OGE ENERGY CORP
Form 10-Q
August 02, 2006

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

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2006

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____to_____

Commission File Number: 1-12579

OGE ENERGY CORP.

(Exact name of registrant as specified in its charter)

Oklahoma	**73-1481638**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

321 North Harvey
P.O. Box 321
Oklahoma City, Oklahoma 73101-0321
(Address of principal executive offices)
(Zip Code)

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 _X_ No ___

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer _X_ Accelerated Filer ___ Non-Accelerated Filer ___

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ___ No _X_

As of June 30, 2006, 90,972,169 shares of common stock, par value $0.01 per share, were outstanding.

OGE ENERGY CORP.

FORM 10-Q

FOR THE QUARTER ENDED JUNE 30, 2006

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Item 1. Financial Statements.

OGE ENERGY CORP.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In millions)	**June 30, 2006**	December 31, 2005
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**$ ---**	$ 26.4
Accounts receivable, less reserve of $4.6 and $3.7, respectively	**433.4**	591.4
Accrued unbilled revenues	**62.8**	41.8
Fuel inventories	**79.1**	63.6
Materials and supplies, at average cost	**56.1**	56.5
Price risk management	**43.6**	116.5
Gas imbalances	**16.2**	32.0
Accumulated deferred tax assets	**14.7**	14.3
Fuel clause under recoveries	**8.8**	101.1
Recoverable take or pay gas charges	**---**	4.9
Prepayments and other	**20.5**	25.1
Total current assets	**735.2**	1,073.6
OTHER PROPERTY AND INVESTMENTS, at cost	**31.3**	29.2

PROPERTY, PLANT AND EQUIPMENT		
In service	**6,086.7**	5,996.3
Construction work in progress	**196.5**	101.8
Other	**4.9**	3.1
Total property, plant and equipment	**6,288.1**	6,101.2
Less accumulated depreciation	**2,591.2**	2,568.7
Net property, plant and equipment	**3,696.9**	3,532.5
In service of discontinued operations	**---**	60.6
Less accumulated depreciation	**---**	25.7
Net property, plant and equipment of discontinued operations	**---**	34.9
Net property, plant and equipment	**3,696.9**	3,567.4
DEFERRED CHARGES AND OTHER ASSETS		
Income taxes recoverable from customers, net	**32.3**	32.8
Intangible asset - unamortized prior service cost	**32.8**	32.8
Prepaid benefit obligation	**133.5**	90.2
Price risk management	**1.9**	9.0
McClain Plant deferred expenses	**21.8**	24.9
Unamortized loss on reacquired debt	**20.7**	21.3
Unamortized debt issuance costs	**9.6**	8.1
Other	**6.2**	7.2
Deferred charges and other assets of discontinued operations	**---**	2.4
Total deferred charges and other assets	**258.8**	228.7
TOTAL ASSETS	**$ 4,722.2**	$ 4,898.9

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

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OGE ENERGY CORP.

CONDENSED CONSOLIDATED BALANCE SHEETS (Continued)

(Unaudited)

(In millions)	**June 30, 2006**	December 31, 2005
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		

Short-term debt	**$ 58.2**	$ 30.0
Accounts payable	**243.7**	510.4
Dividends payable	**30.2**	30.1
Customers deposits	**50.2**	47.8
Accrued taxes	**70.0**	67.1
Accrued interest	**37.5**	31.9
Tax collections payable	**15.8**	8.7
Accrued compensation	**34.3**	40.3
Long-term debt due within one year	**3.0**	---
Price risk management	**37.8**	109.5
Gas imbalances	**21.8**	36.0
Fuel clause over recoveries	**45.4**	---
Provision for payments of take or pay gas	**---**	8.9
Other	**31.7**	29.9
Total current liabilities	**679.6**	950.6
LONG-TERM DEBT	**1,346.7**	1,350.8
COMMITMENTS AND CONTINGENCIES (NOTE 17)		
DEFERRED CREDITS AND OTHER LIABILITIES		
Accrued pension and benefit obligations	**245.6**	234.5
Accumulated deferred income taxes	**834.4**	807.1
Accumulated deferred investment tax credits	**29.3**	31.7
Accrued removal obligations, net	**120.4**	114.2
Price risk management	**0.2**	10.7
Asset retirement obligation	**4.7**	3.6
Other	**18.3**	19.9
Total deferred credits and other liabilities	**1,252.9**	1,221.7
STOCKHOLDERS EQUITY		
Common stockholders equity	**729.0**	715.5
Retained earnings	**808.7**	750.5
Accumulated other comprehensive loss, net of tax	**(94.7)**	(90.2)
Total stockholders equity	**1,443.0**	1,375.8
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	**$ 4,722.2**	$ 4,898.9

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

OGE ENERGY CORP.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In millions, except per share data)	**Three Months Ended June 30, 2006**	Three Months Ended June 30, 2005	**Six Months Ended June 30, 2006**	Six Months Ended June 30, 2005
OPERATING REVENUES				
Electric Utility operating revenues	**$ 444.7**	$ 394.1	**$ 818.7**	$ 695.2
Natural Gas Pipeline operating revenues	**489.6**	936.1	**1,225.4**	1,900.3
Total operating revenues	**934.3**	1,330.2	**2,044.1**	2,595.5
COST OF GOODS SOLD				
Electric Utility cost of goods sold	**217.6**	202.2	**443.5**	367.2
Natural Gas Pipeline cost of goods sold	**432.6**	892.1	**1,095.2**	1,813.8
Total cost of goods sold	**650.2**	1,094.3	**1,538.7**	2,181.0
Gross margin on revenues	**284.1**	235.9	**505.4**	414.5
Other operation and maintenance	**103.0**	99.8	**208.5**	196.6
Depreciation	**45.5**	43.5	**90.4**	88.4
Taxes other than income	**17.9**	16.8	**37.0**	35.0
OPERATING INCOME	**117.7**	75.8	**169.5**	94.5
OTHER INCOME (EXPENSE)				
Other income	**1.7**	1.0	**8.4**	2.6
Other expense	**(9.6)**	(1.0)	**(10.8)**	(2.6)
Net other expense	**(7.9)**	---	**(2.4)**	---
INTEREST INCOME (EXPENSE)				
Interest income	**1.6**	0.1	**3.1**	2.1
Interest on long-term debt	**(22.2)**	(19.7)	**(43.9)**	(38.7)
Allowance for borrowed funds used during construction	**1.9**	0.8	**2.9**	1.4
Interest on short-term debt and other interest charges	**0.1**	(1.7)	**(1.9)**	(3.3)
Net interest expense	**(18.6)**	(20.5)	**(39.8)**	(38.5)
INCOME FROM CONTINUING OPERATIONS BEFORE TAXES	**91.2**	55.3	**127.3**	56.0
INCOME TAX EXPENSE	**33.3**	19.5	**45.3**	18.5
INCOME FROM CONTINUING OPERATIONS	**57.9**	35.8	**82.0**	37.5
DISCONTINUED OPERATIONS				
Income from discontinued operations	**58.8**	4.4	**60.1**	10.2
Income tax expense	**23.0**	1.7	**23.5**	3.9
Income from discontinued operations	**35.8**	2.7	**36.6**	6.3
NET INCOME	**$ 93.7**	$ 38.5	**$ 118.6**	$ 43.8
BASIC AVERAGE COMMON SHARES OUTSTANDING	**90.9**	90.2	**90.8**	90.1
DILUTED AVERAGE COMMON SHARES OUTSTANDING	**92.0**	90.8	**91.9**	90.6
BASIC EARNINGS PER AVERAGE COMMON SHARE				
Income from continuing operations	**$ 0.64**	$ 0.40	**$ 0.91**	$ 0.42
Income from discontinued operations, net of tax	**0.39**	0.03	**0.40**	0.07
NET INCOME	**$ 1.03**	$ 0.43	**$ 1.31**	$ 0.49
DILUTED EARNINGS PER AVERAGE COMMON SHARE				
Income from continuing operations	**$ 0.63**	$ 0.39	**$ 0.89**	$ 0.41
Income from discontinued operations, net of tax	**0.39**	0.03	**0.40**	0.07
NET INCOME	**$ 1.02**	$ 0.42	**$ 1.29**	$ 0.48
DIVIDENDS DECLARED PER SHARE	**$ 0.3325**	$ 0.3325	**$ 0.6650**	$ 0.6650

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

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OGE ENERGY CORP.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In millions)	**Six Months Ended June 30, 2006**	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income from continuing operations	**$ 82.0**	$ 37.5
Adjustments to reconcile net income from continuing operations to net cash provided from operating activities		
Depreciation	**90.4**	88.4
Deferred income taxes and investment tax credits, net	**15.0**	24.4
Allowance for equity funds used during construction	**(0.2)**	---
Gain on sale of assets	**(0.6)**	(0.2)
Loss on retirement of fixed assets	**6.8**	---
Stock-based compensation expense	**2.0**	---
Excess tax benefit on stock-based compensation	**1.1**	---
Price risk management assets	**80.0**	(15.8)
Price risk management liabilities	**(87.0)**	9.5
Other assets	**(42.5)**	(12.4)
Other liabilities	**12.7**	(4.8)
Change in certain current assets and liabilities		
Accounts receivable, net	**251.1**	69.4
Accrued unbilled revenues	**(21.0)**	(32.7)
Fuel, materials and supplies inventories	**(15.3)**	34.3
Gas imbalance asset	**15.8**	(28.8)
Fuel clause under recoveries	**92.3**	16.1
Other current assets	**9.5**	7.5
Accounts payable	**(266.7)**	(85.7)
Customers deposits	**2.4**	(1.6)
Accrued taxes	**2.9**	13.1
Accrued interest	**5.6**	(0.5)
Gas imbalance liability	**(14.2)**	(4.8)
Fuel clause over recoveries	**45.4**	---
Other current liabilities	**(2.5)**	5.3

Net Cash Provided from Operating Activities	**265.0**	118.2
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	**(244.1)**	(143.6)
Proceeds from sale of assets	**1.7**	0.7
Other investing activities	**(0.1)**	---
Net Cash Used in Investing Activities	**(242.5)**	(142.9)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	**217.5**	**---**
Retirement of long-term debt	**---**	(34.3)
(Decrease) increase in short-term debt, net	**(191.8)**	97.7
Issuance of common stock	**6.1**	7.9
Dividends paid on common stock	**(60.3)**	(59.9)
Net Cash (Used in) Provided from Financing Activities	**(28.5)**	11.4
DISCONTINUED OPERATIONS		
Net cash (used in) provided from operating activities	**(20.2)**	4.2
Net cash used in investing activities	**(0.2)**	(1.0)
Net cash used in financing activities	**---**	(0.8)
Net Cash (Used in) Provided from Discontinued Operations	**(20.4)**	2.4
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(26.4)**	(10.9)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**26.4**	11.1
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**$ ---**	$ 0.2

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. (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 two business segments, the Electric Utility and the Natural Gas Pipeline segments. 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 and is the largest electric utility in Oklahoma and its franchised service territory includes the Fort Smith, Arkansas area. OG&E sold its retail gas business in 1928 and is no longer engaged in the gas distribution business.

The operations of the Natural Gas Pipeline segment are conducted through Enogex Inc. and its subsidiaries (Enogex) and consist of three related businesses: (i) the transportation and storage of natural gas, (ii) the gathering and processing of natural gas; and (iii) the marketing of natural gas. The vast majority of Enogex s natural gas gathering, processing, transportation and storage assets are located in the major gas producing basins of Oklahoma. In May 2006, Enogex Gas Gathering, L.L.C. (Gathering), a wholly-owned subsidiary of Enogex Inc., sold certain gas gathering assets in the Kinta, Oklahoma, area (see Note 8 for a further discussion).

The Company allocates operating costs to its affiliates based on several factors. Operating costs directly related to specific affiliates are assigned to those affiliates. Where more than one affiliate benefits from certain expenditures, the costs are shared between those affiliates receiving the benefits. Operating costs incurred for the benefit of all affiliates are allocated among the affiliates, based primarily upon head-count, occupancy, usage or 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 accounting principles generally accepted in the United States 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, 2006 and December 31, 2005, the results of its operations for the three and six months ended June 30, 2006 and 2005, and the results of its cash flows for the six months ended June 30, 2006 and 2005, have been included and are of a normal recurring nature.

Due to seasonal fluctuations and other factors, the operating results for the three and six months ended June 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006 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 Form 10-K for the year ended December 31, 2005.

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 the accounting principles prescribed by the Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 71, Accounting for the Effects of Certain Types of Regulation. SFAS No. 71 provides that certain actual or anticipated costs that would otherwise be charged to expense can be deferred as regulatory assets, based on the expected recovery from customers in future rates. Likewise, certain actual or anticipated credits that would otherwise reduce expense can be deferred as regulatory liabilities, based on the expected flowback to customers in future rates. Management s expected recovery of deferred costs and flowback of deferred credits generally results from specific decisions by regulators granting such ratemaking treatment.

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

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

(In millions)	**June 30, 2006**	December 31, 2005
Regulatory Assets		
Income taxes recoverable from customers, net	**$ 32.3**	$ 32.8
McClain Plant deferred expenses	**21.8**	24.9
Unamortized loss on reacquired debt	**20.7**	21.3
Fuel clause under recoveries	**8.8**	101.1
Recoverable take or pay gas charges	**---**	4.9
Cogeneration credit rider under recovery	**---**	3.7
Miscellaneous	**0.9**	0.5
Total Regulatory Assets	**$ 84.5**	$ 189.2
Regulatory Liabilities		
Accrued removal obligations, net	**$ 120.4**	$ 114.3
Fuel clause over recoveries	**45.4**	---
Deferred gain on sale of assets	**3.1**	3.8
Cogeneration credit rider over recovery	**3.0**	---
Total Regulatory Liabilities	**$ 171.9**	$ 118.1

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 reduced or written off, as appropriate. If the Company were required to discontinue the application of SFAS No. 71 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.

Stock-Based Compensation

The Company adopted SFAS No. 123 (Revised), Share-Based Payment, effective January 1, 2006, which required the Company to measure and recognize the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award. See Note 3 for a further discussion related to the Company s stock-based compensation. The following table reflects pro forma net income and income per average common share for the three and six months ended June 30, 2005 had the Company elected to adopt the fair value recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation, for options granted under the Company s stock-based employee compensation plans. For purposes of this pro forma disclosure, the value of the options was determined using a Black-Scholes option pricing formula and amortized to expense over the options vesting periods. Pro forma information is not included for the three and six months ended June 30, 2006 as all share-based payments have been accounted for under SFAS No. 123(R).

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(In millions, except per share data)	Three Months Ended June 30, 2005	Six Months Ended June 30, 2005
Net income, as reported	$ 38.5	$ 43.8
Add:		
Stock-based employee compensation expense included in reported net income, net of related tax effects	---	---
Deduct:		
Stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	0.2	0.3
Pro forma net income	$ 38.3	$ 43.5
Income per average common share		
Basic as reported	$ 0.43	$ 0.49
Diluted as reported	$ 0.42	$ 0.48
Basic and Diluted pro forma	$ 0.42	$ 0.48

Reclassifications

Certain prior year amounts have been reclassified on the Condensed Consolidated Financial Statements to conform to the 2006 presentation.

2. Accounting Pronouncements

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Instruments an amendment of FASB Statements 133 and 140, which amends SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities and SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. SFAS No. 155 resolves issues addressed in SFAS No. 133 Implementation Issue No. D1, Application of Statement 133 to Beneficial Interests in Securitized Financial Assets. SFAS No. 155, among other things, permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133 and clarifies that concentrations of credit risk in the form of subordination are not embedded derivates. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity s fiscal year beginning after September 15, 2006. The Company will adopt this new standard effective January 1, 2007. Management does not expect the adoption of this statement to have a material impact on the Company s consolidated financial position or results of operations.

In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets an amendment of FASB Statement 140, which amends SFAS No. 140 with respect to accounting for separately recognized servicing assets and servicing liabilities. SFAS No. 156, among other things, requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a service contract in certain situations, requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value if practicable and permits an entity to choose either the amortization method or the fair value method for each class of separately recognized servicing assets and servicing liabilities. SFAS No. 156 is effective as of the beginning of an entity s fiscal year beginning after September 15, 2006. The Company will adopt this new standard effective January 1, 2007. Management does not expect the adoption of this statement to have a material impact on the Company s consolidated financial position or results of operations.

In July 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109, which clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with SFAS No. 109, Accounting for Income Taxes. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. This interpretation is effective for fiscal years beginning after December 15, 2006. The Company will adopt this new interpretation effective January 1, 2007. Management does not expect the adoption of this interpretation to have a material impact on the Company s consolidated financial position or results of operations.

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3. Stock-Based Compensation

On January 21, 1998, the Company adopted a Stock Incentive Plan (the 1998 Plan). In 2003, the Company adopted, and its shareowners approved, a new Stock Incentive Plan (the 2003 Plan and together with the 1998 Plan, the Plans). The 2003 Plan replaced the 1998 Plan and no further awards will be granted under the 1998 Plan. As under the 1998 Plan, under the 2003 Plan, restricted stock, stock options, stock appreciation rights and performance units may be granted to officers, directors and other key employees. The Company has authorized the issuance of up to 2,700,000 shares under the 2003 Plan.

Prior to January 1, 2006, the Company accounted for the Plans under the recognition and measurement provisions of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, as permitted by SFAS No. 123. The Company also previously adopted the disclosure provisions under SFAS No. 123 and SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure. The Company recorded compensation expense of approximately $0.3 million pre-tax ($0.2 million after tax) and $0.9 million pre-tax ($0.6 million after tax), respectively, during the three and six months ended June 30, 2005 related to its performance units. No stock-based employee compensation expense related to stock options was recognized for the three and six months ended June 30, 2005 as all options granted under those plans had an exercise price equal to the market value of the Company s common stock on the grant date. Effective January 1, 2006, the Company adopted SFAS No. 123(R) using the modified prospective transition method. Under that transition method, compensation cost recognized in the first quarter of 2006 included: (i) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the fair value calculated in accordance with the provisions of SFAS No. 123(R); and (ii) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the fair value calculated in accordance with the provisions of SFAS No. 123(R). Results for prior periods were not restated.

As a result of adopting SFAS No. 123(R) on January 1, 2006, the Company recorded compensation expense of approximately $1.8 million pre-tax ($1.1 million after tax, or $0.01 per basic and diluted share) during the three months ended March 31, 2006 related to the Company s share-based payments. Also, as a result of adopting SFAS No. 123(R), the Company recorded a cumulative effect adjustment of approximately $0.4 million pre-tax ($0.2 million after tax, or less than $0.01 per basic and diluted share) on January 1, 2006 for outstanding share-based compensation grants at December 31, 2005. The Company determined that the cumulative effect adjustment was immaterial for presentation purposes and is, therefore, included in Other Operation and Maintenance Expense in the Condensed Consolidated Statement of Income. The Company recorded compensation expense of approximately $2.4 million pre-tax ($1.4 million after tax, or $0.02 per basic and diluted share) during the three months ended June 30, 2006 related to the Company s share-based payments.

Prior to the adoption of SFAS No. 123(R), the Company presented all tax benefits of deductions resulting from the exercise of stock options or other share-based payments as operating cash flows in the Condensed Consolidated Statements of Cash Flows. SFAS 123(R) requires cash flows resulting in tax benefits from tax deductions in excess of the compensation cost recognized for share-based payments (excess tax benefits) to be classified as financing cash flows. The Company recorded an excess tax benefit related to the Company s share-based payments of approximately $1.1 million during the three and six months ended June 30, 2006. However, this amount will be presented as a financing cash inflow and realized when the Company s 2005 income tax return is completed later in 2006 and a deduction is taken.

Performance Units

Under the Plans, the Company issues performance units which represent the value of one share of the Company s common stock. The performance units provide for accelerated vesting if there is a change in control (as defined in the Plans). Each performance unit is subject to forfeiture if the recipient ceases to render substantial services to the Company or a subsidiary for any reason other than death, disability or retirement. In the event of death, disability or retirement, a participant will receive a prorated payment based on such participant s number of full months of service during the three-year award cycle, further adjusted based on the achievement of the performance goals during the award cycle. The following table is a summary of the terms of the Company s outstanding performance units.

Condition	Settlement		Vesting Period	SFAS No. 123(R) Classification
Total Shareholder Return	2/3	Stock (A)	3-year cliff	Equity
	1/3	Cash	3-year cliff	Liability
Earnings Per Share	2/3	Stock (A)	3-year cliff	Equity
	1/3	Cash	3-year cliff	Liability

(A) All of the Company s 2006 performance units are settled in stock.

The performance units granted based on total shareholder return (TSR) are contingently awarded and will be payable in cash or shares of the Company s common stock (other than performance units awarded in 2006, which will be payable only in shares of common stock) subject to the condition that the number of performance units, if any, earned by the employees upon the expiration of a three-year award cycle is dependent on the Company s TSR ranking relative to a peer group of companies. The performance units granted based on earnings per share (EPS) are contingently awarded and will be payable in cash or shares of the Company s common stock (other than performance units awarded in 2006, which will be payable only in shares of common stock) based on the Company s EPS growth over a three-year award cycle compared to a target set at the time of the grant by the Compensation Committee of the Company s Board of Directors. If there is no payout for the performance units at the end of the three-year award cycle, the performance units are cancelled.

Performance Units Total Shareholder Return

As a result of adopting SFAS No. 123(R) on January 1, 2006, the Company recorded compensation expense of approximately $1.2 million pre-tax ($0.7 million after tax) during the three months ended March 31, 2006 related to the performance units based on TSR. The Company recorded compensation expense of approximately $1.9 million pre-tax ($1.1 million after tax) during the three months ended June 30, 2006 related to the performance units based on TSR. The Company recorded compensation expense of approximately $0.3 million pre-tax ($0.2 million after tax) and $0.9 million pre-tax ($0.6 million after tax), respectively, during the three and six months ended June 30, 2005 related to performance units based on TSR. The fair value of the performance units based on TSR was estimated on the grant date using a lattice-based valuation model that factors in information, including the expected dividend yield, expected price volatility, risk-free interest rate and the probable outcome of the market condition, over the expected life of the performance units. Compensation expense for the performance units settled in stock is a fixed amount determined at the grant date fair value and is recognized over the three-year award cycle regardless of whether performance units are awarded at the end of the award cycle. Compensation expense for the performance units settled in cash is based on the change in the fair value of the performance units for each reporting period. This liability for the performance units will be remeasured at each reporting date until the date of settlement. Dividends are not accrued or paid during the performance period and, therefore, are not included in the fair value calculation. Expected price volatility is based on the historical volatility of the Company s common stock for the past three years and was simulated using the Geometric Brownian Motion process. The risk-free interest rate for the performance unit grants is based on the three-year U.S. Treasury yield curve in effect at the time of the grant. The expected life of the units is based on the non-vested period since inception of the three-year award cycle. There are no post-vesting restrictions related to the Company s performance units based on TSR. The fair value of the performance units based on TSR was calculated based on the following assumptions at the grant date.

	2006	2005	2004
Expected dividend yield	4.9%	5.3%	6.5%
Expected price volatility	16.8%	22.3%	23.0%
Risk-free interest rate	4.66%	3.28%	2.47%
Expected life of units (in years)	2.85	2.85	2.94
Fair value of units granted	$ 22.93	$ 21.56	$ 20.10

The fair value of the performance units based on TSR which are settled in cash was remeasured at June 30, 2006 based on the following assumptions.

	2005	2004
Expected dividend yield	4.7%	4.7%
Expected price volatility	15.8%	15.8%
Risk-free interest rate	5.28%	5.31%
Expected life of units (in years)	1.5	0.5

Fair value of units at 6/30/06	$ 47.25	$ 52.58

A summary of the activity for the Company s performance units based on TSR at June 30, 2006 and changes during the three and six months ended June 30, 2006 are summarized in the following table. Following the end of a three-year performance period, payout of the performance units based on TSR is determined by the Company s TSR for such period compared to a peer group and payout requires the approval of the Compensation Committee of the Company s Board of Directors. Payouts, if any, are made in stock and cash (other than payouts of performance units awarded in 2006, which will be made only in common stock) and are considered made when the payout is approved by the Compensation Committee.

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(dollars in millions)	Number of Units	Stock Conversion Ratio (A)	Aggregate Intrinsic Value
Units Outstanding at 12/31/05	385,528	1 : 1	
Granted (B)	179,892	1 : 1	
Converted	(111,235)	1 : 1	$ 4.3
Forfeited	(3,688)	1 : 1	
Units Outstanding at 3/31/06	450,497	1 : 1	$ 19.1
Forfeited	(3,055)	1 : 1	
Units Outstanding at 6/30/06	447,442	1 : 1	$ 23.6

(A) One performance unit = one share of the Company s common stock.

(B) Represents target number of units granted. Actual number of units earned, if any, is dependent upon performance and may range from 0 percent to 200 percent of the target.

A summary of the activity for the Company s non-vested performance units based on TSR at June 30, 2006 and changes during the three and six months ended June 30, 2006 are summarized in the following table:

	Number of Units	Weighted-Average Grant Date Fair Value
Units Non-Vested at 12/31/05	274,293	$ 20.84
Granted (A)	179,892	$ 22.93
Forfeited	(3,688)	$ 21.83
Units Non-Vested at 3/31/06	450,497	$ 21.67
Forfeited	(3,055)	$ 21.83
Units Non-Vested at 6/30/06 (B)	447,442	$ 21.67

(A) Represents target number of units granted. Actual number of units earned, if any, is dependent upon performance and may range from 0 percent to 200 percent of the target.

(B) Of the 447,442 performance units not vested at June 30, 2006, 399,017 performance units are assumed to vest at the end of the vesting period.

At June 30, 2006, there was approximately $5.3 million in unrecognized compensation cost related to non-vested performance units based on TSR which is expected to be recognized over a weighted-average period of 1.90 years.

Performance Units Earnings Per Share

As a result of adopting SFAS No. 123(R) on January 1, 2006, the Company recorded compensation expense of approximately $0.6 million pre-tax ($0.4 million after tax) during the three months ended March 31, 2006 related to the performance units based on EPS. The Company recorded compensation expense of approximately $0.5 million pre-tax ($0.3 million after tax) during the three months ended June 30, 2006 related to the performance units based on EPS. No compensation expense was recorded during the three and six months ended June 30, 2005 related to performance units based on EPS as the probable performance was below the threshold for payout. The fair value of the performance units based on EPS is based on grant date fair value which is equivalent to the price of one share of the Company s common stock on the date of grant. The fair value of performance units based on EPS varies as the number of performance units that will vest is based on the grant date fair value of the units and the probable outcome of the performance condition. The Company reassesses at each reporting date whether achievement of the performance condition is probable and accrues compensation expense if and when achievement of the performance condition is probable. As a result, the compensation expense recognized for these performance units can vary from period to period. There are no post-vesting restrictions related to the Company s performance units based on EPS. The grant date fair value of the 2005 and 2006 performance units was $23.78 and $28.00, respectively.

A summary of the activity for the Company s performance units based on EPS at June 30, 2006 and changes during the three and six months ended June 30, 2006 are summarized in the following table. Following the end of a three-year performance period, payout of the performance units based on EPS growth is determined by the Company s growth in EPS for such period compared to a target set at the beginning of the three-year period by the Compensation Committee of the Company s Board of Directors and payout requires the approval of the Compensation Committee. Payouts, if any, are made in stock and cash (other than payouts of performance units awarded in 2006, which will be made only in common stock) and are considered made when approved by the Compensation Committee.

(dollars in millions)	Number of Units	Stock Conversion Ratio (A)	Aggregate Intrinsic Value
Units Outstanding at 12/31/05	46,539	1:1	
Granted (B)	59,964	1:1	
Forfeited	(1,001)	1:1	
Units Outstanding at 3/31/06	105,502	1:1	$ 6.1
Forfeited	(758)	1:1	
Units Outstanding at 6/30/06	104,744	1:1	$ 7.3

(A) One performance unit = one share of the Company s common stock.

(B) Represents target number of units granted. Actual number of units earned, if any, is dependent upon performance and may range from 0 percent to 200 percent of the target.

A summary of the activity for the Company s non-vested performance units based on EPS at June 30, 2006 and changes during the three and six months ended June 30, 2006 are summarized in the following table:

	Number of Units	Weighted-Average Grant Date Fair Value
Units Non-Vested at 12/31/05	46,539	$ 23.78
Granted (A)	59,964	$ 28.00
Forfeited	(1,001)	$ 25.81
Units Non-Vested at 3/31/06	105,502	$ 26.16
Forfeited	(758)	$ 26.44
Units Non-Vested at 6/30/06 (B)	104,744	$ 26.16

(A) Represents target number of units granted. Actual number of units earned, if any, is dependent upon performance and may range from 0 percent to 200 percent of the target.

(B) Of the 104,744 performance units not vested at June 30, 2006, 89,210 performance units are assumed to vest at the end of the vesting period.

At June 30, 2006, there was approximately $3.4 million in unrecognized compensation cost related to non-vested performance units based on EPS which is expected to be recognized over a weighted-average period of 2.17 years.

Stock Options

As a result of adopting SFAS No. 123(R) on January 1, 2006, the Company recorded compensation expense of less than $0.1 million during the three months ended March 31, 2006 related to stock options and less than $0.1 million during the three months ended June 30, 2006 related to the stock options. During the first six months of 2006 and during 2005, no stock options were granted under the 2003 Plan. Previous option awards were granted with an exercise price equal to the market value of the Company s common stock on the grant date which resulted in no stock-based employee compensation expense being recognized. The Company accounts for stock option grants as separate grants. The options granted under the Plans vest in one-third annual installments beginning one year from the date of grant and have a contractual life of 10 years. Each option is subject to forfeiture if the recipient ceases to render substantial services to the Company or a subsidiary for any reason other than death, disability or retirement. Dividends are not paid or accrued on unexercised options. The options provide for accelerated vesting if there is a change in control (as defined in the Plans). The fair value of each option grant under the Plans is estimated on the grant date using the Black-Scholes option pricing model and was $2.05 at the grant date for the stock options that are not fully vested at December 31, 2005.

A summary of the activity for the Company s options at June 30, 2006 and changes during the three and six months ended June 30, 2006 are summarized in the following table:

(dollars in millions)	Number of Options	Weighted-Average Exercise Price	Aggregate Intrinsic Value	Weighted-Average Remaining Contractual Term
Options Outstanding at 12/31/05	2,139,376	$ 22.20		
Exercised	(99,258)	$ 19.03	$ 0.9	
Expired	(10,100)	$ 28.75		
Forfeited	(900)	$ 23.58		
Options Outstanding at 3/31/06	2,029,118	$ 22.32	$ 13.6	5.84 years
Exercised	(199,217)	$ 21.24	$ 2.0	
Expired	(5,100)	$ 22.28		
Forfeited	(567)	$ 23.58		
Options Outstanding at 6/30/06	1,824,234	$ 22.43	$ 23.0	5.25 years
Options Fully Vested and Exercisable at 6/30/06	1,728,451	$ 22.37	$ 21.9	5.14 years

A summary of the activity for the Company s non-vested options at June 30, 2006 and changes during the three and six months ended June 30, 2006 are summarized in the following table:

	Number of Options	Weighted-Average Grant Date Fair Value
Options Non-Vested at 12/31/05	404,398	$ 1.95
Vested	(306,848)	$ 1.91
Forfeited	(900)	$ 2.05
Options Non-Vested at 3/31/06	96,650	$ 2.05
Vested	(300)	$ 2.05
Forfeited	(567)	$ 2.05
Options Non-Vested at 6/30/06 (A)	95,783	$ 2.05

(A) Of the 95,783 stock options not vested at June 30, 2006, 92,564 stock options are assumed to vest at the end of the vesting period.

At June 30, 2006, there was less than $0.1 million in unrecognized compensation cost related to non-vested options which is expected to be recognized over a weighted-average period of 0.50 years.

The Company issues new shares to satisfy stock option exercises. The Company received approximately $4.2 million and $6.1 million, respectively, during the three and six months ended June 30, 2006 related to exercised stock options. The Company recorded an excess tax benefit of approximately $1.1 million related to the Company s exercised stock options during the three and six months ended June 30, 2006. However, this amount will be presented as a financing cash inflow and realized when the Company s 2005 income tax return is completed later in 2006 and a deduction is taken.

4. Asset Retirement Obligation

In accordance with SFAS No. 143, Accounting for Asset Retirement Obligations issued in June 2001, for periods subsequent to the initial measurement of an asset retirement obligations (ARO), an entity shall recognize period-to-period changes in the liability for an ARO resulting from: (i) the passage of time; and (ii) revisions to either the timing or the amount of the original estimate of undiscounted cash flows. During the second quarter of 2006, the Company reviewed its initial ARO valuations and determined that there were changes in the liability of the ARO resulting from revisions to the amount of the original estimate of undiscounted cash flows. As a result, an ARO of approximately $1.0 million was recognized as an increase in the carrying amount of the liability for an ARO and an increase in the related asset retirement cost capitalized as part of the carrying amount of the related long-lived asset with no effect on net income.

5. Loss on Retirement of Fixed Assets

OG&E had a power supply contract with a large industrial customer which expired June 1, 2006. In conjunction with the expiration of this contract, OG&E evaluated other options to utilize the turbines dedicated to that customer, which resulted in the decision to retire these assets as of June 30, 2006. The carrying amount of these assets at June 30, 2006 is

approximately $6.8 million which has been recorded as a pre-tax loss during the second quarter of 2006. This loss is included in Other Expense in the Condensed Consolidated Statement of Income.

6. Price Risk Management Assets and Liabilities

In accordance with FASB Interpretation No. 39 (As Amended), Offsetting of Amounts Related to Certain Contracts an interpretation of APB Opinion No. 10 and FASB Statement No. 105, fair value amounts recognized for forward, interest rate swap, currency 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, currency 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 consolidated balance sheet.

In the Company s Condensed Consolidated Balance Sheets at June 30, 2006 and December 31, 2005, the fair value of transactions with the same counterparty is presented on a gross basis, consistent with past practice. However, OGE Energy Resources, Inc. (OERI) has energy trading contracts with set off provisions with various counterparties. If these transactions with the same counterparty were presented on a net basis in the Condensed Consolidated Balance Sheets, Price Risk Management assets and liabilities would be approximately $39.0 million and $31.0 million at June 30, 2006, respectively, and would be approximately $98.0 million and $92.8 million at December 31, 2005, respectively.

7. Accumulated Other Comprehensive Loss

The components of total comprehensive income for the three and six months ended June 30, 2006 and 2005, respectively, are as follows:

	Three Months Ended		**Six Months Ended**	
	June 30,		**June 30,**	
(In millions)	**2006**	2005	**2006**	2005
Net income	**$ 93.7**	$ 38.5	**$ 118.6**	$ 43.8
Other comprehensive income (loss), net of tax:				
Deferred hedging gains (losses), net of tax	**(4.1)**	1.7	**(4.6)**	(0.1)
Amortization of cash flow hedge, net of tax	**0.1**	---	**0.1**	0.1
Total comprehensive income	**$ 89.7**	$ 40.2	**$ 114.1**	$ 43.8

The components of accumulated other comprehensive loss at June 30, 2006 and December 31, 2005 are as follows:

	June 30,	December 31,
(In millions)	**2006**	2005
Minimum pension liability adjustment, net of tax	**$ (91.1)**	$ (91.1)
Deferred hedging gains, net of tax	**(1.5)**	3.1
Settlement and amortization of cash flow hedge, net of tax	**(2.1)**	(2.2)
Total accumulated other comprehensive loss	**$ (94.7)**	$ (90.2)

Accumulated other comprehensive loss at both June 30, 2006 and December 31, 2005 included an after tax loss of approximately $91.1 million ($148.6 million pre-tax) related to a minimum pension liability adjustment based on a review of the funded status of the Company s pension plan by the Company s actuarial consultants as of December 31, 2005. Any increases or decreases in the minimum pension liability will be reflected in Other Comprehensive Income or Loss in the fourth quarter. See Management s Discussion and Analysis of Financial Condition and Results of Operations - Pension and Postretirement Benefit Plans for a discussion of a possible settlement charge to be recorded later in 2006.

8. Enogex Discontinued Operations

In April 2005, Enogex Compression Company, LLC (Enogex Compression) received an unsolicited offer to buy its interest in Enerven Compression Services, LLC (Enerven), a joint venture focused on the rental of natural gas compression assets. After evaluating this offer, Enogex Compression sold its interest in Enerven for approximately $7.3 million in August 2005. Enogex Compression recognized an after tax gain of approximately $1.8 million related to the sale of this business.

Enogex regularly evaluates the long term stability, profitability and core competency of each of its businesses within the regulatory and market framework in which each business operates. Based on these evaluations, in September 2005, Enogex announced that it had entered into an agreement to sell its interest in Enogex Arkansas Pipeline Corporation (EAPC), which held the NOARK Pipeline System Limited Partnership interest. This sale was completed on October 31, 2005. The Company received approximately $177.4 million in cash proceeds and recognized an after tax gain of approximately $36.7 million from the sale of this business in the fourth quarter of 2005. Enogex used approximately $31.9 million of the proceeds to repay principal and accrued interest on long-term debt and approximately $46.7 million to pay taxes associated with EAPC. The balance of the proceeds of approximately $98.8 million, following temporary use to fund current cash needs, is expected to be used to invest, over time, in strategic assets.

In March 2006, Enogex announced that its wholly-owned subsidiary, Gathering, had entered into an agreement to sell certain gas gathering assets in the Kinta, Oklahoma, area. The Gathering assets included in the transaction were approximately 568 miles of gas gathering pipeline and 22 compressor units with current volumes of approximately 145 million cubic feet per day, all in eastern Oklahoma. The sale price was approximately $93 million. This transaction closed on May 1, 2006 and Enogex recorded an after tax gain of approximately $34.7 million during the second quarter of 2006. The proceeds from the sale, following temporary use to fund current cash needs, are expected to be used to invest, over time, in strategic assets.

The Condensed Consolidated Financial Statements of the Company have been reclassified to reflect Enogex Compression s sale of its Enerven interest, Enogex s sale of its EAPC interest and Gathering s sale of certain gas gathering assets in Kinta, Oklahoma, all of which were part of the Natural Gas Pipeline segment, as discontinued operations. Accordingly, revenues, costs and expenses and cash flows of Enerven, EAPC and the Gathering assets that were sold have been excluded from the respective captions in the Condensed Consolidated Financial Statements and have been separately reported as discontinued operations in the applicable financial statement captions. Enogex Compression s sale of its Enerven interest and Enogex s sale of its EAPC interest were completed during 2005 and, therefore, there are no results of operations for these transactions during the three or six months ended June 30, 2006. Summarized financial information for the discontinued operations as of June 30 is as follows:

CONDENSED CONSOLIDATED STATEMENTS OF INCOME DATA

	Three Months Ended June 30,		**Six Months Ended June 30,**	
(In millions)	**2006**	2005	**2006**	2005
Operating revenues from discontinued operations	**$ 2.8**	$ 26.9	**$ 9.4**	$ 54.2
Income from discontinued operations before taxes	**$ 58.8**	$ 4.4	**$ 60.1**	$ 10.2

CONDENSED CONSOLIDATED BALANCE SHEET DATA

	June 30, 2006	December 31, 2005
(In millions)		
Plant in service of discontinued operations	**$ ---**	$ 60.6
Less accumulated depreciation	**---**	25.7
Net property, plant and equipment of discontinued operations	**$ ---**	$ 34.9
Total deferred charges and other assets of discontinued operations	**$ ---**	$ 2.4

9. Supplemental Cash Flow Information

The following table discloses information about investing and financing activities that affect recognized assets and liabilities but which do not result in cash receipts or payments.

	Six Months Ended June 30,	
(In millions)	**2006**	2005
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Change in fair value of long-term debt due to interest rate swaps	**$ ---**	$ (4.0)

10. Income Taxes

The Company files consolidated income tax returns. Income taxes are allocated to each affiliate based on its separate taxable income or loss. Federal investment tax credits 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. This ratable amortization results in a larger percentage reconciling item related to these credits during the first quarter when the Company historically experiences decreased book income. The following schedule reconciles the statutory federal tax rate to the effective income tax rate:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	**2006**	2005
Statutory federal tax rate	**35.0%**	35.0%	**35.0%**	35.0%
State income taxes, net of federal income tax benefit	**3.7**	3.7	**3.7**	3.7
Tax credits, net	**(2.4)**	(3.4)	**(2.7)**	(5.6)
Other	**0.1**	(0.1)	**(0.4)**	(0.1)
Effective income tax rate as reported	**36.4%**	35.2%	**35.6%**	33.0%

The Company follows the provisions of SFAS No. 109 which uses an asset and liability approach to accounting for income taxes. Under SFAS No. 109, deferred tax assets or liabilities are computed based on the difference between the financial statement and income tax bases of assets and liabilities using the enacted marginal tax rate. Deferred income tax expenses or benefits are based on the changes in the asset or liability from period to period.

In July 2003, Enogex Products Corporation (Products) filed a refund claim related to sales and use tax for years 1999 through 2002 with the Oklahoma Tax Commission (OTC). In May 2006, Products received a refund of approximately $2.0 million from the OTC related to this claim that is included as a reduction in Other Operation and Maintenance Expense in the Condensed Consolidated Statement of Income.

In connection with the filing in the third quarter of 2003 of the Company s consolidated income tax returns for 2002, OG&E elected to change its tax method of accounting related to the capitalization of costs for self-constructed assets to another method prescribed in the Treasury regulations. The accounting method change was for income tax purposes only. For financial accounting purposes, the only change was recognition of the impact of the cash flow generated by accelerating income tax deductions. This was reflected in the financial statements as a switch from current income taxes payable to deferred income taxes payable. This tax accounting method change resulted in a one-time catch-up deduction for costs previously capitalized under the prior method, resulting in a consolidated tax net operating loss for 2002. This tax net operating loss eliminated the Company s current federal and state income tax liability for 2002 and 2003 and all estimated payments made for 2002 were refunded. The Company received federal and state income tax refunds of approximately $50.8 million during 2003 related to this tax accounting method change. During 2005, new guidelines were issued by the Internal Revenue Service (IRS) related to the change in the method of accounting used to capitalize costs for self-construction discussed above. The Company s current IRS examination process, which was completed in the second quarter of 2006, identified this change in method of accounting as an issue under examination. As a result of their examination, the IRS determined that OG&E should change its tax method of accounting for the capitalization of costs for self-constructed assets to another method prescribed in the Treasury regulations. The Company filed a formal protest with the IRS on July 21, 2006 and requested a hearing with the IRS to review the IRS s determination that the tax accounting method OG&E elected in 2002 was not appropriate. The impact of this matter on future earnings and cash flows is uncertain but could be material. The Company cannot predict either the final outcome or the timing of the resolution of this matter. During 2005 and the first six months of 2006, OG&E recorded approximately $3.1 million in additional interest expense related to income taxes as a result of a potential adjustment. This amount is included in Interest on Short-Term Debt and Other Interest Charges in the Consolidated Statements of Income. OG&E expects to accrue approximately $0.3 million monthly going forward for additional interest expense related to this matter.

11. Common Stock

For the three and six months ended June 30, 2006, respectively, there were 199,217 shares and 298,475 shares, respectively, of new common stock issued pursuant to the Company s Stock Incentive Plan, related to exercised stock options and payouts of earned performance units awarded in January 2003.

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12. Earnings Per Share

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

	Three Months Ended June 30,		**Six Months Ended June 30,**	
(In millions)	**2006**	2005	**2006**	2005
Average Common Shares Outstanding				
Basic average common shares outstanding	**90.9**	90.2	**90.8**	90.1
Effect of dilutive securities:				
Employee stock options and unvested stock grants	**0.3**	0.3	**0.3**	0.2
Contingently issuable shares (performance units)	**0.8**	0.3	**0.8**	0.3

Diluted average common shares outstanding	**92.0**	90.8	**91.9**	90.6

Approximately 0.3 million shares for each period related to outstanding employee stock options were not included in the calculation of diluted earnings per average common share because the effect of including those shares is anti-dilutive as the exercise price of the stock options exceeded the average common stock market price during the respective period.

13. Long-Term Debt

At June 30, 2006, the Company is in compliance with all of its debt agreements.

Long-Term Debt with Optional Redemption Provisions

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 (dollars in millions):

SERIES	DATE DUE	AMOUNT
3.150% - 3.898%	Garfield Industrial Authority, January 1, 2025	**$ 47.0**
3.205% - 3.395%	Muskogee Industrial Authority, January 1, 2025	**32.4**
3.063% - 3.918%	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, the Company is obligated to repurchase such unremarketed Bonds. The Company has sufficient liquidity to meet these obligations.

14. Short-Term Debt

The short-term debt balance was approximately $58.2 million and $30.0 million at June 30, 2006 and December 31, 2005, respectively, an increase of approximately $28.2 million or 94.0 percent. In accordance with SFAS No. 6, Classification of Short-Term Obligations Expected to Be Refinanced, an Amendment of Accounting Research Bulletin No. 43, Chapter 3A, $220.0 million in commercial paper and bank borrowings was used to temporarily fund $220 million of long-term debt of OG&E that had matured or been called for redemption in the fourth quarter of 2005. This commercial paper was classified as long-term debt at December 31, 2005 as OG&E planned to refinance this amount. Subsequently, OG&E issued $220 million of long-term debt in January 2006 and repaid the outstanding commercial paper and bank borrowings. The following table shows the Company s revolving credit agreements and available cash at June 30, 2006.

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Revolving Credit Agreements and Available Cash *(In millions)*

Entity	Amount Available	Amount Outstanding	Weighted-Average Interest Rate	Maturity
OGE Energy Corp. (A)	$ 600.0	$ ---	N/A	September 30, 2010 (C)
OG&E (B)	150.0	---	N/A	September 30, 2010 (C)
	750.0	---	N/A	
Cash	---	N/A	N/A	N/A
Total	$ 750.0	$ ---	N/A	

(A) This bank facility is available to back up a maximum of $300.0 million of the Company s commercial paper borrowings and to provide an additional $300.0 million in revolving credit borrowings. This bank facility can also be used as a letter of credit facility. At June 30, 2006, there was approximately $58.2 million in outstanding commercial paper borrowings.

(B) This bank facility is available to back up a maximum of $100.0 million of OG&E s commercial paper borrowings and to provide an additional $50.0 million in revolving credit borrowings. At June 30, 2006, OG&E had approximately $0.2 million supporting a letter of credit and no outstanding commercial paper borrowings

(C) During 2005, the Company and OG&E entered into revolving credit agreements totaling $750 million, one for the Company in an amount up to $600 million and one for OG&E in an amount up to $150 million. Each of the credit facilities has a five-year term with two options to extend the term for one year.

The Company 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 back-up lines of credit could cause annual fees and borrowing rates to increase if an adverse ratings impact occurs. The impact of any future downgrades would result in an increase in the cost of short-term borrowings but would not result in any defaults or accelerations as a result of the rating changes.

Unlike the Company 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 $400 million in short-term borrowings at any one time for a two-year period beginning January 1, 2005 and ending December 31, 2006.

15. Retirement Plans and Postretirement Benefit Plans

The details of net periodic benefit cost of the pension plan (including 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 and Restoration of Retirement Income Plan			
	Three Months Ended June 30,		**Six Months Ended June 30,**	
(In millions)	**2006**	2005	**2006**	2005
Service cost	**$ 5.1**	$ 4.7	**$ 10.2**	$ 9.5
Interest cost	**7.6**	7.6	**15.4**	15.2
Return on plan assets	**(9.5)**	(8.6)	**(19.1)**	(17.1)
Amortization of net loss	**4.1**	3.8	**8.3**	7.4
Amortization of unrecognized prior service cost	**1.4**	1.5	**2.9**	3.1
Net periodic benefit cost	**$ 8.7**	$ 9.0	**$ 17.7**	$ 18.1

	Postretirement Benefit Plans			
	Three Months Ended June 30,		**Six Months Ended June 30,**	
(In millions)	**2006**	2005	**2006**	2005
Service cost	**$ 0.9**	$ 0.8	**$ 1.8**	$ 1.6
Interest cost	**3.0**	2.6	**6.0**	5.2
Return on plan assets	**(1.4)**	(1.4)	**(2.8)**	(2.8)
Amortization of transition obligation	**0.7**	0.7	**1.4**	1.4
Amortization of net loss	**2.1**	1.3	**4.3**	2.6
Amortization of unrecognized prior service cost	**0.5**	0.5	**1.0**	1.0
Net periodic benefit cost	**$ 5.8**	$ 4.5	**$ 11.7**	$ 9.0

Pension Plan Funding

The Company previously disclosed in its Form 10-K for the year ended December 31, 2005 that it may contribute up to $90 million to its pension plan during 2006. In the second quarter of 2006, the Company contributed approximately $60.0 million to the pension plan and currently expects to contribute an additional $30.0 million to the pension plan during the remainder of 2006. Any expected contributions to the pension plan during 2006 are 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.

16. Report of Business Segments

The Company s Electric Utility operations are conducted through OG&E, a regulated utility engaged in the generation, transmission, distribution and sale of electric energy. The Company s Natural Gas Pipeline operations are conducted through Enogex. Enogex is engaged in the transportation and storage of natural gas, the gathering and processing of natural gas and the marketing of natural gas. Other Operations for the three and six months ended June 30, 2006 and for the three and six months ended June 30, 2005 primarily includes unallocated corporate expenses, interest expense on commercial paper and interest expense on long-term debt. Intersegment revenues are recorded at prices comparable to those of unaffiliated customers and are affected by regulatory considerations. The following tables summarize the results of the Company s business segments for the three and six months ended June 30, 2006 and 2005.

Three Months Ended June 30, 2006 *(In millions)*	Electric Utility	Natural Gas Pipeline (A)	Other Operations	Intersegment	Total
Operating revenues	**$ 444.7**	**$ 517.6**	**$ ---**	**$ (28.0)**	**$ 934.3**
Cost of goods sold					