OGE ENERGY CORP.
Form 10-Q
August 04, 2016

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, 2016

OR

o 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. þ Yes o 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). þ Yes o 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 þ	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

At June 30, 2016, there were 199,702,025 shares of common stock, par value $0.01 per share, outstanding.

OGE ENERGY CORP.

FORM 10-Q

FOR THE QUARTER ENDED JUNE 30, 2016

TABLE OF CONTENTS

GLOSSARY OF TERMS

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

Abbreviation	Definition
2015 Form 10-K	Annual Report on Form 10-K for the year ended December 31, 2015
ALJ	Administrative Law Judge
APSC	Arkansas Public Service Commission
ArcLight group	Bronco Midstream Holdings, LLC, Bronco Midstream Holdings II, LLC, collectively
ASU	Financial Accounting Standards Board Accounting Standards Update
AVEC	Arkansas Valley Electric Cooperative Corporation
CenterPoint	CenterPoint Energy Resources Corp., wholly-owned subsidiary of CenterPoint Energy, Inc.
CO_2	Carbon dioxide
Company	OGE Energy, collectively with its subsidiaries
CSAPR	Cross-State Air Pollution Rule
Dry Scrubbers	Dry flue gas desulfurization units with spray dryer absorber
ECP	Environmental Compliance Plan
Enable	Enable Midstream Partners, LP, partnership between OGE Energy, the ArcLight group and CenterPoint Energy, Inc. formed to own and operate the midstream businesses of OGE Energy and CenterPoint
Enogex Holdings	Enogex Holdings LLC, the parent company of Enogex LLC and a majority-owned subsidiary of OGE Holdings, LLC (prior to May 1, 2013)
Enogex LLC	Enogex LLC, collectively with its subsidiaries (effective July 30, 2013, the name was changed to Enable Oklahoma Intrastate Transmission, LLC)
EPA	U.S. Environmental Protection Agency
FASB	Financial Accounting Standards Board
Federal Clean Water Act	Federal Water Pollution Control Act of 1972, as amended
FERC	Federal Energy Regulatory Commission
FIP	Federal implementation plan
GAAP	Accounting principles generally accepted in the United States
IRP	Integrated Resource Plans
kV	Kilovolt
MATS	Mercury and Air Toxics Standards
Mustang Modernization Plan	OG&E's plan to replace the soon-to-be retired Mustang steam turbines in late 2017 with 400 MWs of new, efficient combustion turbines at the Mustang site in 2018 and 2019
MW	Megawatt
NAAQS	National Ambient Air Quality Standards
NGLs	Natural gas liquids
NO_X	Nitrogen oxide
OCC	Oklahoma Corporation Commission
ODEQ	Oklahoma Department of Environmental Quality
OG&E	Oklahoma Gas and Electric Company, wholly-owned subsidiary of OGE Energy
OGE Holdings	OGE Enogex Holdings, LLC, wholly-owned subsidiary of OGE Energy, parent company of Enogex Holdings (prior to May 1, 2013) and 26.3 percent owner of Enable Midstream Partners
Pension Plan	Qualified defined benefit retirement plan
Ppb	Parts per billion
PUD	Public Utility Division of the Oklahoma Corporation Commission
Restoration of Retirement Income Plan	Supplemental retirement plan to the Pension Plan
SESH	Southeast Supply Header, LLC

SIP	State implementation plan
SO_2	Sulfur dioxide
SPP	Southwest Power Pool
System sales	Sales to OG&E's customers
TBtu/d	Trillion British thermal units per day

ii

FORWARD-LOOKING STATEMENTS

Except for the historical statements contained herein, the matters discussed in this Form 10-Q, including those matters discussed in "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations," are forward-looking statements that are subject to certain risks, uncertainties and assumptions. Such forward-looking statements are intended to be identified in this document by the words "anticipate", "believe", "estimate", "expect", "intend", "objective", "plan", "possible", "potential", "project" and similar expressions. Actual results may vary materially from those expressed in forward-looking statements. In addition to the specific risk factors discussed in "Item 1A. Risk Factors" in the Company's 2015 Form 10-K and "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" herein, factors that could cause actual results to differ materially from the forward-looking statements include, but are not limited to:

- general economic conditions, including the availability of credit, access to existing lines of credit, access to the commercial paper markets, actions of rating agencies and their impact on capital expenditures;
- the ability of the Company and its subsidiaries to access the capital markets and obtain financing on favorable terms as well as inflation rates and monetary fluctuations;
- prices and availability of electricity, coal, natural gas and NGLs;
- the timing and extent of changes in commodity prices, particularly natural gas and NGLs, the competitive effects of the available pipeline capacity in the regions Enable serves, and the effects of geographic and seasonal commodity price differentials, including the effects of these circumstances on re-contracting available capacity on Enable's interstate pipelines;
- the timing and extent of changes in the supply of natural gas, particularly supplies available for gathering by Enable's gathering and processing business and transporting by Enable's interstate pipelines, including the impact of natural gas and NGLs prices on the level of drilling and production activities in the regions Enable serves;
- business conditions in the energy and natural gas midstream industries, including the demand for natural gas, NGLs, crude oil and midstream services;
- competitive factors including the extent and timing of the entry of additional competition in the markets served by the Company;
- unusual weather;
- availability and prices of raw materials for current and future construction projects;
- the effect of retroactive repricing of transactions in the SPP markets or adjustments in market pricing mechanisms by the SPP;
- Federal or state legislation and regulatory decisions and initiatives that affect cost and investment recovery, have an impact on rate structures or affect the speed and degree to which competition enters the Company's markets;
- environmental laws and regulations that may impact the Company's operations;
- changes in accounting standards, rules or guidelines;
- the discontinuance of accounting principles for certain types of rate-regulated activities;
- the cost of protecting assets against, or damage due to, terrorism or cyber-attacks and other catastrophic events;
- advances in technology;
- creditworthiness of suppliers, customers and other contractual parties;
- difficulty in making accurate assumptions and projections regarding future revenues and costs associated with the Company's equity investment in Enable that the Company does not control; and
- other risk factors listed in the reports filed by the Company with the Securities and Exchange Commission including those listed in "Item 1A. Risk Factors" and in Exhibit 99.01 to the Company's 2015 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,	
(In millions except per share data)	2016	2015	2016	2015
OPERATING REVENUES	$551.4	$549.9	$984.5	$1,030.0
COST OF SALES	197.7	210.9	375.6	422.5
OPERATING EXPENSES				
Other operation and maintenance	127.6	113.2	241.5	224.9
Depreciation and amortization	80.1	76.2	158.6	152.1
Taxes other than income	20.1	22.4	45.0	46.9
Total operating expenses	227.8	211.8	445.1	423.9
OPERATING INCOME	125.9	127.2	163.8	183.6
OTHER INCOME (EXPENSE)				
Equity in earnings of unconsolidated affiliates	16.7	28.2	45.0	59.9
Allowance for equity funds used during construction	3.7	1.7	5.3	3.2
Other income	7.6	5.6	13.2	10.5
Other expense	(5.8)	(2.2)	(7.5)	(3.2)
Net other income	22.2	33.3	56.0	70.4
INTEREST EXPENSE				
Interest on long-term debt	35.7	37.0	71.5	73.9
Allowance for borrowed funds used during construction	(1.8)	(0.8)	(2.7)	(1.6)
Interest on short-term debt and other interest charges	2.1	1.8	3.5	3.1
Interest expense	36.0	38.0	72.3	75.4
INCOME BEFORE TAXES	112.1	122.5	147.5	178.6
INCOME TAX EXPENSE	40.6	35.0	50.8	47.9
NET INCOME	$71.5	$87.5	$96.7	$130.7
BASIC AVERAGE COMMON SHARES OUTSTANDING	199.7	199.6	199.7	199.6
DILUTED AVERAGE COMMON SHARES OUTSTANDING	199.8	199.6	199.8	199.6
BASIC EARNINGS PER AVERAGE COMMON SHARE	$0.35	$0.44	$0.48	$0.66
DILUTED EARNINGS PER AVERAGE COMMON SHARE	$0.35	$0.44	$0.48	$0.66
DIVIDENDS DECLARED PER COMMON SHARE	$0.27500	$0.25000	$0.55000	$0.50000

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

2

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	2016	2015	2016	2015
Net income	$71.5	$87.5	$96.7	$130.7
Other comprehensive income (loss), net of tax				
Pension Plan and Restoration of Retirement Income Plan:				
Amortization of deferred net loss, net of tax of $0.4, $0.6, $0.8 and $1.4, respectively	0.7	0.8	1.5	1.2
Settlement cost, net of tax of $3.2, $0, $3.2 and $0, respectively	5.0	—	5.0	—
Postretirement Benefit Plans:				
Amortization of deferred net loss, net of tax of $0, $0.2, $0 and $0.4, respectively	—	0.4	—	0.6
Amortization of prior service cost, net of tax of ($0.3), ($0.2), ($0.5) and ($0.5), respectively	(0.4)	(0.5)	(0.8)	(0.9)
Other comprehensive income, net of tax	5.3	0.7	5.7	0.9
Comprehensive income	$76.8	$88.2	$102.4	$131.6

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

3

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

	Six Months Ended June 30,	
(In millions)	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$96.7	$130.7
Adjustments to reconcile net income to net cash provided from operating activities		
Depreciation and amortization	158.6	152.1
Deferred income taxes and investment tax credits	52.2	48.1
Equity in earnings of unconsolidated affiliates	(45.0)	(59.9)
Distributions from unconsolidated affiliates	45.4	68.9
Allowance for equity funds used during construction	(5.3)	(3.2)
Stock-based compensation	3.2	2.4
Regulatory assets	(4.0)	2.5
Regulatory liabilities	(8.4)	(2.0)
Other assets	6.8	4.5
Other liabilities	5.7	(2.4)
Change in certain current assets and liabilities		
Accounts receivable, net	10.0	2.9
Accounts receivable - unconsolidated affiliates	3.1	3.2
Accrued unbilled revenues	(37.4)	(30.8)
Fuel, materials and supplies inventories	11.2	(29.7)
Fuel clause under recoveries	—	64.6
Other current assets	(17.7)	(10.2)
Accounts payable	(56.8)	(40.7)
Fuel clause over recoveries	(20.0)	1.6
Other current liabilities	(32.3)	3.2
Net Cash Provided from Operating Activities	166.0	305.8
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures (less allowance for equity funds used during construction)	(331.1)	(227.7)
Return of capital - equity method investments	25.2	—
Proceeds from sale of assets	0.2	2.0
Net Cash Used in Investing Activities	(305.7)	(225.7)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid on common stock	(109.8)	(99.8)
Issuance of common stock	—	6.8
Payment of long-term debt	(110.1)	(0.1)
Increase in short-term debt	284.4	7.5
Net Cash Provided from (Used in) Financing Activities	64.5	(85.6)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(75.2)	(5.5)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	75.2	5.5
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$—	$—

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

OGE ENERGY CORP.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In millions)	June 30, 2016	December 31, 2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$—	$ 75.2
Accounts receivable, less reserve of $1.5 and $1.4, respectively	163.1	173.1
Accounts receivable - unconsolidated affiliates	—	1.7
Accrued unbilled revenues	90.9	53.5
Income taxes receivable	14.6	17.2
Fuel inventories	107.1	113.8
Materials and supplies, at average cost	75.6	80.1
Other	75.9	55.6
Total current assets	527.2	570.2
OTHER PROPERTY AND INVESTMENTS		
Investment in unconsolidated affiliates	1,168.8	1,194.4
Other	72.4	70.7
Total other property and investments	1,241.2	1,265.1
PROPERTY, PLANT AND EQUIPMENT		
In service	10,522.7	10,318.3
Construction work in progress	319.4	278.5
Total property, plant and equipment	10,842.1	10,596.8
Less accumulated depreciation	3,372.2	3,274.4
Net property, plant and equipment	7,469.9	7,322.4
DEFERRED CHARGES AND OTHER ASSETS		
Regulatory assets	401.9	402.2
Other	19.0	20.7
Total deferred charges and other assets	420.9	422.9
TOTAL ASSETS	$9,659.2	$ 9,580.6

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

OGE ENERGY CORP.
CONDENSED CONSOLIDATED BALANCE SHEETS (Continued)
(Unaudited)

	June 30,	December 31,
(In millions)	2016	2015
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term debt	$284.4	$—
Accounts payable - unconsolidated affiliates	1.4	—
Accounts payable	159.7	262.5
Dividends payable	54.9	54.9
Customer deposits	77.5	77.0
Accrued taxes	39.4	45.9
Accrued interest	40.3	42.9
Accrued compensation	35.7	54.4
Long-term debt due within one year	—	110.0
Fuel clause over recoveries	41.3	61.3
Other	38.9	43.9
Total current liabilities	773.5	752.8
LONG-TERM DEBT	2,629.7	2,628.8
DEFERRED CREDITS AND OTHER LIABILITIES		
Accrued benefit obligations	300.1	299.9
Deferred income taxes	2,232.6	2,178.2
Regulatory liabilities	283.9	273.6
Other	117.6	121.3
Total deferred credits and other liabilities	2,934.2	2,873.0
Total liabilities	6,337.4	6,254.6
COMMITMENTS AND CONTINGENCIES (NOTE 12)		
STOCKHOLDERS' EQUITY		
Common stockholders' equity	1,104.5	1,101.3
Retained earnings	2,246.7	2,259.8
Accumulated other comprehensive loss, net of tax	(29.4)	(35.1)
Total stockholders' equity	3,321.8	3,326.0
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$9,659.2	$9,580.6

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)

(In millions)	Common Stock	Premium on Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2015	$ 2.0	$ 1,099.3	$ 2,259.8	$ (35.1)	$ 3,326.0
Net income	—	—	96.7	—	96.7
Other comprehensive income, net of tax	—	—	—	5.7	5.7
Dividends declared on common stock	—	—	(109.8)	—	(109.8)
Stock-based compensation	—	3.2	—	—	3.2
Balance at June 30, 2016	$ 2.0	$ 1,102.5	$ 2,246.7	$ (29.4)	$ 3,321.8
Balance at December 31, 2014	$ 2.0	$ 1,085.6	$ 2,198.2	$ (41.4)	$ 3,244.4
Net income	—	—	130.7	—	130.7
Other comprehensive income, net of tax	—	—	—	0.9	0.9
Dividends declared on common stock	—	—	(99.8)	—	(99.8)
Issuance of common stock	—	6.8	—	—	6.8
Stock-based compensation	—	3.0	—	—	3.0
Balance at June 30, 2015	$ 2.0	$ 1,095.4	$ 2,229.1	$ (40.5)	$ 3,286.0

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

The Company is an energy and energy services provider offering physical delivery and related services for both electricity and natural gas primarily in the south central United States. The Company conducts these activities through two business segments: (i) electric utility and (ii) natural gas midstream operations. The accounts of the Company and its wholly owned subsidiaries are included in the Condensed Consolidated Financial Statements. All intercompany transactions and balances are eliminated in consolidation. The Company generally uses the equity method of accounting for investments where its ownership interest is between 20 percent and 50 percent and lacks the power to direct activities that most significantly impact economic performance.

The electric utility segment generates, transmits, distributes and sells electric energy in Oklahoma and western Arkansas. Its operations are conducted through OG&E and are subject to regulation by the OCC, the APSC and the FERC. OG&E was incorporated in 1902 under the laws of the Oklahoma Territory, and is a wholly owned subsidiary of the Company. OG&E is the largest electric utility in Oklahoma and its franchised service territory includes Fort Smith, Arkansas and the surrounding communities. OG&E sold its retail natural gas business in 1928 and is no longer engaged in the natural gas distribution business.

The natural gas midstream operations segment represents the Company's investment in Enable through its wholly owned subsidiary OGE Holdings. Enable is engaged in the business of gathering, processing, transporting and storing natural gas. Enable's natural gas gathering and processing assets are strategically located in four states and serve natural gas production from shale developments in the Anadarko, Arkoma and Ark-La-Tex basins. Enable also owns an emerging crude oil gathering business in the Bakken shale formation, principally located in the Williston basin of North Dakota. Enable's natural gas transportation and storage assets extend from western Oklahoma and the Texas Panhandle to Alabama and from Louisiana to Illinois.

Enable was formed effective May 1, 2013 by the Company, the ArcLight group and CenterPoint to own and operate the midstream businesses of the Company and CenterPoint. In the formation transaction, the Company and the ArcLight group contributed Enogex LLC to Enable and the Company deconsolidated its previously held investment in Enogex Holdings and acquired an equity interest in Enable. The Company determined that its contribution of Enogex LLC to Enable met the requirements of being in substance real estate and was recorded at historical cost. The general partner of Enable is equally controlled by CenterPoint and the Company, who each have 50 percent management ownership. Based on the 50/50 management ownership, with neither company having control, the Company began accounting for its interest in Enable using the equity method of accounting.

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 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, 2016 and December 31, 2015, the results of its operations for the three and six months ended

June 30, 2016 and 2015 and its cash flows for the six months ended June 30, 2016 and 2015, have been included and are of a normal recurring nature except as otherwise disclosed.

Due to seasonal fluctuations and other factors, the Company's operating results for the three and six months ended June 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016 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 2015 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 incurred 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 incurred costs and obligations as regulatory assets or liabilities if, based on regulatory orders or other available evidence, it is probable that the costs or obligations 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, 2016	December 31, 2015
Regulatory Assets		
Current		
Oklahoma demand program rider under recovery (A)	$43.9	$ 36.6
SPP cost tracker rider under recovery (A)	7.5	4.5
Other (A)	11.8	5.4
Total Current Regulatory Assets	$63.2	$ 46.5
Non-Current		
Benefit obligations regulatory asset	$237.3	$ 242.2
Income taxes recoverable from customers, net	58.3	56.7
Smart Grid	43.5	43.6
Deferred storm expenses	31.8	27.6
Unamortized loss on reacquired debt	14.1	14.8
Other	16.9	17.3
Total Non-Current Regulatory Assets	$401.9	$ 402.2
Regulatory Liabilities		
Current		
Fuel clause over recoveries	$41.3	$ 61.3
Other (B)	4.5	7.5
Total Current Regulatory Liabilities	$45.8	$ 68.8
Non-Current		
Accrued removal obligations, net	$256.2	$ 254.9
Pension tracker	26.7	17.7
Other (C)	1.0	1.0
Total Non-Current Regulatory Liabilities	$283.9	$ 273.6

(A) Included in Other Current Assets on the Condensed Consolidated Balance Sheets.
(B) Included in Other Current Liabilities on the Condensed Consolidated Balance Sheets.
(C) Prior year amount of $1.0 million reclassified from deferred other liabilities to Non-Current Regulatory Liabilities.

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 OG&E 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, which could have significant financial effects.

Investment in Unconsolidated Affiliate

The Company's investment in Enable is considered to be a variable interest entity because the owners of the equity at risk in this entity have disproportionate voting rights in relation to their obligations to absorb the entity's expected losses or to receive its expected residual returns. However, the Company is not considered the primary beneficiary of Enable since it does not have the power to direct the activities of Enable that are considered most significant to the economic performance of Enable.

The Company accounts for its investment in Enable using the equity method of accounting. Under the equity method, the investment will be adjusted each period for contributions made, distributions received and the Company's share of the investee's comprehensive income as adjusted for basis differences. The Company's maximum exposure to loss related to Enable is limited to the Company's equity investment in Enable as presented on the Company's Condensed Consolidated Balance Sheet at June 30, 2016. The Company evaluates its equity method investments for impairment when events or changes in circumstances indicate there is a loss in value of the investment that is other than a temporary decline.

The Company considers distributions received from Enable, which do not exceed cumulative equity in earnings subsequent to the date of investment, to be a return on investment and are classified as operating activities in the Condensed Consolidated Statements of Cash Flows. The Company considers distributions received from Enable in excess of cumulative equity in earnings subsequent to the date of investment to be a return of investment and are classified as investing activities in the Condensed Consolidated Statements of Cash Flows.

Asset Retirement Obligations

The following table summarizes changes to the Company's asset retirement obligations during the six months ended June 30, 2016 and 2015.

	Six Months Ended June 30,	
(In millions)	2016	2015
Balance at January 1	$63.3	$58.6
Accretion expense	1.4	1.3
Liabilities settled	—	(0.5)
Balance at June 30	$64.7	$59.4

Accumulated Other Comprehensive Income (Loss)

The following table summarizes changes in the components of accumulated other comprehensive income (loss) attributable to the Company during the six months ended June 30, 2016 and 2015. All amounts below are presented net of tax.

	Pension Plan and Restoration of Retirement Income Plan		Postretirement Benefit Plans		
(In millions)	Net loss	Prior service cost	Net income	Prior service cost	Total
Balance at December 31, 2015	$(39.2)	$ 0.1	$ 2.5	$ 1.5	$(35.1)
Amounts reclassified from accumulated other comprehensive income (loss)	1.5	—	—	(0.8)	0.7
Settlement cost	5.0	—	—	—	5.0
Net current period other comprehensive income (loss)	6.5	—	—	(0.8)	5.7
Balance at June 30, 2016	$(32.7)	$ 0.1	$ 2.5	$ 0.7	$(29.4)

	Pension Plan and Restoration of Retirement Income Plan		Postretirement Benefit Plans		
(In millions)	Net loss	Prior service	Net loss	Prior service	Total

		cost		cost	
Balance at December 31, 2014	$(36.8)	$ 0.1	$(8.0)	$ 3.3	$(41.4)
Amounts reclassified from accumulated other comprehensive income (loss)	1.2	—	0.6	(0.9)	0.9
Balance at June 30, 2015	$(35.6)	$ 0.1	$(7.4)	$ 2.4	$(40.5)

10

The following table summarizes significant amounts reclassified out of accumulated other comprehensive income (loss) by the respective line items in net income during the three and six months ended June 30, 2016 and 2015.

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)				Affected Line Item in the Statement Where Net Income is Presented
	Three Months Ended June 30,		Six Months Ended June 30,		
(In millions)	2016	2015	2016	2015	
Amortization of defined benefit pension and restoration of retirement income plan items					
Actuarial losses	$(1.1)	$(1.4)	$(2.3)	$(2.6)	(A)
Settlement	(8.2)	—	(8.2)	—	(A)
	(9.3)	(1.4)	(10.5)	(2.6)	Total before tax
	(3.6)	(0.6)	(4.0)	(1.4)	Tax benefit
	$(5.7)	$(0.8)	$(6.5)	$(1.2)	Net of tax
Amortization of postretirement benefit plan items					
Actuarial losses	$—	$(0.6)	$—	$(1.0)	(A)
Prior service credit	0.7	0.7	1.3	1.4	(A)
	0.7	0.1	1.3	0.4	Total before tax
	0.3	—	0.5	0.1	Tax expense
	$0.4	$0.1	$0.8	$0.3	Net of tax
Total reclassifications for the period	$(5.3)	$(0.7)	$(5.7)	$(0.9)	Net of tax

(A) These accumulated other comprehensive income (loss) components are included in the computation of net periodic benefit cost (see Note 10 for additional information).

Reclassifications

Certain prior-year amounts have been reclassified to conform to the current year presentation.

The December 31, 2015 Balance Sheet has been adjusted for the reclassification of $16.8 million of debt issuance costs from total deferred charges and other assets to long-term debt to be consistent with the 2016 presentation due to the adoption of ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs," in 2016.

2. Accounting Pronouncements

Revenue from Contracts with Customers. In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)". The new guidance was intended to be effective for fiscal years beginning after December 15, 2016. On July 9, 2015, the FASB decided to delay the effective date of the new revenue standard by one year. Reporting entities may choose to adopt the standard as of the original effective date. The deferral results in the new revenue standard being effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The standard permits the use of either the retrospective or cumulative effect transition method. The Company has yet to select a transition method or determine the impact on its Condensed Consolidated Financial Statements, however, the impact is not expected to be material.

Consolidation. In February 2015, the FASB issued ASU 2015-02, "Consolidation (Topic 810)". The amendments in ASU 2015-02 affect reporting entities that are required to evaluate whether they should consolidate certain legal entities. The new standard modifies the evaluation of whether limited partnerships and similar legal entities are variable interest entities or voting interest entities along with eliminating the presumption that a general partner should consolidate a limited partnership. The

new standard is effective for fiscal years beginning after December 15, 2015. The adoption of this new standard did not result in the consolidation of any non-consolidated entities.
Leases. In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842)”. The main difference between current lease accounting and Topic 842 is the recognition of right-to-use assets and lease liabilities by lessees for those leases classified as operating leases under current accounting guidance. Lessees, such as the Company, will need to recognize a right-of-use asset and a lease liability for virtually all of their leases, other than leases that meet the definition of a short-term lease. The liability will be equal to the present value of lease payments. The asset will be based on the liability, subject to adjustment, such as for initial direct costs. For income statement purposes, the Topic 842 retains a dual model, requiring leases to be classified as either operating or finance. Operating leases will result in straight-line expense, while finance leases will result in a front-loaded expense pattern, similar to current capital leases. Classification of operating and finance leases will be based on criteria that are largely similar to those applied in current lease guidance, but without the explicit thresholds. The new guidance is effective for fiscal years beginning after December 2018. The new guidance must be adopted using a modified retrospective transition, and provides for certain practical expedients. Transition will require application of the new guidance at the beginning of the earliest comparative period presented. The Company has not determined the impact on its Condensed Consolidated Financial Statements, but anticipates an increase in the recognition of right-of-use assets and lease liabilities.

Investments. In March 2016, the FASB issued ASU 2016-07, "Investments-Equity Method and Joint Ventures; Simplifying the Transition to the Equity Method of Accounting (Topic 323)." The amendments in ASU 2016-07 eliminate the requirement to retroactively adopt the equity method of accounting for a qualifying equity method investment. ASU 2016-07 requires equity method investors to add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. The amendments in this ASU are effective for the fiscal years and interim periods within those fiscal years, beginning after December 15, 2016. The Company does not believe this ASU will have any effect on its Condensed Consolidated Financial Statements.

Employee Share Based Payment Accounting. In March 2016, the FASB issued ASU 2016-09, "Improvements to Employee Share Based Payment Accounting," which amends ASC Topic 718, Compensation - Stock Compensation. ASU 2016-09 includes provisions intended to simplify various aspects related to how share based payments are accounted for and presented in the financial statements. The new guidance among other requirements will require all of the tax effects related to share based payments at settlement (or expiration) to be recorded through the income statement. Currently, tax benefits in excess of compensation cost (“windfalls”) are recorded in equity, and tax deficiencies (“shortfalls”) are recorded in equity to the extent of previous windfalls, and then to the income statement. This change is required to be applied prospectively to all excess tax benefits and tax deficiencies resulting from settlements after the date of adoption of the ASU 2016-09. Under the new guidance, the windfall tax benefit will be recorded when it arises, subject to normal valuation allowance considerations. This change is required to be applied on a modified retrospective basis, with a cumulative effect adjustment to opening retained earnings. All tax related cash flows resulting from share based payments are to be reported as operating activities on the statement of cash flows, a change from the current requirement to present windfall tax benefits as an inflow from financing activities and an outflow from operating activities. Either prospective or retrospective transition of this provision is permitted. ASU 2016-09 is effective for annual reporting periods beginning after December 15, 2016, and interim periods within that reporting period. Early adoption will be permitted in any interim or annual period, with any adjustments reflected as of the beginning of the fiscal year of adoption. The Company has not determined the impact on its Condensed Consolidated Financial Statements, however, the impact is not expected to be material.

Financial Instruments-Credit Losses. In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments-Credit Losses: Measurement of Credit Losses on Financial Instruments.” The amendment in this update requires entities to measure all expected credit losses of financial assets held at a reporting date based on historical experience, current conditions, and reasonable and supportable forecasts in order to record credit losses in a more timely matter. ASU

2016-13 also amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The standard is effective for interim and annual reporting periods beginning after December 15, 2019, although early adoption is permitted for interim and annual periods beginning after December 15, 2018. The Company does not believe this ASU will have any effect on its Condensed Consolidated Financial Statements.

3. Investment in Unconsolidated Affiliate and Related Party Transactions

On March 14, 2013, the Company entered into a Master Formation Agreement with the ArcLight group and CenterPoint pursuant to which the Company, the ArcLight group and CenterPoint agreed to form Enable to own and operate the midstream businesses of the Company and CenterPoint that was initially structured as a private limited partnership. This transaction closed on May 1, 2013.

Pursuant to the Master Formation Agreement, the Company and the ArcLight group indirectly contributed 100 percent of the equity interests in Enogex LLC to Enable. The Company determined that its contribution of Enogex LLC to Enable met the requirements of being in substance real estate and was recorded at historical cost.
In April 2014, Enable completed an initial public offering of 25.0 million common units resulting in Enable becoming a publicly traded Master Limited Partnership. At June 30, 2016, the Company owned 111.0 million common units, or 26.3 percent of which 68.2 million units were subordinated.

CenterPoint and the Company also own a 40 percent and 60 percent interest, respectively, in any incentive distribution rights to be held by the general partner of Enable following the initial public offering.

Distributions received from Enable were $35.3 million and $34.6 million during the three months ended June 30, 2016 and 2015, respectively, and $70.6 million and $68.9 million for the six months ended June 30, 2016 and 2015, respectively. On August 3, 2016, Enable announced a quarterly dividend distribution of $0.3180 per unit on its outstanding common and subordinated units, representing the same dividend distribution as the previous quarter.

CenterPoint had previously announced that it was evaluating strategic alternatives for its investment in Enable. On July 18, 2016, CenterPoint and its wholly owned subsidiary, CenterPoint Energy Resources Corp., provided notice to the Company of CenterPoint's solicitation of offers from unrelated third parties to acquire all or any portion of the common units and subordinated units of Enable owned by CenterPoint Energy Resources Corp. and all of the membership interests of the general partner of Enable owned by CenterPoint Energy Resources Corp. This notice also constituted a notice pursuant to the right of first offer held by the Company under the Partnership Agreement and the Third Amended and Restated Limited Liability Company Agreement of the general partner. Under the terms of the right of first offer, the Company has 30 days from receipt of the notice from CenterPoint to make an offer to buy all of CenterPoint's membership interests in the general partner and all or any portion of CenterPoint Energy Resources Corp. common units and subordinated units. If the Company were to make an offer under the right of first offer, then CenterPoint would have 30 days to accept such offer. The Company is currently evaluating its options with respect to the right of first offer.

Related Party Transactions

Operating costs charged and related party transactions between the Company and its affiliate, Enable, are discussed below.

On May 1, 2013, the Company and Enable entered into a Services Agreement, an Employee Transition Agreement, and other agreements whereby the Company agreed to provide certain support services to Enable such as accounting, legal, risk management and treasury functions for an initial term ending on April 30, 2016. As of December 31, 2015, Enable terminated all support services except certain information technology, payroll and benefits administration. The remaining services automatically extended for another year on May 1, 2016. Under these agreements, the Company charged operating costs to Enable of $1.3 million and $2.5 million for the three months ended June 30, 2016