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RECCOMENDATION	HOLD
Date	10 February 2023
Target Price	\$37
Downside	-3.5%
Sector	Utilities
Industry	Electric Utilities
Market Capitalization	\$7.97 billion
Shares Outstanding	200 million
Current Share Price	\$38.48
52 Week High	\$42.91
52 Week Low	\$33.28
Beta	0.75
EPS	3.68
Annualized Dividend	1.66
Indicated Dividend Yield	4.16%
PE Ratio	18.62
PEG Ratio	3.80

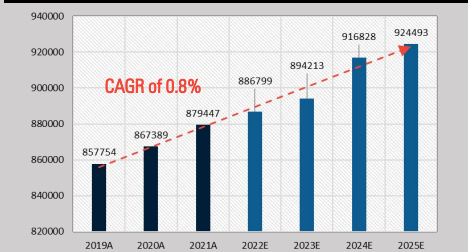
Source: Bloomberg, Team Analysis

Figure 1: Geographic Map of Company Assets



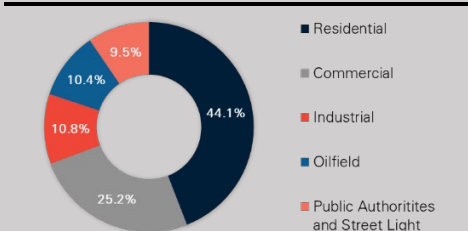
Source: OGE Energy Corp.

Figure 2: Customer Growth, Actual and Estimates



Source: Company Data, Team Analysis

Figure 3: Customer Segments by Percent of 2021 Revenue



Source: Company Data

EXECUTIVE SUMMARY

OGE Energy Corp., a holding company now solely comprised of Oklahoma Gas and Electric Company (OG&E) after their recent divestment from Energy Transfer LP., operates the largest electric utility in Oklahoma and has operations in western Arkansas.

We issue a **HOLD** recommendation for the security. We believe the company will continue to profitably invest in power generation properties to support the steady growth in energy demand in its footprint across all segments. It will also manage the cost of producing its required load through diversifying its energy sources. Further, it can focus on electricity generation with its Energy Transfer interest sale. However, the company faces competition for capital resources beyond its footprint and it is limited to how quickly it can grow from regulatory and capital constraints, and it has yet to secure significant sources for near-term production growth.

BUSINESS DESCRIPTION

OGE Energy Corp. is a holding company with a single subsidiary, Oklahoma Gas and Electric Company (OG&E), which is a regulated electric utility company operating in Oklahoma and western Arkansas. The company physically generates and distributes electricity to approximately 879,000 customers across 30,000 square miles (Figure 1). Energy production capacity is 7,207 megawatts (MWs) of electricity through 9 natural gas and/or coal power plants, 3 wind farms, and 5 solar farms (Figure 1). In Q3 of 2022, OGE completed their divestment of Energy Transfer LP units, a midstream oil and gas services company, acquired from the merger of Energy Transfer and Enable Midstream Partners, making OGE a pure-play electric utility company. Management has set a target of 5-7% growth in earnings per share through energy load growth, low cost of power generation and strategically investing in lower risk infrastructure projects to increase production and reliability.¹

Company History

OG&E was founded in 1902, growing with Oklahoma and becoming the state's largest electricity provider by 1928 and expanding into Arkansas by the mid-1920s. Throughout the 20th century, the company invested in power plants across the area. By 1986, the company merged with Enogex in a move to vertically integrate. At the time, Enogex held about 10,000 miles of pipeline traversing Texas, Oklahoma, Arkansas, and Southeastern Missouri. The company reorganized as a holding company in 1997, and continuously sought to diversify their energy fuel sources over the next couple decades. They constructed their first wind farm in 2003 and first solar farm in 2015. Jason Baily, current Director of Investor Relations for OGE, commented that beginning in the 2010s, the public's and management's perspective on their midstream segment began to shift, pulling into question the necessity for a utility company to have exposure to the midstream natural gas market. By 2013, Enogex assets had expanded sufficiently and opened the opportunity to combine with CenterPoint Energy Inc., along with ArLight Capital Partners LLC, to form a new entity: Enable Midstream Partners, LP (Enable). OGE owned a large share of the company, though, making a complete exit subject to market liquidity constraints. In 2021, Enable Midstream Partners was acquired by Energy Transfer, leading to the subsequent divestment by OGE in 2022, making OG&E its single holding.

Business Segments and Customer Base

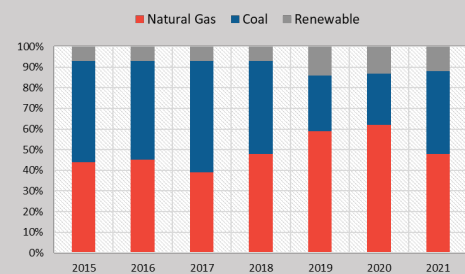
Due to the recent divestment of Energy Transfer shares, OGE now exclusively executes electric utility operations. They do so through their sole subsidiary, OG&E, which serves customers in Oklahoma (about 92% of revenues) and western Arkansas (remaining 8% of revenues). Prominent municipalities in the area include Oklahoma City, Oklahoma and Fort Smith, Arkansas. In terms of total customers, the company has experienced a steady compound annual growth rate (CAGR) of about 0.8% since 2019 (Figure 2). In 2021, their largest customer segment by revenue was Residential accounting for 44.1%, bringing in an average of \$1,792 per customer (Figures 3 and 4). Commercial came second at 25.2% of revenue at about \$7,421 per customer (Figures 3 and 4). On average, Industrial customers paid about \$126,963 in 2021, covering about 10.8% of the company's revenues (Figures 3 and 4). Per

Figure 4: Average 2021 Revenue per Customer

Residential	\$1,791.64
Commercial	\$7,421.35
Industrial	\$126,963.25
Oilfield	\$46,560.85
Public Authorities and Street Light	\$16,420.87

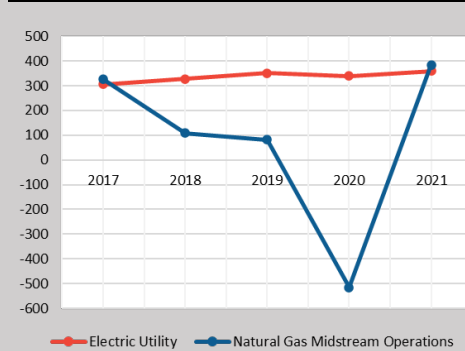
Source: Company Data

Figure 5: Energy Generation Mix by Fuel Supply



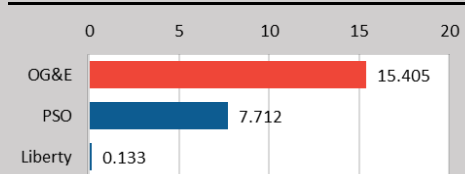
Source: Company Data

Figure 6: Historical Segment Net Income Performance



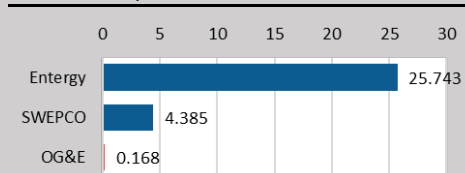
Source: Refinitiv

Figure 7: 2021 Production in Millions of MWh, Top Publicly Traded Electricity Subsidiaries in Oklahoma



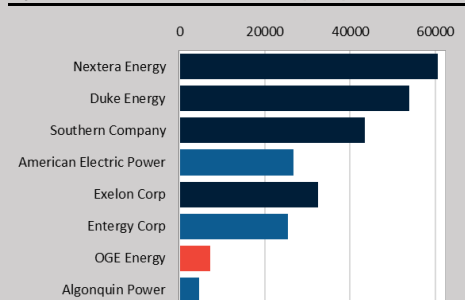
Source: Find Energy LLC

Figure 8: 2021 Production in Millions of MWh, Top Publicly Traded Electricity Subsidiaries in Arkansas



Source: Find Energy LLC

Figure 9: Total 2021 Public Utilities Capacity (MW)



Source: Bloomberg

the EPA, Commercial customers include public and private organizations ranging from government facilities to service businesses; Industrial customers utilize their facilities and equipment to produce, manufacture, process, or assemble goods. Oilfield and Public Authorities & Street Light claim the remaining 10.4% and 9.5%, respectively (Figure 3). OG&E does not supply electricity to any significant wholesale customers, though it is part of the Southwest Power Pool (SPP) regional transmission organization.

OG&E generates electricity through three main fuel supplies: natural gas, coal, and renewable (including both wind and solar). Renewable energy as a fuel source has increased from 7% in 2018 to 14% in 2019 and 12% as of 2021. Natural gas has averaged about 49% of OG&E's total fuel consumption over the last seven years with a noticeable increase in 2019 and 2020. Coal has averaged about 41% over the same period, with only a recent increase in 2021 due to volatile natural gas prices during winter storm Uri (Figure 5).

Energy Transfer Units

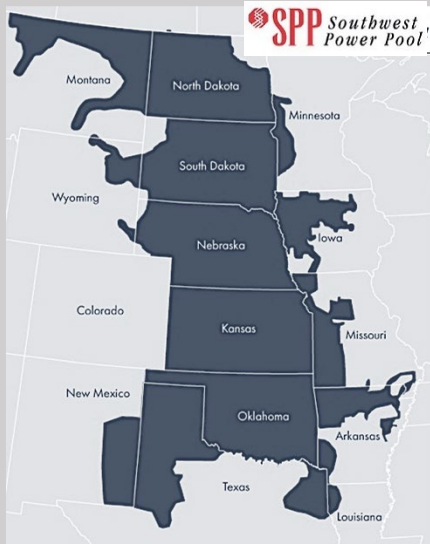
Energy Transfer finalized its previously announced acquisition of Enable on December 2, 2021, purchasing all outstanding common units of Enable in an all-equity transaction. For OGE, the transaction represented 110,982,805 units of Enable (about a 25.5% stake in the company) in exchange for 95,389,721 units of Energy Transfer (about a 3% stake in the company). Management considered the investment as "equity securities" and planned to exit the midstream industry altogether. Given a now smaller allocation of the subsidiary owned by OGE, the units increased in liquidity, decreasing the expected cost to exit. The completed transaction resulted in \$1.1 billion of proceeds for OGE, unlocking capital as the company continues to invest in projects including their recently approved Grid Enhancement Plan. Divesting the midstream operations decreases OGE's direct exposure to energy commodity markets and fossil fuels. It further permits management and investors to focus exclusively on OGE's electric power generation capabilities, stabilizing performance from energy pricing exposure (Figure 6).

INDUSTRY & COMPETITIVE POSITIONING

Within the U.S., electric utilities fall under the oversight of the Federal Energy Regulatory Commission (FERC) along with certain state public utility commissions (PUCs) given their inherent monopolies over geographic areas. Although certain regions both internationally and domestically have deregulated electric utilities, many states in the U.S., including Oklahoma and Arkansas, continue to regulate the rates—and therefore return on investment—for utilities within their territories. Fuel adjustment costs are often allowed to be passed on to the customer and provide a full recovery for the company, removing exposure to volatility from energy prices. Price rates control the revenue requirement and are determined through "rate cases," or proposals to the specific regulatory body. The approved rate calculations range from formulaic to unique situations dependent on regulatory regime. Therefore, strategic investments to increase load capacity and reliability to gain approval for rate increases drive the core of the electric utility industry. Aside from FERC, OGE is subject to regulation from the Oklahoma Corporation Commission (OCC) and the Arkansas Public Service Commission (APSC).ⁱⁱ

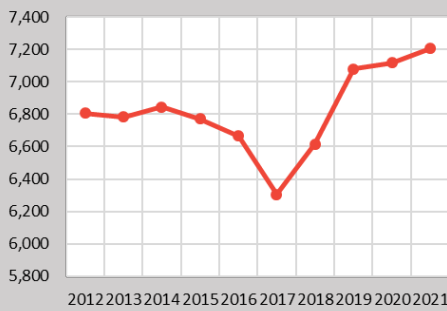
OG&E is the largest electric utility with an Oklahoma footprint traded on public markets, followed by the Public Service Company of Oklahoma (PSO), a subsidiary of Americal Electric Power (NASDAQ: AEP), and Liberty, a subsidiary of Algonquin Power & Utilities Corp. (NYSE/TSX: AQN). In terms of production, OG&E and PSO take the lead with supply of 15.4 million Megawatt hours (MWh) and 7.7 MWh, respectively (Figure 7). In Arkansas, OGE has a much smaller share of the market, producing only 168 MWh in comparison to Entergy Arkansas' (subsidiary of Entergy, NYSE: ETR) 25.5 million MWh and Southwestern Electric Power Company's (SWEPCO, subsidiary of AEP) 4.4 million MWh (Figure 8). In both markets, there are other small utility companies ranging from municipalities to cooperatives, accounting for the remaining supply of electricity in the region. Utilities operated by government entities (such as municipalities) are outside of state regulation, and cooperatives may opt out of price regulations while maintaining supervision for service reliability. Nationally, in terms of US based electric utility companies, peer Nextera Energy Inc. (NYSE: NEE) has a capacity of 60.6 million MW spread over the US and Canada; over 8 times the capacity of OGE (Figure 9). Major differences include geographic coverage, fuel sources, and asset types, as Nextera Energy's portfolio comprises not only natural gas, solar, and wind assets, but midstream operations, natural gas drilling, and nuclear power plant facilities as well. Duke Energy Corporation (NYSE: DUK) is second in energy capacity at 53.9 million MW, serving approximately 8.2 million customers in 22 states (Figure 9).ⁱⁱⁱ

Figure 10: SPP Regional Transmission Map



Source: Southwest Power Pool

Figure 11: Historical OGE Energy Capacity (MW)



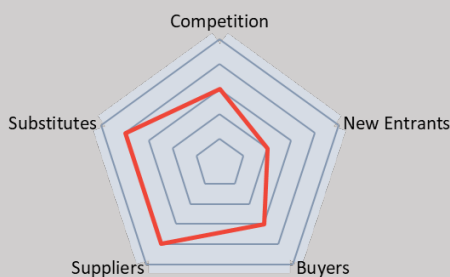
Source: Bloomberg

Figure 12: Average Retail Price Electricity Rankings by State, Lowest and Highest Average Price

Rank	State	Average retail price (cents/kWh)
1	Idaho	8.17
2	Wyoming	8.25
3	Utah	8.34
4	Oklahoma	8.52
5	Nevada	8.58
...		
38	U.S. Average	11.1
...		
48	California	19.65
49	Alaska	20.02
50	Hawaii	30.31

Source: U.S. Energy Information Administration (EIA)

Figure 13: Porter's Five Forces Model



Source: Team Analysis

Increasing Energy Demand

Increases in load demand are evident across the nation. In the U.S. Energy Information Administration's (EIA) 2022 Energy Outlook report, energy consumption is set to grow just below 1%, steadily increasing through 2050 as population increases and economic development outpace the current electrical supply. Fossil fuels, including natural gas, continue to be the most prevalent form of energy generation and will continue to remain the "most-consumed" sources, but thanks to energy incentives, wind and solar as renewable energy sources are rapidly growing due to decreased technology costs. Historic legislation changes such as the Infrastructure Investment and Jobs Act (IIJA) incentivize projects with the intention of clean energy use, including investments in Electric Vehicle (EV) infrastructure, programs for EV adoption by municipalities (e.g., electric school and transit busses), and established a new "Grid Deployment Authority" with the focus of building "resilient, clean, 21st century electric grid." Furthermore, the Inflation Reduction Act passed in August of 2022 provides tax credits for not only taxpayers (through purchasing EVs within certain parameters) but governments and corporations through subsidies, loans, and credits. Across the nation, energy demand is increasing, and electric utilities are charged with generating an adequate supply.^{iv}

OGE also plays a role in the SPP, the regional transmission organization spanning over 14 states (Figure 10). The organization provides management for the overall electric grid and oversight of the wholesale energy market. The FERC particularly highlights the importance of electric transmission over state lines, as examples such as winter storm Uri. Due to the 2021 storm, the SPP has agreed to increase their peak demand capacity across all companies to 15% to not only address their individual demands, but aid in supplying to other utilities during their respective peak energy demand. Currently, utilities are required to generate at least 12% of their peak energy demand—a 3% increase. In the case of OG&E, peak demand in 2021 occurred on August 25th at 6722 MWs, meaning 15% above peak demand would be just over 7,730 MWs of capacity. As of 2021, OG&E's capacity is at 7207 MWs (Figure 11). Although the SPP as a collective has agreed the increase is required, adherence and implementation of the regulation has yet to occur with no set date, therefore companies have time to plan accordingly. OG&E will have to increase their generation capacity by 7.26% and potentially more as peak energy demand steadily increases year over year. There presents an opportunity, though, as Oklahoma has the fourth lowest average cost of electricity in the U.S. at about 8.52 cents per Kilowatt hour (kWh) (Figure 12). The US average lies right at 11.1 cents per kWh. OG&E only sold 5.5% of MWs generated in 2021 to the integrated market, but delivering cheaper energy to high demand areas offers a potential avenue for growth. The issue lies in capital intensive energy transmission projects, which is in part the reason of the SPP's existence. Access to those high demand areas, such as California where rates are on average 19.65 cents per kWh, are therefore currently infeasible (Figure 12).^v

Industry Forces

The Porter's Five Forces tool reveals key elements of OGE's electric utility segment. For the competition, the primary threat is the governing bodies that could end their monopoly by allowing others to operate within their area. An opportunity they have from their monopoly is that it reduces their fear of failure. For new entrants, the primary threat is the governing bodies allowing the competition. Their opportunity is that they are entrenched in their area so any new entrants would face an uphill battle getting established. For buyers, the primary threat is their ability to get the ear of the governing bodies and creating adverse change for OGE. The opportunity is the lack of competition means less worry about customer satisfaction. For suppliers, the primary threat is the fact that OGE is at the mercy of suppliers during a crisis. Their opportunity is that reducing dependency on fossil fuels would make them stronger and more self-sufficient. For substitutes, the primary threat is solar panels that would hurt profits over time. Though Oklahoma's low energy prices have yet to incentivize residents within the state, OGE has an opportunity to get ahead of the curve by selling the solar panels and recouping some of their losses from selling solar panels (Figure 13).

INVESTMENT SUMMARY

We issue a HOLD recommendation for OGE with a one-year target price of \$37, offering a -3.5% downside to its February 10, 2023, \$38.48 closing price. Our analysis utilizes the Monte Carlo Simulation, Multiples Analysis, Discounted Cash Flow, Dividend Discount, Multi-Stage Dividend Discount, Free Cash Flow to Firm, and Free Cash Flow to Equity Holders models and is based upon OGE's modest economic moat, green energy focus and steady financials.

Figure 14: Target Price Calculations Summary

Model	Price	Weight
Discounted Cash Flow	\$ 37.15	50%
Discounted Dividend	\$ 31.85	3%
Multistage-Dividend	\$ 38.25	10%
Free Cash Flow to Equity	\$ 35.35	10%
Relative Valuation	\$ 33.67	5%
Scenario Analysis Average	\$ 36.54	23%
12 Month Target Price	\$ 36.64	
Expected Return		-3.8%

Source: Team Analysis

Figure 15: Utility Company Compatibles, by Market Cap

COMPANY	MARKET CAP
Alliant Energy Corp	\$ 13,527,566,419
IDACORP Inc	\$ 5,233,155,822
Eergy Inc	\$ 13,686,084,381
Portland General Electric Co	\$ 4,691,287,536
MGE Energy Inc	\$ 2,557,111,893
Pinnacle West Capital Corp	\$ 8,526,245,698
Hawaiian Electric Industries I	\$ 4,487,193,295
ALLETE Inc	\$ 3,669,220,949
Otter Tail Corp	\$ 2,569,462,357
NRG Energy Inc	\$ 6,873,254,182
PNM Resources Inc	\$ 4,249,684,612
Genie Energy Ltd	\$ 268,711,617
Summer Energy Holdings Inc	\$ 32,185,603
Alaska Power & Telephone Co	\$ 117,064,800
Via Renewables Inc	\$ 216,222,329

Source: Bloomberg

Figure 16: Calculation for Weighted Average Cost of Capital

Input	Rate	Source
Risk free rate	3.46%	10y Treasury
Beta	0.75	Bloomberg
Equity risk premium	5.94%	Damodaran, USA
Cost of Equity	7.71%	CAPM
% Equity	63%	
Cost of Debt	4.38%	Interest Expense & 67 CDS bp
% Debt	37%	
Tax Rate	20%	
WACC 6.2%		

Source: Team Analysis

Economic Moat

OGE has no differentiating factor compared to other publicly traded utilities and therefore has a very modest economic moat. They could acquire smaller utility companies if the board of directors and management saw an opportunity to do so. Although they have a monopoly in their area, this is common within the utility industry. They do have an advantage of being shielded from other competitors in their footprint and they can generate their own power. Any advantage they could glean from their monopoly is negated by the fact that they rely on sometimes contentious governing bodies for permission for rate hikes thus their profits are tied to a governing body's decision making.

Green Energy Focus

Electricity usage will continue to grow given the growth in retail and commercial load needs. OGE has already placed themselves on a path towards greener energy through their wind farm and solar holdings. According to the company's 2021 10K^{vi}, they had 322 windmill installations capable of producing 476 MW of electricity. OGE mentioned on the student CFA Challenge call that they prefer a dollar cost average investment policy towards different technologies, and they are focused on becoming greener in the future by investing in technologies as they become available. This "greening" of their energy sources means less fuel costs from coal and natural gas thus a greater chance of healthier financials and less burdensome costs passed to the consumer. Also mentioned on the call was that some of the options they look towards implementing are green hydrogen and small nuclear to supplement natural gas and their solar footprint. OGE has already begun reducing their coal usage incrementally, except in 2021 when they needed to produce additional electricity due to Storm Uri. OGE also has a Request for Proposal (RFP) for additional solar units. This will become more important as the arrival of catastrophic storms such as Uri exposed their reliance on fossil fuels and their costs soared from \$644 million in 2020 for natural gas to over \$2 billion in the year 2021. Although they can pass this cost onto customers, higher utility prices concern citizens and business owners in their footprint which can affect legislation and get the ear of the governing bodies thus slowing rate increases and effectively putting OGE in bad financial conditions. This will be mitigated by their movement towards greener energy solutions.

Steady Financials

Despite the threat of economic downturns, utilities are safer securities for investors due to the steady and protected nature of their business. There will be an increasing need for electricity nationwide and the footprint wherein OGE operates is no exception. This is reflected in their steady financial statements. We estimate their total operating revenue to stay steady at \$3.5 billion by the year 2027 primarily through higher energy load needs due to growth within their service area. Their capital expenditures are set to grow to \$950 million each year from \$778.50 million in 2021. Since OGE's method for increasing rates is based on their ability to convince the governing bodies that their capital expenditures are justified, the more spent on CAPEX the better their earnings per share will be. This also affects their contribution margins, since the higher the rate hike they get from the governing bodies, the more profit they make from each unit of energy sold. Ultimately, OGE will likely experience slow, but steady growth due to the increased reliance on electricity and their monopoly in their service area.

VALUATION

When evaluating OGE Energy Corp, we used several different methods to determine the fair value. As explained below, we utilized a free cash flow to equity holders, a dividend discount, and a multi-stage dividend discount model. To test the impact of key assumptions on the valuation, we ran several Monte Carlo simulations to support our models. Additionally, we used a more detailed discounted cash flow (DCF) model to estimate an intrinsic value. Our DCF model incorporated different scenarios: (1) conservative, (2) base, and (3) optimistic. The base scenario is based on our financial forecasts for OGE Energy Corp. Furthermore, we used a comparable analysis of peers to gain further insight into the valuation of OGE Energy Corp.

When determining the assumptions for our models, we considered the following factors: (1) The recent conversion of OGE Energy Corp to a fully regulated all-electric utility, which has reduced the company's direct exposure to energy commodities or fossil fuel markets and allowed for a more stable core dividend policy. (2) OGE Energy Corp's plan to increase its renewable energy capacity and meet the demand for 1,000 MW of additional generation by 2027. (3) OGE Energy's intention is to pay down its \$1 billion debt due in May through a combination of cash collections, deferred cash

Figure 17: Sensitivity Analysis

		Terminal Growth Rate		
		1.50%	2.00%	2.50%
WACC	5%	42.98	52.60	66.06
	6%	27.88	33.23	40.11
	7%	18.30	21.64	25.72
		Average		36.50

Source: Team Analysis

Figure 18: Monte Carlo Simulation Results

Mean	\$ 36.54	
Standard Deviation	\$ 11.72	
Minimum	\$ 0.12	
First Quartile	\$ 29.77	
Median	\$ 35.40	
Third Quartile	\$ 41.71	
Max	\$ 97.72	Probability
Bear Case	\$ 30.68	28.54%
Bull Case	\$ 42.40	23.20%

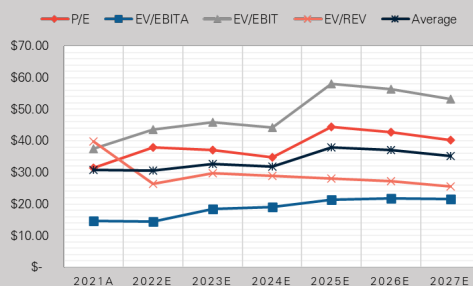
Source: Team Analysis

Figure 19: Monte Carlo Simulation Iterations



Source: Team Analysis

Figure 20: Relative Valuation Forecast



Source: Bloomberg, Team Analysis

expenditures, and potential bond issuance. (4) The economic outlook and potential capital market downturn. (5) OGE's ability to improve profitability through rate-based investments that increase the Return on Equity from 8.5% to 10.5%, along with its distinct market position as a regulated monopoly with capped earnings and growth potential through increased energy production investments.^{vii}

Figure 31: Assumption Table

Assumption	Range Tested	Impact	Range of Share Price
Terminal Growth Rate	0% - 3%	Most impactful with modest changes leading to large impacts. We selected 2.5% Terminal Growth Rate in our DCF model.	\$25.98 – \$56.68
Capex Growth	(10%) - 10%	In order to see the impact of Capex on the value of the share price, we utilized one conservative and one optimistic scenario where -10% of Capex growth describes the optimistic case and 10% describes the conservative case corresponding to each year's future growth in our base scenario which is from our financial projections.	\$23.99 – \$46.91
Revenue Growth	(10%) - 10%	We used the same methodology for Revenue growth as in Capex Growth. However, 10% of Revenue growth describes the optimistic case and -10% describes the conservative case corresponding to each year's future growth in our base scenario.	\$32.59 – \$45.91
EBIT % of Sales	(10%) - 10%	Same methodology as Revenue Growth.	\$28.39 – \$42.52
WACC	5.7% - 6.7%	Our DCF model is affected by switches in WACC as shown in Figure 17. We decided to use our calculated WACC of 6.2 in our models.	\$29.74 – \$46.91
TGR & WACC	1.5% - 2.5% 5% - 7%	The share price implies a range from \$18 to \$66 with switches in WACC and TGR combined as shown in Figure 17.	\$18.30 – \$66.06

Source: Team Analysis

Discounted Cash Flow Model (DCF)

Our DCF valuation, which is based on our financial projections, utilizes the Free Cash Flow to the Firm (FCFF) methodology to estimate the company's intrinsic value. This detailed and sensitive approach allows us to consider the growth prospects the company faces, regardless of its capital structure. By analyzing the company's historical data in combination with our projections, we conducted a comprehensive assessment of OGE Energy Corp as a consolidated entity, starting from 2022 and covering a forecast period until 2027. For comparability, we excluded historical cash flows attributable to the now divested midstream oil and gas opportunity. Our analysis considers the company's past performance and future growth prospects as a pure play electric utility, incorporating various scenarios and factors that could impact its financial performance. Our DCF model aligns with our other projection models based on relative value discussed below. We show material assumptions tested in Appendix B1. Based on our assumptions, this model implies a fair share value of \$37.15.

Dividend Discount Model (DDM)

We used a Dividend Discount Model (DDM) valuation for OGE Energy Corp to gain a deeper understanding of how the company's dividend strategy informs its value. This model is relevant because OGE Energy Corp has a stable dividend policy and consistent growth prospects. We considered the company's historical dividend performance, as well as its future growth prospects and potential changes in dividend policy. Additionally, we considered the cost of equity and the expected rate of return for investors to arrive at a robust estimate of the company's intrinsic value. Material assumptions tested in this model can be found in Appendix B2. Based on our assumptions, this model implies a fair share value of \$31.85.

Multistage-Dividend Discount Model (MSDM)

Our Multistage-Dividend Discount Model (MSDM) considers five stages of dividend growth. Relative to the Dividend Discount Model, this model provides an additional assessment of the company's intrinsic value. Based on our assumptions, this model implies a share price of \$38.25. Thus, our Multistage-Dividend Discount Model concludes that OGE's current share price is fairly valued. Material assumptions tested in this model can be found in Appendix B2.

Free Cash Flow to Equity Model (FCFE)

Our Free Cash Flow to Equity (FCFE) valuation of OGE Energy Corp aims to estimate the intrinsic value of the company based on its future cash flows to equity holders as opposed to the FCFF model

discussed above which reflects value to all capital holders. We used OGE Energy Corp's cost of equity to discount future cash flows. Sensitivity table can be found in Appendix B3. We show material assumptions tested in this model in Appendix B2. Based on our expected value for this model OGE's current share price is slightly overvalued as this model implies a share price of \$35.35.

Weighted Average Cost of Capital (WACC)

In our Weighted Average Cost of Capital calculation, we studied various factors such as the cost of equity, cost of debt, and the weight of equity and debt in the company's capital structure. To achieve the most accurate number possible, we used public data and sources such as the company's financial statements, Mergent Online, Bloomberg, Team Analysis, and Damodaran research on risk premium. Additionally, we used various methods such as the Capital Asset Pricing Model (CAPM) and the Risk-Free Rate plus Risk Premium approach to calculate the cost of equity. Our WACC calculation serves as a crucial input for all our valuation models and provides valuable insights into the cost of capital for OGE Energy Corp. We arrived at 6.2% for the WACC based on 63% weight of equity, 37% weight of debt, 7.71% cost of equity, and 4.38% cost of debt. WACC calculation and sources can be found in Appendix B4.

Scenario Analysis

We used a Monte Carlo Simulation for the following models: DDM, MSDM, and FCFE. We simulated 1000 events to project the range of plausible stock prices. Our Monte Carlo simulation modeled key assumptions such as Terminal Growth Rate and Weighted Average Cost of Capital to achieve a more comprehensive view of the company's valuation. We used a bull and bear case analysis to reflect on our investment thesis with detailed assumptions corresponding to target prices available in our report. In order to determine the bear and bull case, we took one half standard deviation above and below the mean. The bear scenario indicates a share price of <\$30.68 and or bull scenario indicates a share price of >\$42.40. Our Monte Carlo simulation showed 23.20% probability of reaching the bull case share price and 28.54% probability of reaching the bear case share price. Our Monte Carlo simulation shows 48.25% probability of reaching a share price between our bull and bear scenario. Overall, our Monte Carlo simulation aligns with all our other models supporting our HOLD recommendation. Simulation statistics are shown in Appendix B6.

Relative Valuation

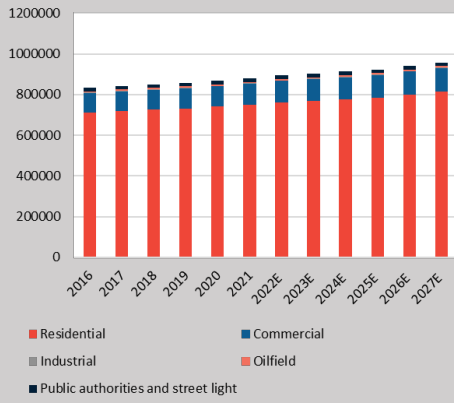
We used a comprehensive set of metrics including Price-to-Earnings (P/E), Enterprise Value-to-Earnings Before Interest, Taxes, Depreciation, and Amortization (EV/EBITDA), Enterprise Value-to-Earnings Before Interest and Taxes (EV/EBIT), and Enterprise Value-to-Revenue (EV/REV) for our relative valuation model. These metrics gave us valuable insight into OGE Energy Corp's growth potential and financial performance and valuation compared to peers in the same industry. The share prices of these metrics imply a range from \$29.70 to \$37.00 in 2023 which can be found in Appendix B5.

Figure 21: Key Financial Figures, Actual and Estimated

Source: Bloomberg, Company Data, and Team Analysis

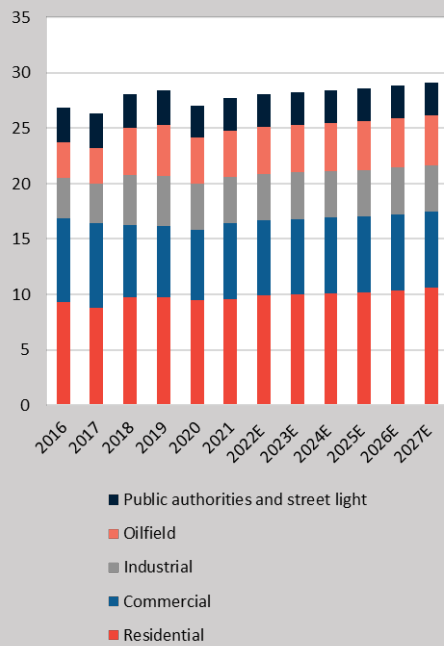
KEY FINANCIALS	2016A	2017A	2018A	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E	2027E
Dividend Yield	4.0	3.5	3.9	3.6	3.4	5.0	4.2	4.2	4.3	4.3		
Growth (YoY)	49.2	-13.5	11.8	-7.8	-4.9	46.5	-14.6		0.4	2.2		
PROFITABILITY RATIOS												
Gross margin (%)	61%	60%	61%	65%	70%	42%	55%	55%	55%	60%	60%	60%
EBITDA margin (%)	38%	36%	36%	38%	43%	26%	35%	35%	35%	39%	39%	39%
EBIT margin (%)	23%	24%	22%	23%	25%	15%	21%	20%	20%	24%	23%	23%
NI margin (%)	13%	14%	14%	16%	16%	10%	13%	13%	12%	15%	14%	13%
OPERATING REVENUE BY CLASSIFICATION												
Residential	\$ 951.90	\$ 884.10	\$ 901.00	\$ 891.10	\$ 869.00	\$1,342.10	\$1,362.23	\$1,375.85	\$1,389.61	\$1,403.51	\$1,431.58	\$1,460.21
Commercial	\$ 573.70	\$ 588.30	\$ 598.00	\$ 503.10	\$ 479.40	\$ 766.90	\$ 789.91	\$ 797.81	\$ 813.76	\$ 830.04	\$ 846.64	\$ 855.10
Industrial	\$ 194.60	\$ 200.60	\$ 196.70	\$ 223.00	\$ 197.30	\$ 328.20	\$ 328.20	\$ 328.20	\$ 328.20	\$ 328.20	\$ 328.20	\$ 328.20
Oilfield	\$ 156.90	\$ 159.50	\$ 153.20	\$ 204.00	\$ 172.30	\$ 316.80	\$ 319.97	\$ 321.57	\$ 323.18	\$ 324.79	\$ 326.42	\$ 328.05
Public authorities and street light	\$ 204.30	\$ 208.00	\$ 204.00	\$ 195.70	\$ 176.80	\$ 289.50	\$ 291.53	\$ 293.57	\$ 295.62	\$ 297.69	\$ 299.78	\$ 301.87
Sales for resale	\$ 0.30	\$ 0.20	\$ 0.20	\$ 0.10	\$ 0.10							
System sales revenues	\$2,081.70	\$2,040.70	\$2,053.10	\$2,017.00	\$1,894.90	\$3,043.50	\$3,091.83	\$3,116.99	\$3,150.37	\$3,184.23	\$3,232.61	\$3,273.44
Provision for rate refund	\$ (33.60)	\$ 26.80	\$ (6.00)	\$ (0.90)	\$ 3.80	—						
Integrated market	\$ 49.30	\$ 23.50	\$ 48.70	\$ 38.40	\$ 49.60	\$ 468.90	\$ 42.00	\$ 42.00	\$ 42.00	\$ 42.00	\$ 42.00	\$ 42.00
Transmission	\$ 143.00	\$ 151.20	\$ 147.40	\$ 148.00	\$ 143.30	\$ 140.20	\$ 145.00	\$ 145.00	\$ 145.00	\$ 145.00	\$ 145.00	\$ 145.00
Other	\$ 18.80	\$ 18.90	\$ 27.10	\$ 29.10	\$ 30.70	\$ 1.10	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00
Total operating revenues	\$2,259.20	\$2,261.10	\$2,270.30	\$2,231.60	\$2,122.30	\$3,653.70	\$3,298.83	\$3,323.99	\$3,357.37	\$3,391.23	\$3,439.61	\$3,480.44
Cost of Sales	\$ 880.10	\$ 897.60	\$ 892.50	\$ 786.90	\$ 644.60	\$2,127.60	\$1,484.47	\$1,495.80	\$1,510.82	\$1,356.49	\$1,375.84	\$1,392.17
Gross margin	\$1,379.10	\$1,363.50	\$1,377.80	\$1,444.70	\$1,477.70	\$1,526.10	\$1,814.36	\$1,828.20	\$1,846.55	\$2,034.74	\$2,063.76	\$2,088.26

Figure 22: Total Number of Customers



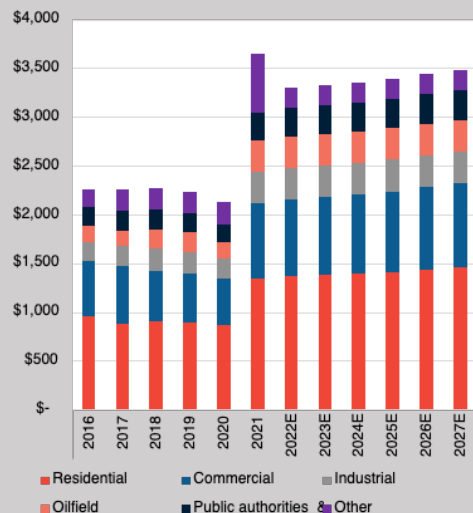
Source: Company Data, Team Analysis

Figure 23: Total Electric Energy Sold (Millions of MWh)



Source: Company Data, Team Analysis

Figure 24: Revenue Projections by Segment (in millions)



Source: Company Data, Team Analysis

FINANCIAL ANALYSIS

The financial forecast over the next six years is based solely on the company’s pure-play decision when the company exited the midstream services (sale of equity interest in Energy Transfer) in the second half of 2022. This information was available on the company’s 10Ks listed under Oklahoma Gas and Electric Company financial statements. This information is available on the company’s 10Ks listed under Oklahoma Gas and Electric Company financial statements. The company’s forecasted financial statements can be found in Appendices C1, C2, and C3.

Revenue Projections & Growth

The company’s revenue is driven by the number of customers it serves and load (usage). The company’s competitive advantage of operating like a monopoly ensures that all new customers in the area will automatically be serviced by OG&E. OG&E serves five customer segments: residential, commercial, industrial, oilfield, and public authorities and streetlight. Since the COVID-19 pandemic, Oklahoma has seen an influx in population migration causing a growth in the number of residential customers.^{viii} OG&E’s total residential customers increased 1.14% in 2020 and 1.20% in 2021. With the increased number of remote work options and better cost of living in Oklahoma, this population migration trend will likely continue. Based on this analysis, the financial forecast estimates a 1% annual growth rate in residential customers over the next six years. See Figure 22 for a complete look at customer growth projections. It’s important to note that residential customers represented 46% of the total revenue in 2020 and 44% in 2021.

Focusing on load, even with a growing number of residential customers, the average annual megawatt per hour per residential customer has decreased from 13.01 in 2016 to 12.8 in 2021 or 2.1%. This is primarily driven by energy efficient appliances and other electronic products. The company has noted an increase in load during Q2 and Q3 (Spring and Summer) due to the hotter temperatures during these months increasing the demand for electricity to power air conditioners and other summertime electronic devices. With the continued climate changes and expectations of harsher winters and summers, this will continue increasing load demand during peak summer times.^{ix} Additionally, the adoption rate for electric vehicles is expected to continue increasing. In Oklahoma, the number of electric vehicle registrations increased 111% YoY in 2021.^x With the anticipated increase in temperatures during the summer months and increased EV adoption rates, it is estimated that the load rate will remain flat at 13 megawatts-hour per residential customer. See Figure 23 for the projected total electric energy sold.

Driven by the increase in total customers, an increase in load demand, and the required increase from 12% to 15% of excess load, it is estimated that total revenue will increase at an average rate of 1% starting in 2023. The total revenue projections are listed in Figure 24. There is a 10% decrease in revenue for 2022 due to a “normalization” of prices per kilowatt-hour that had increased 17% YoY due to Storm Uri in February of 2021. Additionally, it was forecasted that sales to the integrated market returned to normal levels of \$42 million per year.

Costs and Net Income

The company’s cost of sales is based on fuel, purchase power, and direct transmission expenses. On average, the total cost of sales has been 40% of revenue since 2016, except for 2021. In 2021, the company incurred higher than normal fuel costs due to Storm Uri totaling 58% of revenue. The average price per kilowatt-hour energy derived from natural gas increased from 2.08 cents to 11.91 in 2021. This represents a 473% increase in natural gas prices. Because of the high costs associated with natural gas, the company increased their coal usage due to a significantly lower cost of 1.94 cents. While natural gas prices have decreased since 2021, they remain above normal levels averaging 7.249 cents at the end of Q3 in 2022. Using this as a starting baseline, cost of sales was estimated at 45% of revenue between 2022 and 2024.

However, cost of sales should normalize by 2025 and is assumed to return to 40% of revenue. The reason for the normalization is due to the forecast of a stable economic environment including normal levels of inflation (2%), reduced global conflict, and improved supply chains. With the continued high inflation rate, increased wages, and an overall strong labor market, other operation and maintenance expenses were calculated as 16% of revenue for the next six years. While it is forecasted that the economy will stabilize in 2025, the employees’ wages are not expected to decrease.

Interest expense is also estimated to increase year over year as the company continues to invest in infrastructure which will also cause an increase in depreciation. Overall, the company will see an increase in net income for 2022, but a slight decrease in 2023 and 2024 primarily driven by slow

Figure 25: Investment Risks Summary

REGULATORY ENVIRONMENT

Political Vulnerability

<i>Probability</i>	<i>Impact</i>
MODERATE	HIGH

Compliance Costs

<i>Probability</i>	<i>Impact</i>
HIGH	MODERATE

OPERATIONAL DISRUPTIONS

Business Disruption

<i>Probability</i>	<i>Impact</i>
LOW	HIGH

Supply Chain

<i>Probability</i>	<i>Impact</i>
MODERATE	LOW

Cybersecurity

<i>Probability</i>	<i>Impact</i>
LOW	MODERATE

ECONOMIC IMPACT

Interest Rate Increases

<i>Probability</i>	<i>Impact</i>
HIGH	LOW

Negative Economic Outlook

<i>Probability</i>	<i>Impact</i>
MODERATE	LOW

growth in customers and load, and higher cost of sales. Starting in 2025, the company will see the cost relief from cost of sales decreasing to 40% of revenue and total net income will remain relatively flat YoY.

Capital Expenditures

Capital expenditures (CapEx) for OG&E have been increasing year over year. While CapEx only increased 2% in 2020, the company saw a 20% increase in 2021 for a total of \$778.50 million. Based on the review of various 10Ks, the company has been known to forecast a flat amount of CapEx of \$950 million over a five-year period. However, the company has not reached that investment in the last four years. Based on this information and the fact that the SPP has increased the peak load margin from 12% to 15%, a \$950 million CapEx is an appropriate assumption. The company has already estimated the need to issue \$300-\$400 million in long-term debt in 2023, which most likely will be used to fund infrastructure development. However, with the company's policy of funding CapEx with 50% debt and 50% equity will limit the company's ability to go much higher than the estimated \$950 million. To fund CapEx, it is forecasted that the company will issue stock at 25% of the total required investment, 50% debt, and use their cash for the remaining amount. The company must continue to invest in its infrastructure to remain successful and continue growing.

INVESTMENT RISKS

In evaluation of OGE's subsidiary, three major types of risks impact the business, including: regulatory environment, operational disruptions, and economic impacts (Figure 25).

Regulatory Environment

Political Vulnerability – MODERATE probability, HIGH impact

Rates are controlled by regulatory bodies in the areas served by OG&E, therefore exposing their return on investments to political turbulence. Although both state and federal organizations recognize the requirements to operating an electric utility, there do lie inconsistencies from regime changes. As Oklahoma's largest electric utility, OG&E receives higher levels of scrutiny. In September 2019, the OCC approved a settlement for environmental upgrades to specific natural gas and coal power plants. The company had been previously denied the request in December of 2015. Additionally, a slight rate increase approval had been reversed in March of 2017, causing OG&E to refund their customers for the difference. The relationship with the OCC seems to be constrained yet signals a slow recovering given recent approvals, including their multi-year Grid Enhancement Plan. On the other hand, the APSC uses a more formulaic approach towards OG&E and their smaller operation in Arkansas.

Compliance Costs – HIGH probability, MODERATE impact

Although the company is committed to diversifying their fuel sources and expanding into renewable energy, investment is both time and capital intensive. The company continues to generate 88% of their energy from natural gas and coal, both of which are direct targets of carbon emission reductions from international, federal, state, and local regulatory policies. Environmental laws are expected to tighten their compliance over the next decade, increasing the cost of current operations and future projects. Opportunities for the company to take advantage of incentives and collaborate with governments to produce projects in-line with policy goals and simultaneously increasing OG&E's revenue in the long term. The energy sector will continue to experience intense regulatory scrutiny over the next few decades.

Operational Disruptions

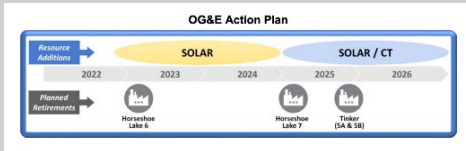
Business Disruption—LOW Probability, HIGH Impact

The increasingly changing climate proves a long-term risk as weather becomes more varied and volatile. In OG&E's area, winter storm Uri strained the electric grid, moving the SPP to change guidance on energy capacity. On the west coast, California's PG&E suffered repercussions from neglected equipment leading to wildfires during hot and dry weather periods. Although major weather events are infrequent, their prevalence are becoming increasingly common, requiring consistent reinvestment of technology and infrastructure to ensure a reliable energy delivery.

Supply Chain—MODERATE Probability, LOW Impact

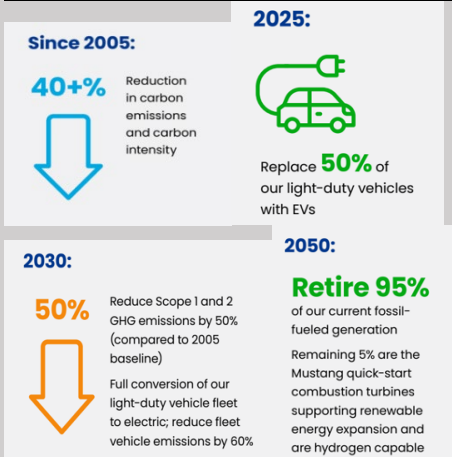
Fuel supply is a crucial part of consistent energy generation. Therefore, supply chain disruptions may cause inconsistency and inability to supply adequate amount of electricity to customers. Major

Figure 26: OG&E Action Plan



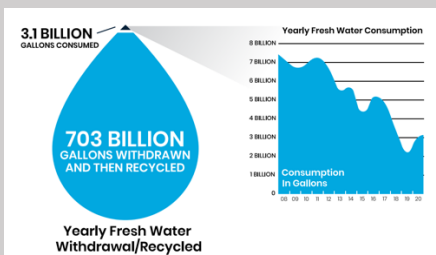
Source: OGE Energy Corp

Figure 27: OG&E Environmental Action Plans



Source: OGE Energy Corp

Figure 28: OG&E Water Usage



Source: OGE Energy Corp

Figure 29: OG&E Social Engagement



Source: OGE Energy Corp

Figure 30: OG&E Three Committees on the Board



factors, such as geopolitical events including the Russian-Ukraine conflict, have caused volatility in natural gas markets. Though costs are passed through to customers, the recovery period may be drawn out, impacting availability of funds. Decreasing reliability on singular types of fuel sources and diversifying in the types of energy generated mitigate exposure to supply chain issues.

Cybersecurity—LOW Probability, MODERATE Impact

Cyber-attacks are a constant threat. OGE could easily become a target of rogue operators or even foreign nations. Data hacks or ransomware can hamper a company's ability to do business, hurt their public image, and exposing confidential operational or consumer data. Cybersecurity should be at the forefront of OGE's radar as the utmost vigilance should be taken to protect OGE's grid, customers, and ultimately bottom line. Updating legacy systems and implementing security protocols to protect their digital assets from attacks are at the center of cybersecurity mitigation.

Economic Impact

Interest Rate Increases—HIGH Probability, LOW Impact

The rising rate environment continues to make borrowing money more expensive, increasing the cost of capital from both debt and equity perspectives. As interest rates rise, companies' borrowing capacity contracts. OG&E maintains a debt to equity ratio of 1:1 and has no variable interest rates on their notes. As the company seeks to invest further into assets, their ability to fund capital expenditures will ultimately limit their possibilities of investments. Through cooperative negotiations and sustained positive relationships with regulators, the regulated rate should account for such increases in cost of capital.

Negative Economic Outlook—MODERATE Probability, LOW Impact

There is an inherent level of economic uncertainty due to continued high levels of inflation, a rapidly rising rate environment, and a strong labor market. Many economists believe there is the possibility of an economic slowdown in the second half of 2023. A slowdown in the economy can negatively impact the company due to lower load demand and a decrease in the number of customers primarily those in the commercial and industrial segments. However, long term electricity usage will increase as the Internet of Things and electric cars continue to saturate society.

ENVIRONMENTAL, SOCIAL, GOVERNANCE

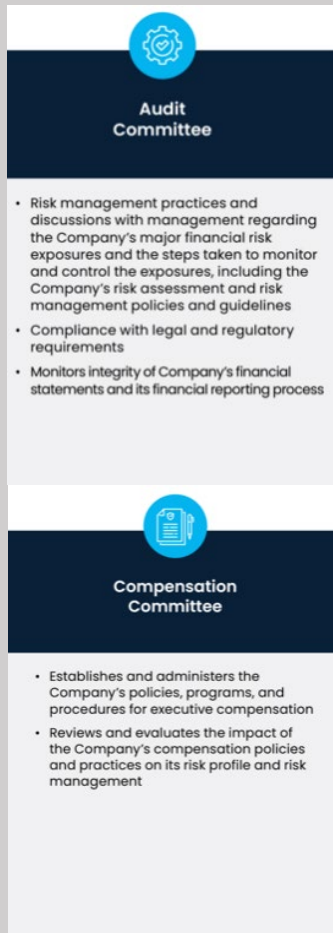
Environmental

Management prioritizes decisions based on (1) affordability to customers, (2) reliability of energy sources, and (3) sustainability over the long-term. In the next 1-6 years, OGE's thermal energy production units producing 850MW will need to be retired. As a result, OGE is looking into replacing them with solar and hydrogen-capable combustion turbines (Figure 25). OGE has identified the lowest-cost plan to be a balanced portfolio of solar resources and combustion turbines. Over the next few years, OGE plans to add 100-120MW of solar energy capacity annually (Figure 25). OG&E's current energy sources combination is 25% coal, 65% gas, and 10% renewables. By 2050 they hope to use 57% renewables, 31% future zero-carbon resources, and 12% gas or hydrogen-capable generation. OGE makes further efforts to go green by replacing 50% of its light-duty vehicles with Electric Vehicles by 2025 and 100% by 2030 to help meet its goal of reducing its vehicle emissions by 60% by 2030 (Figure 26). OGE is moving in the right direction to align with its goal: limiting global temperature increase to 1.5 degrees Celsius through 2030 set by the Paris Climate Agreement and the International Panel on Climate Change (IPCC). OGE uses 706 billion gallons of Oklahoma water each year to cool down its plants and returns 99% of the water (Figure 27). OGE uses water, a limited natural resource, in an efficient, responsible, and sustainable manner.^{xi}

Social

Employee treatment: OG&E invests in their employees by providing leadership development programs, paid internships, on-the-job learning, apprenticeship programs for key field operations jobs, or a rotational engineering program. They support their full-time employees by offering a tuition reimbursement program of up to \$5,250 per calendar year.

Community Engagement: Each year OGE employees put in 10,000 volunteering hours with organizations like United Way and Meals on Wheels (Figure 28). OG&E continues to serve its community through its Positive Energy and OGE Energy Scholarship for college tuition. They have



Source: OGE Energy Corp

provided 128 total scholarships totaling up to 1.2 million dollars. In the past year, they donated \$50,000 toward energy-efficient classroom projects to 98 public schools in the service area.

Diversity Actions: OG&E seeks diversity by seeking new business relationships with Small Hub-Zone Businesses, Small Veteran Owned Business, and Small Disabled Veteran Owned Business through the Southwest Minority Supplier Development Council, National Minority Supplier Development Council, and EEL Business Diversity and other methods.

Regulated Partnerships: OG&E's supplier code of conduct is enforced with the other organizations OGE works with, including suppliers, contractors, subcontractors, vendors, and other similar third-party providers. OGE continually reviews its partnership with its supplier by asking for documentation of compliance with the Supplier Code of Conduct. OGE makes it a priority to partner with suppliers that share the same values in the way they conduct their business.

Governance

There are ten members on the Board with diverse backgrounds ranging from finance, law, energy, and tech. Most of the Board members are independent with exactly 9 of the 10 being independent. An independent Board member is elected yearly by the independent directors. There are no term limits for Board members, but they can't be reelected after 75 years of age. There are three committees on the Board (Figure 29). The Nominating, Corporate Governance, and Stewardship Committee reviews the company's policies and initiatives on corporate responsibility and stewardship related to climate, diversity, sustainability, and ESG. The Audit Committee identifies the company's financial risk and provides recommendations for mitigating those risks. The Compensation Committee assigns compensation and evaluates the performance of the leadership based on set goals.

On the downside, OGE is outperformed by its peers regarding diversity of leadership: 26% of OG&E's executive and board positions are women, while its peers have 38% on average, 7% of OG&E's executive and board positions are people of color, while its peers are 20% on average.

ENDNOTES

ⁱ <https://www.mergentonline.com/companydetail.php?compnumber=6247&pagetype=synopsis>

ⁱⁱ <https://www.epa.gov/energy/electricity-customers#commercial>

ⁱⁱⁱ <https://oklahoma.gov/occ/divisions/public-utility/electric-utility.html>

^{iv} <https://www.eia.gov/electricity/state/Oklahoma/>

^v <https://findenergy.com/>

^{vi} <https://www.ogeenergy.com/sec-filings/>

^{vii} https://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/ctryprem.html

^{viii} <https://www.ocpathink.org/post/oklahoma-population-growth-outpaces-nation>

^{ix} <https://www.washingtonpost.com/climate-environment/2022/07/02/summer-2022-climate-change-heat/>

^x <https://electrek.co/2022/08/24/current-ev-registrations-in-the-us-how-does-your-state-stack-up/>

<https://www.oge.com/wps/wcm/connect/8b19b5cd-c985-4cbe-a974-0196f04f05f1/Final+OGE+2021+IRP++Oklahoma.pdf?MOD=AJPERES&CVID=nWhjhCN>

^{xi} <https://www.oge.com/wps/wcm/connect/9b51b239-6b01-492d-aB4a-07B2a91262d1/OGE-TCFD+Report+2021.pdf?MOD=AJPERES&CVID=n.tbZ-d>

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Appendix A1—Industry Peers

Name	Ticker	Last Price	Mkt Cap (MM)	P/E	ROE	Dvd Ind Yld	Elec Cust Tot	Capacity (MW)
NEXTERA ENERGY INC	NEE US	\$ 74.74	\$ 148,521	28.94	10.85	2.27	-	60580
DUKE ENERGY CORP	DUK US	\$ 99.11	\$ 76,315	17.82	5.41	4.06	8197057	53941
SOUTHERN CO/THE	SO US	\$ 66.88	\$ 72,810	18.22	11.33	4.07	4385000	43506
AMERICAN ELECTRIC POWER	AEP US	\$ 90.55	\$ 46,530	18.34	10.54	3.67	5544000	26776
EXELON CORP	EXC US	\$ 40.71	\$ 40,455	17.01	7.29	3.32	3890634	32400
P G & E CORP	PCG US	\$ 15.54	\$ 30,889	16.29	8.24	N/A	5539969	7652
FIRSTENERGY CORP	FE US	\$ 39.90	\$ 22,813	16.11	13.54	3.91	6192000	3569
ENTERGY CORP	ETR US	\$ 105.79	\$ 21,527	17.90	10.87	4.04	2984406	25465
PPL CORP	PPL US	\$ 28.66	\$ 21,103	21.25	4.92	3.14	2500000	7535
AVANGRID INC	AGR US	\$ 40.59	\$ 15,693	17.13	4.67	4.34	2283007	9149
EVERGY INC	EVRG US	\$ 61.07	\$ 14,014	16.89	8.44	4.01	-	16680
ALLIANT ENERGY CORP	LNT US	\$ 53.23	\$ 13,362	19.85	10.87	3.40	984448	7832
PINNACLE WEST CAPITAL	PNW US	\$ 74.09	\$ 8,383	15.86	8.70	4.67	1317313	6323
OGE ENERGY CORP	OGE US	\$ 38.48	\$ 7,704	17.64	22.64	4.30	879447	7207
NRG ENERGY INC	NRG US	\$ 34.86	\$ 7,439	27.35	41.03	4.33	-	17877
IDACORP INC	IDA US	\$ 103.22	\$ 5,219	20.95	9.17	3.06	603753	3486
ALGONQUIN POWER & UTILITIES	AQN CN	\$ 9.92	\$ 5,074	9.83	0.58	5.85	-	4515
PORTLAND GENERAL ELECTRIC CO	POR US	\$ 47.69	\$ 4,811	17.18	9.13	3.80	912209	3948
HAWAIIAN ELECTRIC INDS	HE US	\$ 42.41	\$ 4,643	19.99	10.48	3.40	470612	2760
ALLETE INC	ALE US	\$ 60.35	\$ 3,450	16.40	7.94	4.49	-	1797

Appendix A2—Porter’s Five Forces Analysis

				
<p>Competition</p> <p>T – Governing bodies could end monopoly O – Monopoly reduces fear of failure</p>	<p>New Entrants</p> <p>T – Governing bodies allow competition O – OGE entrenched in service area</p>	<p>Buyers</p> <p>T – Buyers lobby governing bodies O – Lack of competition means less worry about customer satisfaction</p>	<p>Suppliers</p> <p>T – OGE at the mercy of suppliers during crisis O – Reducing dependency on fossil fuels makes OGE stronger</p>	<p>Substitutes</p> <p>T – Solar panels would hurt profits O – OGE sells solar panels to offset losses</p>

Appendix A3—SWOT Analysis

<p>Strengths</p> <ul style="list-style-type: none"> • Monopoly on their service area • Greening through reduction in coal usage • Strong residential demand that doesn't diminish 	<p>Weaknesses</p> <ul style="list-style-type: none"> • Still reliant on coal and other sources when natural disasters like Uri occur • The nature of their industry caps their profits • Reliance on one set area for business activity 	<p>Opportunities</p> <ul style="list-style-type: none"> • Complete movement from coal to green energy • Explosion of electric vehicles will add to their demand 	<p>Threats</p> <ul style="list-style-type: none"> • Increased residential use of solar panels could cut into the business • Higher interest rates and inflation will make their stock less attractive to investors
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Appendix B1—Discounted Cash Flow Model

In Millions	2016A	2017A	2018A	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E	2027E
Revenue	\$ 2,259	\$ 2,261	\$ 2,270	\$ 2,232	\$ 2,122	\$ 3,654	\$ 3,325	\$ 3,351	\$ 3,387	\$ 3,423	\$ 3,474	\$ 3,518
% of growth		0.1%	0.4%	-1.7%	-4.9%	72.2%	-9.0%	0.8%	1.1%	1.1%	1.5%	1.3%
EBIT	\$ 531	\$ 532	\$ 490	\$ 504	\$ 522	\$ 546	\$ 698	\$ 720	\$ 714	\$ 851	\$ 851	\$ 850
% of Sales	23.5%	23.5%	21.6%	22.6%	24.6%	14.9%	21.0%	21.5%	21.1%	24.9%	24.5%	24.2%
Taxes	\$ 114	\$ 142	\$ 40	\$ 20	\$ 35	\$ 42	\$ 66	\$ 53	\$ 53	\$ 54	\$ 55	\$ 56
% of EBIT	21.6%	26.7%	8.2%	4.0%	6.6%	7.7%	9.5%	7.3%	7.5%	6.3%	6.4%	6.5%
EBIAT							\$ 632	\$ 667	\$ 661	\$ 797	\$ 796	\$ 794
D&A	\$ 316.40	\$ 280.90	\$ 321.60	\$ 355.00	\$ 391.00	\$ 416.00	\$ 470.51	\$ 536.04	\$ 555.73	\$ 576.64	\$ 598.97	\$ 622.69
% of CapEx	-47.9%	-34.1%	-56.1%	-55.9%	-60.2%	-53.5%	-49.1%	-50.9%	-52.7%	-54.7%	-56.8%	-59.0%
% of Sales	14.0%	12.4%	14.2%	15.9%	18.4%	11.4%	14.2%	16.0%	16.4%	16.8%	17.2%	17.7%
Capital Expenditures	\$ (660.10)	\$ (824.10)	\$ (573.60)	\$ (635.00)	\$ (650.00)	\$ (778.00)	\$ (957.50)	\$ (862.07)	\$ (862.50)	\$ (862.93)	\$ (863.54)	\$ (864.16)
% of Sales	-29.2%	-36.4%	-25.3%	-28.5%	-30.6%	-21.3%	-28.8%	-25.7%	-25.5%	-25.2%	-24.9%	-24.6%
Change in NWC			\$ 3.40	\$ 33.00	\$ 63.30	\$ (180.50)	\$ (151.18)	\$ (133.09)	\$ (90.79)	\$ (72.67)	\$ (54.54)	\$ (36.39)
% of Sales			0.1%	1.5%	3.0%	-4.9%	-4.5%	-4.0%	-2.7%	-2.1%	-1.6%	-1.0%
Unlevered FCF							\$ (6.42)	\$ 208.09	\$ 263.29	\$ 438.30	\$ 477.02	\$ 516.05
Present Value of UFCF							\$ (6.05)	\$ 184.66	\$ 220.10	\$ 345.17	\$ 353.89	\$ 360.65

Target Price

Terminal Value	14423
Present Value of Terminal Value	10072
Enterprise Value	11529
Cash	456
Debt	4548
Equity Value	7437
Shares Outstanding	200.2
Implied Share Price	\$37.15

Exit multiple

The terminal value \$14423 gives an implied EV/EBITDA multiple of 10.63x.

Terminal Growth Rate

	1.00%	1.50%	2.00%	2.50%	3.00%
4%	56.11	70.24	91.42	126.73	197.36
5%	35.77	42.98	52.60	66.06	86.26
6%	23.60	27.88	33.23	40.11	49.28
7%	15.51	18.30	21.64	25.72	30.83
8%	9.76	11.69	13.94	16.59	19.78
9%	5.46	6.86	8.45	10.29	12.44
	Average 40.90				
	Average 36.50				

Appendix B2— Dividend Discount Model, Multistage Dividend Discount Model, and Free Cash Flow to Equity Model

Inputs

Steady state growth rate div	2.50%	Plowback Ratio	0.71	Year 5	6%	FCFE/shares outstanding	0.6	Steady state growth rate fcf	2.50%
Beta	0.75	Return on Equity	8%	Steady state growth rate div	2.50%	FCF per Share	0.4	Market Capitalization	7854
Dividends per share	0.41	gi	1%	WACC	6%	Year 1	-10%	Debt	4548
EPS	3.4	Year 1	7%	Wd	37%	Year 2	-5.00%	Cash	456
Krf	3.46%	Year 2	6%	We	63%	Year 3	0.00%	Market Price	39.64
Market Return Premium	6%	Year 3	8%	kD	4.40%	Year 4	5.00%	Shares outstanding	200.2
Ke	7.70%	Year 4	7%	kE	7.70%	Year 5	5.00%		

Discounted Dividend Model

PV	\$31.85
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Multistage

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Div/ share	1.64	1.75	1.86	2.01	2.15	2.28
Terminal Value	43.82					
NPV	\$38.25					

FCF Equity

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
FCF for equity holders/Share	2.4	2.16	2.05	2.05	2.15	2.26
Terminal Value	39.01					
NPV	\$35.35					

Appendix B3—Sensitivity Tables

Discounted Dividend Model					
Beta	0.69	0.77	0.85	0.94	1.03
Ke	6.90%	7.29%	7.71%	8.14%	8.60%
Steady Growth Rate					
0.5%	\$ 25.87	\$ 24.41	\$ 22.97	\$ 21.69	\$ 20.44
2.5%	\$ 37.62	\$ 34.62	\$ 31.79	\$ 29.39	\$ 27.14
4.5%	\$ 68.94	\$ 59.48	\$ 51.60	\$ 45.57	\$ 40.38

FCF to equity holders					
Beta	0.69	0.77	0.85	0.94	1.03
Ke	6.90%	7.29%	7.71%	8.14%	8.60%
Steady Growth Rate					
0.5%	\$ 33.55	\$ 31.66	\$ 29.80	\$ 28.15	\$ 26.53
2.5%	\$ 44.56	\$ 41.08	\$ 37.81	\$ 35.02	\$ 32.39
4.5%	\$ 73.19	\$ 63.57	\$ 55.48	\$ 49.24	\$ 43.82

Discounted Cash Flow Model						
Terminal Growth Rate						
		1.00%	1.50%	2.00%	2.50%	3.00%
WACC	4%	56.11	70.24	91.42	126.73	197.36
	5%	35.77	42.98	52.60	66.06	86.26
	6%	23.60	27.88	33.23	40.11	49.28
	7%	15.51	18.30	21.64	25.72	30.83
	8%	9.76	11.69	13.94	16.59	19.78
	9%	5.46	6.86	8.45	10.29	12.44
		Average		40.90		
		Average		36.50		

We conducted sensitive analysis in our models to see impact of changes in key assumptions. This allowed us to gauge the robustness of our models and provided a deeper understanding of potential risks in the valuation. We can conclude that Steady Growth Rate and Terminal Growth rate has significant impact on our models. Furthermore, Cost of Equity and Weighted Average Cost of Capital has significant impact as well and by decreasing WACC from 6% to 5% with a Terminal Growth Rate of 2.5% increases the predicted price from \$40.11 to \$66.06. This analysis provides us with insights of how the OGE share price could potentially move with increases/decreases in interest rates, increases/decreases in energy prices, or potentially entering a mild recession, leading to reduced corporate demand for energy. However, we believe that it is unlikely that OGE will have major changes in discount rates or growth rates supported by a stable growth and strong balance sheet.

Appendix B4—Weighted Average Cost of Capital

Input	Rate	Source
Risk free rate	3.46%	10y Treasury
Beta	0.75	Bloomberg
Equity risk premium	5.94%	Damodaran, USA
Cost of Equity	7.71%	CAPM
% Equity	63%	
Cost of Debt	4.38%	Interest Expense + 67 CDS bp
% Debt	37%	
Tax Rate	20%	
WACC 6.2%		

Cost of debt: Using the average of OGE's interest expense and adding 67 basis points of credit default swap in order to give a more realistic picture of the true cost of debt. We arrived at 4.38% cost of debt.

Cost of equity: Using given Beta from Bloomberg, the risk-free rate of U.S 10-year treasury, and Damodaran's research on equity risk premium in United States, we arrive at 7.71% cost of equity using the Capital Asset Pricing Model.

WACC: This gives an overall WACC of 6.2% for OGE Energy Corp.

Appendix B5—Relative Valuation

COMPANY	TICKER	CORRELATION	MARKET CAP	P/E	EV/EBITA	EV/EBIT	EV/REV	P/BV
Alliant Energy Corp	LNT US	0.7765	\$13,527,566,419	18.61	13.10	22.18	5.49	2.16
IDACORP Inc	IDA US	0.7665	\$ 5,233,155,822	20.18	13.42	21.24	4.84	1.88
Eergy Inc	EVRG US	0.7589	\$13,686,084,381	16.11	10.38	17.53	4.58	1.42
Portland General Electric Co	POR US	0.7471	\$ 4,691,287,536	16.79	9.28	18.64	3.32	1.50
MGE Energy Inc	MGEE US	0.7011	\$ 2,557,111,893	21.46	13.94	25.39	4.73	2.38
Pinnacle West Capital Corp	PNW US	0.6974	\$ 8,526,245,698	17.97	10.83	22.42	4.39	1.36
Hawaiian Electric Industries I	HE US	0.6882	\$ 4,487,193,295	17.69	7.42	10.76	1.53	2.07
ALLETE Inc	ALE US	0.664	\$ 3,669,220,949	16.15	12.38	26.06	4.06	1.37
Otter Tail Corp	OTTR US	0.5952	\$ 2,569,462,357	15.94	9.42	13.40	2.63	2.17
NRG Energy Inc	NRG US	0.4322	\$ 6,873,254,182	5.90	5.28	6.19	0.71	1.46
PNM Resources Inc	PNM US	0.3897	\$ 4,249,684,612	18.41	10.35	19.27	4.36	1.93
Genie Energy Ltd	GNE US	0.1946	\$ 268,711,617	24.80	7.73	--	0.55	1.69
Summer Energy Holdings Inc	SUME US	0.0396	\$ 32,185,603	--	--	--	--	--
Alaska Power & Telephone Co	APTL US	-0.0785	\$ 117,064,800	--	--	--	--	1.80
Via Renewables Inc	VIA US	0.3767	\$ 216,222,329	2114.00	5.82	15.03	0.56	3.85

	<i>in millions</i>	2021A	2022E	2023E	2024E	2025E	2026E	2027E
Shares Outstanding		200	200	200	200	200	200	200
Net Debt	\$	4,572	\$ 6,056	\$ 5,466	\$ 5,735	\$ 6,010	\$ 6,371	\$ 6,846.40
Book Value	\$	4,603	\$ 5,008	\$ 5,404	\$ 5,775	\$ 6,256	\$ 6,717	\$ 7,150
Total Revenue	\$	3,654	\$ 3,299	\$ 3,324	\$ 3,357	\$ 3,391	\$ 3,440	\$ 3,480
EBITDA	\$	962	\$ 1,155	\$ 1,163	\$ 1,175	\$ 1,323	\$ 1,341	\$ 1,357
EBIT	\$	546	\$ 688	\$ 680	\$ 674	\$ 803	\$ 802	\$ 797
Net Income	\$	360	\$ 433	\$ 423	\$ 398	\$ 509	\$ 489	\$ 460

	<i>Industry</i>	2021A	2022E	2023E	2024E	2025E	2026E	2027E
<i>Multiples</i>	<i>Average</i>							
P/E	17.50	\$ 31.50	\$ 37.89	\$ 37.00	\$ 34.86	\$ 44.52	\$ 42.78	\$ 40.28
EV/EBITA	10.29	\$ 26.66	\$ 29.15	\$ 32.55	\$ 31.81	\$ 38.02	\$ 37.19	\$ 35.64
EV/EBIT	18.46	\$ 27.55	\$ 33.20	\$ 35.44	\$ 33.57	\$ 44.09	\$ 42.20	\$ 39.36
EV/REV	3.43	\$ 39.83	\$ 26.32	\$ 29.70	\$ 28.93	\$ 28.13	\$ 27.16	\$ 25.48
Average		\$ 31.38	\$ 31.64	\$ 33.67	\$ 32.29	\$ 38.69	\$ 37.33	\$ 35.19

Appendix B6—Monte Carlo Simulation

Monte Carlo simulation was used for the following models: DDM, MSDM, and FCFE. We wanted to assess how the stock price would be affected by uncertainty.

Simulation statistics table	
Trials	1000
Target Price DDM	\$31.85
Target Price MSDM	\$38.25
Target Price FCE	\$35.35
Mean all models	36.55
Median all models	35.40
75th percentile all models	48.25%
% Bear Scenario, < 35	28.54%
% Bull Scenario, > 39	23.20%

DDM		Multi stage DDM		FCF Equity	
Mean	33.42	Mean	39.11	Mean	37.14
Median	31.87	Median	37.77	Median	36.17
StDeviation	8.01	StDeviation	8.56	StDeviation	17.86

Results: We observe that 23.20% of all outcomes yield a share price more than 36.66 and 28.54% below the average. Furthermore, we observe that 48.25% falls between our bull and bear case supporting our HOLD recommendation.

Appendix C1—Balance Sheet

Year Ended December 31 <i>(in millions)</i>	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E	2027E
ASSETS									
CURRENT ASSETS									
Accounts receivable	\$ 154	\$ 156	\$ 162	\$ 346	\$ 549	\$ 554	\$ 560	\$ 568	\$ 575
Accrued unbilled revenues	\$ 65	\$ 68	\$ 65	\$ 59	\$ 59	\$ 60	\$ 60	\$ 61	\$ 62
Advances to parent	\$ 305	\$ 272	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fuel inventories	\$ 46	\$ 37	\$ 41	\$ 37	\$ 37	\$ 37	\$ 38	\$ 38	\$ 39
Materials and supplies, at average cost	\$ 91	\$ 116	\$ 118	\$ 106	\$ 107	\$ 108	\$ 109	\$ 111	\$ 112
Fuel clause under recoveries	\$ 40	—	\$ 152	\$ 137	\$ 138	\$ 140	\$ 141	\$ 143	\$ 145
Other & Cash & Cash Equivalents	\$ 20	\$ 37	\$ 68	\$ 1,154	\$ 116	\$ 126	\$ 273	\$ 290	\$ 301
Total current assets	\$ 719	\$ 686	\$ 605	\$ 1,839	\$ 1,006	\$ 1,025	\$ 1,181	\$ 1,423	\$ 1,772
Other Property & Investments	\$ 5	\$ 4	\$ 4	\$ 4	\$ 4	\$ 4	\$ 5	\$ 5	\$ 5
Property, Plant, & Equipment									
In service	\$ 12,765	\$ 13,291	\$ 13,894	\$ 14,844	\$ 15,794	\$ 16,744	\$ 17,694	\$ 18,644	\$ 19,594
Construction work in progress	\$ 142	\$ 146	\$ 252	\$ 262	\$ 273	\$ 283	\$ 295	\$ 307	\$ 319
Total property, plant and equipment	\$ 12,907	\$ 13,436	\$ 14,146	\$ 15,106	\$ 16,066	\$ 17,027	\$ 17,989	\$ 18,950	\$ 19,913
Less: accumulated depreciation	\$ 3,868	\$ 4,068	\$ 4,319	\$ 4,586	\$ 4,869	\$ 5,170	\$ 5,489	\$ 5,828	\$ 6,188
Net property, plant and equipment	\$ 9,039	\$ 9,369	\$ 9,827	\$ 10,520	\$ 11,197	\$ 11,857	\$ 12,499	\$ 13,122	\$ 13,724
Deferred charges & other assets									
Regulatory assets	\$ 306	\$ 416	\$ 1,231	\$ 1,280	\$ 1,331	\$ 1,384	\$ 1,440	\$ 1,497	\$ 1,557
Other	\$ 8	\$ 15	\$ 21	\$ 22	\$ 23	\$ 24	\$ 25	\$ 26	\$ 27
Total deferred charges and other assets	\$ 314	\$ 431	\$ 1,252	\$ 1,302	\$ 1,354	\$ 1,409	\$ 1,465	\$ 1,523	\$ 1,584
TOTAL ASSETS	\$ 10,077	\$ 10,489	\$ 11,688	\$ 13,665	\$ 13,562	\$ 14,295	\$ 15,150	\$ 16,073	\$ 17,085

Year Ended December 31 <i>(in millions)</i>	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E	2027E
LIABILITIES AND STOCKHOLDER'S EQUITY									
CURRENT LIABILITIES									
Accounts payable	\$ 175	\$ 237	\$ 241	\$ 731	\$ 400	\$ 408	\$ 470	\$ 566	\$ 705
Advances from parent	-	-	\$ 101	\$ 48	\$ -	\$ -	\$ -	\$ -	\$ -
Customer deposits	\$ 83	\$ 81	\$ 81	\$ 73	\$ 74	\$ 75	\$ 75	\$ 76	\$ 77
Accrued taxes	\$ 42	\$ 53	\$ 51	\$ 46	\$ 46	\$ 47	\$ 47	\$ 48	\$ 48
Accrued interest	\$ 38	\$ 40	\$ 40	\$ 36	\$ 37	\$ 37	\$ 37	\$ 38	\$ 38
Accrued compensation	\$ 30	\$ 23	\$ 28	\$ 25	\$ 25	\$ 26	\$ 26	\$ 26	\$ 26
Fuel clause over recoveries	\$ 5	\$ 29	-	-	-	-	-	-	-
Other	\$ 65	\$ 34	\$ 34	\$ 1,585	\$ 520	\$ 313	\$ 114	\$ -	\$ -
Total current liabilities	\$ 437	\$ 496	\$ 576	\$ 1,585	\$ 520	\$ 313	\$ 114	\$ -	\$ -
LONG-TERM DEBT	\$ 3,195	\$ 3,494	\$ 3,997	\$ 4,471	\$ 4,946	\$ 5,421	\$ 5,896	\$ 6,371	\$ 6,846
Accrued benefit obligations	\$ 133	\$ 135	\$ 75	\$ 78	\$ 80	\$ 83	\$ 86	\$ 89	\$ 92
Deferred income taxes	\$ 951	\$ 1,021	\$ 1,000	\$ 1,035	\$ 1,072	\$ 1,109	\$ 1,148	\$ 1,188	\$ 1,230
Deferred investment tax credits	\$ 7	\$ 11	\$ 13	\$ 13	\$ 14	\$ 14	\$ 15	\$ 15	\$ 16
Regulatory liabilities	\$ 1,224	\$ 1,189	\$ 1,231	\$ 1,274	\$ 1,319	\$ 1,365	\$ 1,413	\$ 1,462	\$ 1,513
Other	\$ 171	\$ 167	\$ 194	\$ 200	\$ 207	\$ 215	\$ 222	\$ 230	\$ 238
Total deferred credits and other liabilities	\$ 2,486	\$ 2,523	\$ 2,513	\$ 2,601	\$ 2,692	\$ 2,786	\$ 2,884	\$ 2,985	\$ 3,089
Total liabilities	\$ 6,118	\$ 6,513	\$ 7,085	\$ 8,657	\$ 8,158	\$ 8,521	\$ 8,894	\$ 9,356	\$ 9,935
STOCKHOLDER'S EQUITY									
Common stockholder's equity	\$ 1,037	\$ 1,040	\$ 1,572	\$ 1,809	\$ 2,047	\$ 2,284	\$ 2,522	\$ 2,759	\$ 2,997
Retained earnings	\$ 2,922	\$ 2,936	\$ 3,031	\$ 3,199	\$ 3,357	\$ 3,490	\$ 3,734	\$ 3,958	\$ 4,153
Total stockholder's equity	\$ 3,958	\$ 3,976	\$ 4,603	\$ 5,008	\$ 5,404	\$ 5,775	\$ 6,256	\$ 6,717	\$ 7,150
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	\$ 10,076.60	\$ 10,489.00	11,688.00	13,665.27	13,561.88	14,295.32	15,149.73	16,073.06	17,085.35




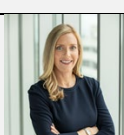
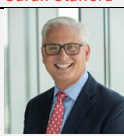
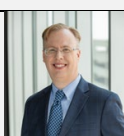
Appendix C2—Income Statement

Year Ended December 31 (in millions)	2016A	2017A	2018A	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E	2027E
Operating revenues	\$ 2,259	\$ 2,261	\$ 2,270	\$ 2,232	\$ 2,122	\$ 3,654	\$ 3,299	\$ 3,324	\$ 3,357	\$ 3,391	\$ 3,440	\$ 3,480
Cost of sales	\$ 880	\$ 898	\$ 893	\$ 787	\$ 645	\$ 2,128	\$ 1,484	\$ 1,496	\$ 1,511	\$ 1,356	\$ 1,376	\$ 1,392
Other operation and maintenance	\$ 451	\$ 470	\$ 474	\$ 493	\$ 464	\$ 465	\$ 528	\$ 532	\$ 537	\$ 543	\$ 550	\$ 557
Depreciation and amortization	\$ 316	\$ 281	\$ 322	\$ 355	\$ 391	\$ 416	\$ 467	\$ 483	\$ 501	\$ 519	\$ 539	\$ 560
Taxes other than income	\$ 84	\$ 85	\$ 88	\$ 90	\$ 97	\$ 99	\$ 132	\$ 133	\$ 134	\$ 170	\$ 172	\$ 174
Operating income	\$ 528	\$ 528	\$ 494	\$ 508	\$ 525	\$ 546	\$ 688	\$ 680	\$ 674	\$ 803	\$ 802	\$ 797
Allowance for equity funds used during construction	\$ 14	\$ 40	\$ 24	\$ 5	\$ 5	\$ 7	\$ 16	\$ 17	\$ 17	\$ 17	\$ 17	\$ 17
Other net periodic benefit expense	\$ 19	\$ 16	\$ 9	\$ 1	\$ 3	\$ 4	\$ 8	\$ 8	\$ 8	\$ 8	\$ 9	\$ 9
Other income	\$ 16	\$ 37	\$ 14	\$ 7	\$ 5	\$ 7	\$ 7	\$ 8	\$ 8	\$ 8	\$ 8	\$ 7
Other expense	\$ 3	\$ 2	\$ 3	\$ 7	\$ 3	\$ 2	\$ 2	\$ 2	\$ 2	\$ 2	\$ 2	\$ 5
Interest expense	\$ 138	\$ 138	\$ 152	\$ 141	\$ 155	\$ 152	\$ 170	\$ 188	\$ 206	\$ 224	\$ 242	\$ 260
Income tax expense	\$ 114	\$ 142	\$ 40	\$ 20	\$ 35	\$ 42	\$ 65	\$ 50	\$ 50	\$ 51	\$ 52	\$ 52
Net income	\$ 284	\$ 306	\$ 328	\$ 350	\$ 339	\$ 360	\$ 433	\$ 423	\$ 398	\$ 509	\$ 489	\$ 460

Appendix C3—Statement of Cash Flows

Year Ended December 31 (In millions)	2018A	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E	2027E
CASH FLOWS FROM OPERATING ACTIVITIES										
Net income	\$ 328	\$ 350	\$ 339	\$ 360	\$ 433	\$ 423	\$ 398	\$ 509	\$ 489	\$ 460
Depreciation and amortization	\$ 322	\$ 355	\$ 391	\$ 416	\$ 467	\$ 483	\$ 501	\$ 519	\$ 539	\$ 560
Other	\$ 154	\$ (131)	\$ (90)	\$ (1,135)	\$ (148)	\$ (125)	\$ (108)	\$ (90)	\$ (72)	\$ (54)
Net cash provided from operating activities	\$ 804	\$ 574	\$ 640	\$ (359)	\$ 752	\$ 781	\$ 791	\$ 938	\$ 956	\$ 966
CASH FLOWS FROM INVESTING ACTIVITIES										
Capital expenditures	\$ (574)	\$ (636)	\$ (651)	\$ (779)	\$ (950)	\$ (950)	\$ (950)	\$ (950)	\$ (950)	\$ (950)
Proceeds from sale of assets	\$ 0	—	—	—	\$ 1,067	—	—	—	—	—
Net cash used in investing activities	\$ (574)	\$ (636)	\$ (651)	\$ (779)	\$ 117	\$ (950)	\$ (950)	\$ (950)	\$ (950)	\$ (950)
CASH FLOWS FROM FINANCING ACTIVITIES										
Capital contribution from OGE Energy	—	—	—	\$ 530	—	—	—	—	—	—
Proceeds from long-term debt	\$ 396	\$ 297	\$ 297	\$ 500	\$ 475	\$ 1,482	\$ 490	\$ 671	\$ 492	\$ 1,223
Payment of long-term debt	\$ (250)	\$ (250)	\$ (0)	\$ (0)	\$ (0)	\$ (1,007)	\$ (15)	\$ (196)	\$ (17)	\$ (748)
Dividends paid on common stock	\$ (185)	—	\$ (325)	\$ (265)	\$ (265)	\$ (265)	\$ (265)	\$ (265)	\$ (265)	\$ (265)
Changes in advances with parent	\$ (191)	\$ 15	\$ 38	\$ 373	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net cash provided from (used in) financing activities	\$ (231)	\$ 62	\$ 10	\$ 1,137	\$ 210	\$ 210	\$ 210	\$ 210	\$ 210	\$ 210

Appendix D1—Executive Leadership

<i>Name</i>	<i>Position</i>	<i>Appointed</i>	<i>Education</i>	<i>Work Experience</i>	<i>Share Hold</i>
 Sean Trauschke	Chairman, President a Chief Executive Officer	2015	-BS Mechanical Engineering -MBA		419,070
 W. Bryan Buckler	Chief Financial Officer	2021	-BBA, Accounting	Senior Manager EY - Finance Director Duke Energy - VP of Investor Relations Duke Energy Corp	n/a
 Cristina Fernandez McQuiston	Vice President, Corporate Responsibility and Stewardship	2020	-BA, History -MBA	- Manager at Boston Consulting Group - VP Customer Service at eToys - EVP Member Services & General Manager Point of Sale Systems Teleflora	25,552 31
 Sarah Stafford	Controller and Chief Accounting Officer	2018	-MS, Accounting	-Manager and Senior Manager role of Assurance at Ernst & Young LLP	17,886
 William Sultemeier	General Counsel, Corporate Secretary and Chief Compliance Officer	2017	-BS, Business Management -MBA -Juris Doctor	- Shareholder/Partner at Greenberg Traurig, LLP - Counsel of Skadden, Arps, State, Meagher & Flom LLP and Affiliates	44,238
 Charles Walworth	Treasurer	2014	-BS, Meteorology -MBA Finance	- Energy Trading Analyst OGE	26,158

Appendix D2—Board of Directors

<i>Name</i>	<i>Position</i>	<i>Appointed</i>	<i>Education</i>	<i>Work Experience</i>	<i>Shares Held</i>
Sean Trauschke	Chairman, President a Chief Executive Officer		-BS Mechanical Engineering -MBA		
Cathy Gates	Compensation, nominating, corporate governance and stewardship committee	2022	-MS Accounting	Retail/consumer products, transportation, manufacturing, and contract drilling industries	
David L. Hauser		2009		Chairman and Chief Executive Officer of FairPoint - Communications, Inc executive and chief financial officer and Vice President and treasurer at Dule Energy	
Luther (Luke) C. Kissam, IV	Compensation, nominating, corporate governance and stewardship committee	2020		Partner with Bernhard Capital Partners, a service and infrastructure focused private equity firm	
Judy R. McReynolds		2011	-BBA Accounting	Chairman, President, and Chief Executive Officer of ArcBest Corporation, headquartered in Fort Smith, Ark	

David E. Rainbolt	Audit Committee	2018	-BS, Meteorology -MBA Finance	Executive Chairman of BancFirst Corporation	
J. Michael Sanner	Audit & corporate governance committee	2017		Audit partner of the Ernst & Young LLP accounting firm. 37 years of experience providing assurance service	
Sheila G. Talton		2013			
Frank A. Bozich	Audit Committee	2015			

Appendix D3—OG&E Company Leadership

Name	Position	Appointed	Education	Work Experience
 Scott Briggs	Vice President, Human Resources	2020	- BBA - Law	- Attorney, Chief Operating Officer/Legal Director
 Robert Burch	Vice President, Utility Technical Services	2020	- BS	- Director of engineering at Duke Energy
 Andrea Dennis	Vice President, Transmission and Distribution Operations		-BS Engineering Management -MS Engineering and Global Operations Management	Engineer at Xerox Corporation
 Keith Erickson	Vice President, Utility Operations	2022	-BS -MBA	Director Utility Customer Operations
 Donnie Jones	Vice President, Public and Regulatory Affairs	2020	-BS Business	-Plant Manager & Director National Accounts
 Ken Miller	Vice President, Technology, Data and Security	2019	-BS Economics & Finance -MBA -PHD Economics	-Economics Professor, Oklahoma State Treasurer, State Representative
 David Parker	Vice President, Technology, Data and Security	2020	-BS Accounting -MBA	Auditor
 Matthew Schuermann	Vice President, Power Supply Operations		-BS Mechanical Engineering -MBA	
 Johnny Whitfield	Vice President, Business Intelligence and Supply Chain	2023	-BS Electrical Engineering -MBA	-Process Engineer, Maintenance Engineer at General Motors - Continuous Improvement Manager at Berry Plastics
 Christine O. Woodworth	Vice President, Marketing and Communications	2021	-BS -MBA	

Appendix D4—Holdings Summary

Total Insiders	60
Total Direct Shares	1,926,348
Total Indirect Shares	317,343
% Held By Insiders	0.96%

