recovery rider ("Crossroads Rider," which is attached hereto as Stipulation Exhibit BJS-1, and which includes illustrations of the revenue requirement calculations) that will become effective upon the issuance of the final order approving this Joint Stipulation and the submission to and approval of the Crossroads Rider tariff by the Director of the Public Utility Division. The Crossroads Rider will be effective until new rates are implemented after OG&E's 2013 general rate case. In that 2013 general rate proceeding, the net depreciated balance of Crossroads' plant costs will be included in rate base. The Stipulating Parties further agree that the rate of return utilized for the Crossroads Rider will initially be calculated using the capital structure, return on equity, interest costs and tax effect as approved in Order No. 516261 in Cause No. PUD 200500151. This rate of return will be adjusted to reflect the rate of return approved by the Commission in OG&E's 2011 rate case; and the new rate of return will be applied on the effective date of the rates approved in the 2011 rate case.

C. The Stipulating Parties request that the Commission grant OG&E's request for a waiver from the Commission's competitive bidding requirements. This waiver is based on: (i) OG&E's representations that the Crossroads project will deliver significantly greater benefit to customers than other top bidders in its most recent RFP and other wind resource opportunities available to OG&E at this time, and that the opportunity to realize these benefits may be lost if action is not taken at this time; and (ii) the agreements described in this Joint Stipulation.

D. Except as otherwise provided in Paragraph O, the Stipulating Parties agree that OG&E's projected capital cost for the Crossroads project is \$389 million, based in part on a Danish Krone/U.S. Dollar exchange rate of 6.00 and the projected capital cost is subject to an

adjustment at the closing of OG&E's Turbine Supply Agreement with Siemens. The Stipulating Parties further agree that OG&E's capital costs for which it is entitled recovery ("Capped Investment Amount") shall not exceed the lesser of: 1) an amount equal to: (i) \$389 million as adjusted for the Krone/Dollar exchange rate at 9:00 am central time on the date a Commission Order is issued in this cause according to the Yahoo Finance website; plus (ii) a variance which does not exceed three (3) percent of the amount calculated pursuant to (i); or 2) the Maximum Stipulated Cost as described in Paragraph E.

E. The Stipulating Parties further agree that the Capped Investment Amount described in Paragraph D represents an investment that is fair, just and reasonable and in the public interest and is deemed prudent and will be included in the revenue requirement in OG&E's planned 2013 general rate case. To the extent OG&E's total investment in Crossroads exceeds the Capped Investment Amount, OG&E shall be entitled to offer evidence and seek to establish that the excess above the Capped Investment Amount was prudently incurred and should be included in OG&E's rate base. Any construction costs incurred by OG&E in excess of the Capped Investment Amount shall not include interim carrying costs on the Plant in Service and will not be eligible for cost recovery until OG&E's next general rate case. The Stipulating Parties further agree that neither this Joint Stipulation nor any of the provisions hereof shall become effective in the event the Capped Investment Amount is more than \$416.2 million ("Maximum Stipulated Cost") on the date of a final Commission order approving this Joint Stipulation.

F. The Stipulating Parties agree that OG&E shall pass through to Oklahoma retail customers 100 percent of the Oklahoma jurisdictional Renewable Energy Credits ("RECs") proceeds (after deduction of third-party transaction costs if applicable) generated by Crossroads RECs during the term of and through the Crossroads Rider. The REC proceeds will be allocated to jurisdictions and customer classes using an energy allocator.

G. The Stipulating Parties agree that OG&E shall file an application with the Commission within sixty (60) days of a final Commission order in this proceeding requesting amendments to the current Minimum Filing Requirements (OAC 165:35-39) for the purpose of providing additional information regarding electric utility wind generation facilities and wind energy purchase power agreements. This additional information shall include, but not be limited to, the amount of production tax credits utilized in the reporting year. The Stipulating Parties agree to collaborate in developing the requested amendments. OG&E agrees to provide the additional information simultaneously with the filing of its Minimum Filing Requirements until such time as the proposed amendments are adopted or rejected by the Commission.

H. The Stipulating Parties agree that OG&E's Oklahoma retail customers shall be credited with one hundred (100) percent of the Oklahoma jurisdictional share of the actual Crossroads production tax credits ("PTCs") created during the term of, and as specified in, the Crossroads Rider. Likewise, at the end of the Crossroads Rider and for the remaining life of the Crossroads project PTCs, OG&E will continue to credit its Oklahoma retail customers with one hundred (100) percent of the Oklahoma jurisdictional share of the actual test year benefits of the

PTCs (as adjusted for known and measurable changes) in the determination of the revenue requirement in each general rate proceeding.

I. The Stipulating Parties further agree that OG&E will pass through to Oklahoma retail customers the Oklahoma jurisdictional share of all net damage payments received from the wind developer or the turbine manufacturer. The Stipulating Parties further understand that, under the terms of the contracts with these entities, this damage payment amount will not exceed \$85 million. The Stipulating Parties further agree that, in light of the benefits to customers associated with higher achieved Crossroads output and the early completion of the Crossroads project, OG&E will pass through to Oklahoma customers the Oklahoma jurisdictional share of all bonuses paid to the wind developer or the turbine manufacturer pursuant to contract. The Stipulating Parties further understand that, under the terms of the contracts with these entities, this bonus amount will not exceed \$3.2 million.

J. The Stipulating Parties agree that, to the extent that Crossroads makes additional amounts of OG&E's coal or natural gas-fired generation capacity or energy available for sale in the SPP's Energy Imbalance Service ("EIS") market, all revenues associated with these increased EIS market sales will continue to be credited to OG&E's retail customers.

K. Except as otherwise provided in Paragraph O, the Stipulating Parties further agree that, if the three-year rolling average of Crossroads megawatt-hours of production (including a credit for energy not produced due to curtailments or other events caused by system emergencies, force majeure events, or transmission system issues) falls below 712,844 MWhs, OG&E shall file testimony demonstrating the prudent operation of Crossroads when it files its Minimum Filing Requirements pursuant to OAC 165:35-39.

L. The Stipulating Parties agree that Crossroads' O&M expense will be capped at the amounts contained in Stipulation Exhibit BJS-2 until rates are implemented after the next general rate case.

M. The Stipulating Parties agree that on or before May 1, 2011, OG&E will submit an interim, updated Integrated Resource Plan ("IRP") as contemplated by Subsection 37 of Chapter 35 of the Commission's Rules, provided that:

- 1) The updated IRP analysis will specifically address the need and timing for additional wind resources in OG&E's system, including but not limited to various amounts of wind and timing of additional wind including assessments of the benefits based on consideration of the operation of the SPP day-ahead market, transmission limitations/requirements for expanded wind resource development, the added costs for fossil fuel-fired power plants when those fossil fuel plants are used to accommodate variable wind generation, current expectation of the impacts of regional haze rules on OG&E's coal generation, and a range of scenarios for natural gas prices and climate legislation and other factors which may impact the amounts and timing of wind resource additions over the next ten (10) years.
 - 2) No less than sixty (60) days prior to the filing of the updated integrated resource
-

plan, the Stipulating Parties further agree that OG&E will hold a collaborative technical conference for all stakeholders in order to allow all stakeholders the opportunity to provide input regarding utility objectives, assumptions, and planning scenarios to be contained in the updated IRP analysis.

The Stipulating Parties agree that OG&E shall pay for and be able to recover costs associated with third party consultants needed by the Attorney General and/or the Commission Staff to participate in the stakeholder technical conference. This Paragraph M is not an admission by the Stipulating Parties that OG&E has a need for additional wind resources nor is it intended to relieve OG&E of its burden of proof to demonstrate that any agreements it enters into to acquire wind energy assets or to purchase wind energy are reasonable or prudent.

N. The Stipulating Parties agree that, except as otherwise provided herein, OG&E will not seek Commission preapproval for the construction or acquisition of any new wind generation asset or for a long term wind purchase power agreement until it finalizes and submits a new IRP described in Paragraph M; provided that this restriction does not apply to preapproval of the Crossroads expansion identified in Paragraph O or the procurement of the Company's next incremental amount of wind energy (at least 100 MW and no more than 150 MW), which shall be awarded through a competitive procurement process. If OG&E conducts such a competitive procurement process before completion of the IRP specified in Paragraph M, OG&E will include in its preapproval application the analysis specified in Paragraph M.1 above. The Stipulating Parties further agree that, for the purposes of such wind energy competitive procurement process, the Independent Evaluator selected to participate in the process shall be either: a) a Commission staff member or a third party agreed to by OG&E, the Attorney General and Public Utility Division staff; or b) if OG&E, the Attorney General and the Commission Staff cannot agree to an Independent Evaluator pursuant to (a), a Commission Staff member or third party appointed by the Commission after notice and hearing. This Paragraph N is not an admission by the Stipulating Parties that OG&E has a need for additional wind resources nor is it intended to relieve OG&E of its burden of proof to demonstrate that any agreements it enters into to acquire wind energy assets or to purchase wind energy are reasonable or prudent.

O. The Stipulating Parties recognize that OG&E has the opportunity to expand Crossroads by an additional 29.7 MW (twelve (12) additional turbines including nine (9) 2.3 MW wind turbines and three (3) 3 MW turbines). The Stipulating Parties agree that, subject to the conditions set forth in this Paragraph O, this incremental quantity of wind generation capacity would be beneficial to OG&E customers. Therefore, the Stipulating Parties agree that if the pending SPP interconnection study concludes on or before September 1, 2010, that these additional turbines can be interconnected at incremental costs below \$4.7 million as confirmed by the Attorney General and the Commission Staff, OG&E's decision to proceed with the construction of these additional twelve (12) turbines shall be prudent, the turbines will be used and useful when placed in service, and the costs and associated recovery for these additional turbines shall be included in the Crossroads Rider. In such a case, the Capped Investment Amount shall not exceed the lesser of: 1) an amount equal to: (i) \$448.8 million as adjusted for the Krone/Dollar exchange rate at 9:00 am central time on the date a Commission Order is issued in this cause according to the Yahoo Finance website; plus (ii) a variance which does not exceed three (3) percent of the amount calculated pursuant to (i); or 2) the Alternative Maximum

Stipulated Cost as described below. The Stipulating Parties further agree that neither this Joint Stipulation nor any of the provisions hereof shall become effective in the event the Capped Investment Amount is more than \$480.2 million ("Alternative Maximum Stipulated Cost") on the date of a final Commission order approving this Joint Stipulation. If OG&E constructs these additional turbines, the three-year rolling average of Crossroads' megawatt-hours of production (for purposes of Paragraph K above) will be 819,879 MWhs.

IV. General Reservations.

The Stipulating Parties represent and agree that, except as specifically provided:

A. Negotiated Settlement. This Joint Stipulation represents a negotiated settlement for the purpose of compromising and resolving the issues presented in this Cause.

B. Authority to Execute. Each of the undersigned counsel of record affirmatively represents to the Commission that he or she has fully advised his or her respective clients(s) that the execution of this Joint Stipulation constitutes a resolution of issues which were raised in this proceeding; that no promise, inducement or agreement not herein expressed has been made to any Stipulating Party; that this Joint Stipulation constitutes the entire agreement between and among the Stipulating Parties; and each of the undersigned counsel of record affirmatively represents that he or she has full authority to execute this Joint Stipulation on behalf of his or her client(s).

C. Balance/Compromise of Positions. The Stipulating Parties stipulate and agree that the agreements contained in this Joint Stipulation have resulted from negotiations among the Stipulating Parties. The Stipulating Parties hereto specifically state and recognize that this Joint Stipulation represents a balancing of positions of each of the Stipulating Parties in consideration for the agreements and commitments made by the other Stipulating Parties in connection therewith. Therefore, in the event that the Commission does not approve and adopt all of the terms of this Joint Stipulation, this Joint Stipulation shall be void and of no force and effect, and no Stipulating Party shall be bound by the agreements or provisions contained herein. The Stipulating Parties agree that neither this Joint Stipulation nor any of the provisions hereof shall become effective unless and until the Commission shall have entered an Order approving all of the terms and provisions as agreed to by the parties to this Joint Stipulation.

D. Admissions and Waivers. The Stipulating Parties agree and represent that the provisions of this Joint Stipulation are intended to relate only to the specific matters referred to herein, and by agreeing to this settlement, no Stipulating Party waives any claim or right which it may otherwise have with respect to any matters not expressly provided for herein. In addition, none of the signatories hereto shall be deemed to have approved or acquiesced in any ratemaking principle, valuation method, cost of service determination, depreciation principle or cost allocation method underlying or allegedly underlying any of the information submitted by the parties to this Cause and except as specifically provided in this Joint Stipulation, nothing contained herein shall constitute an admission by any Stipulating Party that any allegation or contention in this proceeding is true or valid or shall constitute a determination by the

Commission as to the merits of any allegations or contentions made in this proceeding.

E. No Precedential Value. The Stipulating Parties agree that the provisions of this Joint Stipulation are the result of negotiations based upon the unique circumstances currently represented by the Applicant and that the processing of this Cause sets no precedent for any future causes that the Applicant or others may file with this Commission. The Stipulating Parties further agree and represent that neither this Joint Stipulation nor any Commission order approving the same shall constitute or be cited as precedent or deemed an admission by any Stipulating Party in any other proceeding except as necessary to enforce its terms before the Commission or any court of competent jurisdiction. The Commission's decision, if it enters an order approving this Joint Stipulation, will be binding as to the matters decided regarding the issues described in this Joint Stipulation, but the decision will not be binding with respect to similar issues that might arise in other proceedings. A Stipulating Party's support of this Joint Stipulation may differ from its position or testimony in other causes. To the extent there is a difference, the Stipulating Parties are not waiving their positions in other causes. Because this is a stipulated agreement, the Stipulating Parties are under no obligation to take the same position as set out in this Joint Stipulation in other dockets.

F. Discovery. As between and among the Stipulating Parties, any pending requests for information or discovery and any motions that may be pending before the Commission are hereby withdrawn.

WHEREFORE, the Stipulating Parties hereby submit this Joint Stipulation and Settlement Agreement to the Commission as their negotiated settlement of this proceeding with respect to all issues raised within the Application filed herein by Oklahoma Gas & Electric Company or by Stipulating Parties to this Cause, and respectfully request the Commission to issue an Order approving the recommendations of this Joint Stipulation and Settlement Agreement.

OKLAHOMA GAS & ELECTRIC COMPANY

Dated: 6/28/2010

By: /s/ William J. Bullard
William J. Bullard
Kimber L. Shoop

OKLAHOMA OFFICE OF THE ATTORNEY GENERAL

Dated: 6/28/2010

By: /s/ William L. Humes
William L. Humes

OKLAHOMA INDUSTRIAL ENERGY CONSUMERS

Dated: 6/28/2010

By: /s/ J. Fred Gist
J. Fred Gist

OG&E SHAREHOLDERS ASSOCIATION

Dated: 6/28/2010

By: /s/ Ronald E. Stakem
Ronald E. Stakem

PUBLIC UTILITY DIVISION
OKLAHOMA CORPORATION COMMISSION

Dated: 6/28/2010

By: /s/ Brandy L. Wreath
Brandy L. Wreath
Deputy Director

CHERMAC ENERGY CORPORATION

Dated: 6/28/2010

By: /s/ Richard Goodwin
Richard Goodwin

OKLAHOMA GAS AND ELECTRIC COMPANY
P. O. Box 321
Oklahoma City, Oklahoma 73101

Original Sheet No. 55.00
Replacing Original Sheet No. N/A
Date Issued XXXXXX xx, 20xx

**STANDARD PRICING SCHEDULE:CR
CROSSROADS RIDER**

STATE OF OKLAHOMA

EFFECTIVE IN: All territory served.

PURPOSE: Recover the Oklahoma jurisdictional portion of the annual revenue requirement associated with the Crossroads Wind Energy Project.

APPLICABILITY: Rider is applicable to all Oklahoma retail rate classes and customers except those specifically exempted by special contract.

TERM: This rider shall terminate upon the implementation of new rates from the Company's general rate review immediately after all Crossroads wind turbines are declared operational.

CROSSROADS RIDER FACTOR (CRF) CALCULATIONS: The following formula calculates the charges, on a per kilowatt-hour (kWh) basis, for each of the major rate classes and the combined minor rate classes. The revenue requirement reflected in the Crossroads Rider Factor shall include all operational turbines and shall be adjusted as each turbine is placed into operation.

$$CRF_{Class} = \frac{(A * B) \pm C}{D} = \text{Class } \$ \text{ per kWh}$$

Where:

Major Rate Classes = *Residential, General Service, Power and Light, and Large Power and Light*

Combined Minor Rate Classes (Other) = *Municipal Lighting + Municipal Pumping + Outdoor Security Lighting + Public Schools (demand and non-demand) + Oil and Gas Producers*

A = *Oklahoma Jurisdiction Crossroads Rider Revenue Requirement*

B = *Production Demand Allocation Factor for each class identified above*

C = *Annual Class True-Up*

D = *Base kWh for each Class identified above*

And:

A) Oklahoma Jurisdiction Crossroads Rider Revenue Requirement: The revenue requirement shall be based upon the most recently approved return on rate base (ROR), income tax expense, O&M expense, insurance expense, asset retirement obligation, depreciation, property tax, project damage payments, project bonuses, and reduced for production tax credits. The revenue requirement will also be reduced by the proceeds from REC sales as described in C) Annual Class True-Up.

Rates Authorized by the Oklahoma Corporation Commission:

(Effective) XXXXXX xx, 20xx (Order No.) xxxxxx (Cause/Docket No.) PUD201000xxxx

☐ 0 ;

Public Utilities Division Stamp

OKLAHOMA GAS AND ELECTRIC COMPANY
P. O. Box 321
Oklahoma City, Oklahoma 73101

Original Sheet No. 55.01
Replacing Original Sheet No. N/A
Date Issued XXXXXX xx, 20xx

STANDARD PRICING SCHEDULE:CR STATE OF OKLAHOMA
CROSSROADS RIDER

B) Production Demand Allocation Factor: The most recently approved production demand allocation factor (1CP Average & Excess).

Class	Allocator Percentage*
Residential	46.8208
General Service	8.7280
Power and Light	27.2523
Large Power and Light	14.6669
Other	2.5320

*Adjusted to exclude jurisdictions not at issue

C) Annual Class True-Up: The over or under amount which will be the difference between the revenues collected through the rider from a previous period and the Oklahoma Actual Revenue Requirements of the corresponding period. All true-up amounts for any previous period will be added to or subtracted from the expected Oklahoma Retail jurisdictional amount by Class or “Other” for the next calendar year collection. In addition, 100 percent of the Oklahoma jurisdictional share of the proceeds (after deduction of third party transaction costs if applicable) from the sale of Crossroads RECs generated during the term of this rider shall be credited to Class based on an energy allocator.< /div>

D) Base kWh: The applicable projected Oklahoma jurisdictional kWh as determined by the Company computed using the most current twelve (12) billing month kWh (November thru October, weather adjusted) and submitted to the Commission in November of each year.

FINAL REVIEW: The Company shall provide the OCC Staff a final report reflecting actual collected revenues through the term of this rider as compared to what should have been collected based on the actual costs over the same period. The final over/under recovery will be refunded or collected through the Rider for Fuel Cost Adjustment.

Rates Authorized by the Oklahoma Corporation Commission: Public Utilities Division Stamp
(Effective) (Order No.) (Cause/Docket No.)
XXXXXX xx, 20xx xxxxxx PUD201000xxxx

Attachment 1 to Stipulation Exhibit BJS-1
Illustration of Estimated Revenue Requirement for Crossroads Wind Farm
Performed 6/24/2010
46.38% CF; Expected CO2 and Gas; 197.8 MW

		2012	2013
REVENUE REQUIREMENTS			
Rate Base			
	Utility Plant	\$389,000,000	\$389,000,000
	Asset Retirement Obligation (ARO) Asset	\$5,704,308	\$5,704,308
	ARO Accumulated Amortization	-\$52,289	-\$166,376
	ARO Liability	-\$5,857,930	-\$6,202,962
	Accumulated Provision for Depreciation	-\$7,137,694	-\$22,710,844
	State PTC Tax Asset	\$0	\$0
	Accumulated Deferred Income Taxes	-\$10,561,781	-\$41,654,729
	Total Rate Base	\$371,094,613	\$323,969,397
	Return with Taxes	\$45,793,075	\$39,977,824
Expenses			
	O&M Expenses	\$6,770,903	\$6,886,803
	ARO Accretion	\$335,984	\$355,773
	ARO Amortization	\$114,086	\$114,086
	Depreciation	\$15,573,150	\$15,573,150
	Insurance	\$125,779	\$128,924
	Property Taxes	\$3,893,288	\$3,893,288
	Total Expenses	\$26,813,190	\$26,952,024
Revenue Requirement			
	Total Company Revenue Requirement	\$72,606,265	\$66,929,847
	Production Tax Credits - Federal & state	-\$34,072,778	-\$35,370,789
	Net Total Company Revenue Requirement	\$38,533,487	\$31,559,059
PRODUCTION COST SAVINGS			
	OGE Fuel Cost	\$28,521,154	\$31,219,578
	COGEN Cost	\$1,950,437	\$3,690,109
	Purchase Power	\$2,600	\$26,200
	Total Fuel Cost	\$30,474,191	\$34,935,887
	Variable O&M	\$1,799,311	\$1,443,556
	CO2 Costs	\$3,552,709	\$4,903,696
	Total Variable Production Costs	\$35,826,210	\$41,283,139
CREDITS			
	Renewable Energy Certificates (REC)	\$967,009	\$964,367
Total Company NET BENEFIT/(COST)		(\$1,740,267)	\$10,688,448

Attachment 2 to Stipulation Exhibit BJS-1
Illustration of Estimated Revenue Requirement for Crossroads Wind Farm
Performed 6/24/2010
46.38% CF; Expected CO2 and Gas; 227.5 MW

		2012	2013
REVENUE REQUIREMENTS			
Rate Base			
	Utility Plant	\$448,800,000	\$448,800,000
	Asset Retirement Obligation (ARO) Asset	\$6,560,716	\$6,560,716
	ARO Accumulated Amortization	-\$60,140	-\$191,354
	ARO Liability	-\$6,737,402	-\$7,134,235
	Accumulated Provision for Depreciation	-\$8,227,489	-\$26,178,374
	State PTC Tax Asset	\$0	\$0
	Accumulated Deferred Income Taxes	-\$12,093,024	-\$47,715,451
	Total Rate Base	\$428,242,660	\$374,141,301
	Return with Taxes	\$52,845,144	\$46,169,037
Expenses			
	O&M Expenses	\$7,568,537	\$7,698,176
	ARO Accretion	\$386,426	\$409,187
	ARO Amortization	\$131,214	\$131,214
	Depreciation	\$17,950,885	\$17,950,885
	Insurance	\$144,984	\$148,608
	Property Taxes	\$4,487,721	\$4,487,721
	Total Expenses	\$30,669,768	\$30,825,792
Revenue Requirement			
	Total Company Revenue Requirement	\$83,514,912	\$76,994,828
	Production Tax Credits - Federal & state	-\$39,188,863	-\$40,681,772
	Net Total Company Revenue Requirement	\$44,326,049	\$36,313,057
PRODUCTION COST SAVINGS			
	OGE Fuel Cost	\$31,886,930	\$33,688,231
	COGEN Cost	\$2,648,642	\$6,410,593
	Purchase Power	-\$10,200	\$12,000
	Total Fuel Cost	\$34,525,372	\$40,110,825
	Variable O&M	\$1,609,812	\$1,557,994
	CO2 Costs	\$5,814,626	\$6,435,406
	Total Variable Production Costs	\$41,949,809	\$48,104,224
CREDITS			
	Renewable Energy Certificates (REC)	\$1,112,207	\$1,109,168
Total Company NET BENEFIT/(COST)		(\$1,264,033)	\$12,900,336

Stipulation Exhibit BJS-2

	2012	2013
O&M Expenses* (based on 197.8 MW)	\$6,770,903	\$6,886,803
O&M Expenses* (based on 227.5 MW)	\$7,568,537	\$7,698,176

* Does not include depreciation, property tax, insurance, ARO accretion, ARO amortization or contractual damage/bonus payments.