

OGE ENERGY CORP.  
Form 11-K  
June 25, 2012

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

FORM 11-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2011

OR

TRANSITION REPORT PURSUANT TO SECTION 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 1-12579

OGE ENERGY CORP.  
EMPLOYEES' STOCK OWNERSHIP AND  
RETIREMENT SAVINGS PLAN

(Full title of the Plan)

OGE ENERGY CORP.  
321 North Harvey  
P.O. Box 321  
Oklahoma City, Oklahoma 73101-0321

(Name of issuer of the securities held pursuant to the Plan and the address  
of its principal executive office)



OGE ENERGY CORP.  
EMPLOYEES' STOCK OWNERSHIP AND  
RETIREMENT SAVINGS PLAN

FORM 11-K

FOR THE YEAR ENDED DECEMBER 31, 2011

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the OGE Energy Corp.  
Benefits Committee:

We have audited the accompanying statements of net assets available for benefits of the OGE Energy Corp. Employees' Stock Ownership and Retirement Savings Plan as of December 31, 2011 and 2010, and the related statement of changes in net assets available for benefits for the year ended December 31, 2011. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Plan's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan at December 31, 2011 and 2010, and the changes in its net assets available for benefits for the year ended December 31, 2011, in conformity with U.S. generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental schedule of assets (held at end of year) as of December 31, 2011, is presented for purposes of additional analysis and is not a required part of the financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. Such information is the responsibility of the Plan's management. The information has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

/s/ Ernst & Young LLP

Oklahoma City, Oklahoma  
June 25, 2012

OGE ENERGY CORP.  
EMPLOYEES' STOCK OWNERSHIP AND RETIREMENT SAVINGS PLAN

## STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

DECEMBER 31, 2011 AND 2010

	2011	2010
Investments (at fair value)		
Common stock	\$271,412,370	\$234,509,287
Mutual funds	216,209,892	211,633,634
Common/collective trusts	52,767,790	40,861,332
Interest-bearing cash	4,360,700	4,158,250
U.S. Government obligations	76,270	72,383
Bonds, debentures and notes	49,335	14,817
Preferred stocks	46,037	40,538
Investments	544,922,394	491,290,241
Notes receivable from participants	14,553,306	13,116,310
Employee contributions receivable	560,337	—
Employer contributions receivable	187,842	—
Adjustment from fair value to contract value for fully benefit-responsive investment contracts held in common/collective trusts	(1,282,081	)(348,710 )
Net assets available for benefits	\$558,941,798	\$504,057,841

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

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## OGE ENERGY CORP.

## EMPLOYEES' STOCK OWNERSHIP AND RETIREMENT SAVINGS PLAN

## STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

FOR THE YEAR ENDED DECEMBER 31, 2011

## ADDITIONS

## Contributions

Participants	\$21,824,561
Company	12,311,804
Rollovers	1,980,080

## Realized gains on investments

Common stock	6,279,277
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## Unrealized appreciation in fair value of investments

Common stock	48,005,226
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## Interest and dividend income

Mutual funds	5,738,092
Common stock	5,041,421
Common/collective trusts	628,836
Interest on notes receivable from participants	599,533
Interest-bearing cash	3,850
Other	3,024

Total additions	102,415,704
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## DEDUCTIONS

## Distributions to participants

	36,517,229
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## Administrative expenses

134,597

## Realized losses on investments

Mutual funds	2,487,545
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## Unrealized depreciation in fair value of investments

Mutual funds	8,392,376
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Total deductions	47,531,747
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## NET INCREASE IN NET ASSETS AVAILABLE FOR BENEFITS

54,883,957

## NET ASSETS AVAILABLE FOR BENEFITS

Beginning of year	504,057,841
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End of year	\$558,941,798
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The accompanying Notes to Financial Statements are an integral part hereof.





OGE ENERGY CORP.  
EMPLOYEES' STOCK OWNERSHIP AND RETIREMENT SAVINGS PLAN  
NOTES TO FINANCIAL STATEMENTS

1. Plan Description

The OGE Energy Corp. Employees' Stock Ownership and Retirement Savings Plan ("Plan"), originally the Oklahoma Gas and Electric Company Employees' Thrift Plan, was adopted in 1981 and became effective January 1, 1982. By action of OGE Energy Corp.'s Board of Directors taken on July 15, 1998, the Oklahoma Gas and Electric Company Employees' Stock Ownership Plan ("ESOP") and participants' ESOP accounts thereunder were merged into the Plan effective October 1, 1998. The Plan is a defined contribution trusteed plan. Fidelity Management Trust Company ("Fidelity") serves as the Trustee of the Plan and is responsible for the safekeeping and investment of all contributions made to the trust in accordance with the Trust agreement between OGE Energy Corp. ("Company") and the Trustee. The following description of the Plan provides only general information of the Plan's provisions. Participants should refer to the Plan document for a more complete description of the Plan's provisions.

General

Participation in the Plan is voluntary. The Plan is administered by a committee ("Benefits Committee") appointed by the Company's Benefits Oversight Committee. The Benefits Oversight Committee consists of at least two members appointed by the Company's Board of Directors. The Benefits Committee is responsible for the general administration of the Plan including, among other things, appointing the Plan administrator, establishing Plan procedures and governmental reporting and disclosures for the Plan. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended ("ERISA").

Eligibility

Each regular full-time employee of the Company or a participating affiliate is eligible to participate in the Plan immediately. All other employees of the Company or a participating affiliate are eligible to become participants in the Plan after completing one year of service, as defined in the Plan. The following individuals are not eligible to participate in the Plan: leased employees, individuals classified by the employer as independent contractors and employees covered by a collective bargaining agreement that does not provide for their participation in the Plan.

Participant Contributions

Each pay period participants may contribute any whole percentage between two percent and 19 percent of their compensation, as defined in the Plan, for that pay period. Participants may change contribution percentages in advance of any pay period. Contributions of the first six percent of compensation (or, in certain cases beginning on or after January 1, 2010, the first five percent of compensation where the Company only matches contributions not in excess of five percent of compensation) are defined in the Plan as "Regular Contributions" and any contributions in excess of Regular Contributions are defined in the Plan as "Supplemental Contributions." Participants may designate, at their discretion, all or any portion of their Regular and Supplemental Contributions to the Plan as: (i) a salary reduction contribution under Section 401(k) of the Internal Revenue Code ("Code") subject to the limitations thereof; or (ii) a contribution made on an after-tax basis. The portion of the participant's contribution that is designated as a salary reduction contribution is defined in the Plan as a "Tax-Deferred Contribution" and is not subject to Federal income tax until such portion is withdrawn or distributed from the Plan.

Participants who have attained age 50 before the close of a calendar year are allowed to make additional contributions, defined in the Plan as "Catch-Up Contributions," for the year in accordance with and subject to the limitations of Section 414(v) of the Code. Similar to Tax-Deferred Contributions, Catch-Up Contributions are salary reduction contributions under Section 401(k) of the Code and are not subject to Federal income tax until such contributions are withdrawn or distributed from the Plan.

Participants can direct that their contributions be invested in multiples of one percent in any one or all of the investment options available, including the OGE Energy Corp. Common Stock Fund which invests exclusively in the Company's common stock except for a portion invested in short-term investments for liquidity purposes to accommodate daily cash flow needs. Participants may change investment allocations of contributions on any business

day. A managed account option is offered under the Plan which provides participants an option, for a fee, to have funds in their account invested by an investment manager among the investment options available under the Plan (excluding the OGE Energy Corp. Common Stock Fund). Under the managed account option, the amounts invested by an investment manager exclude amounts participants elect to be retained in the OGE Energy Corp. Common Stock Fund. The investment manager appointed for this purpose is Strategic Advisers, Inc., an affiliate of the Trustee. Another option available to participants is Fidelity Brokerage Link, which is a self-directed brokerage option that allows an electing participant to invest in individual stocks and bonds as well as mutual funds beyond the current Plan investment

options. A participant's self-directed brokerage account is adjusted solely to reflect dividends, earnings, losses, gains and expenses and changes attributable to their self-directed brokerage account. Any investments held in a participant's self-directed brokerage account for which the participant does not provide investment direction will be invested in the Fidelity Freedom K® Income Fund until the participant makes a proper direction.

Effective November 1, 2010, in conjunction with the sale of a portion of Enogex Holdings LLC ("Enogex Holdings") to ArcLight Energy Partners Fund IV, L.P., the Plan was amended to create new sub-accounts, including a Pre-Transaction Sub-account and "Post-Transaction Sub-account", for participants who were employees of Enogex Holdings and its subsidiaries. Post-Transaction Sub-accounts contain only contributions (and earnings thereon) made while a participant is an employee of Enogex Holdings or any of its subsidiaries. Due to certain restrictions applicable to employee stock ownership plans, these participants are not allowed to invest any portion of their Post-Transaction Sub-accounts in the OGE Energy Corp. Common Stock Fund. On December 28, 2010, the Company, OGE Enogex Holdings LLC ("OGE Holdings") and Enogex Holdings entered into a Seconding Agreement whereby on January 1, 2011 all of the employees of Enogex Holdings and its subsidiaries were transferred to OGE Holdings. During the term of the Seconding Agreement, these employees will continue to perform services for Enogex Holdings and its subsidiaries. They will also be able to invest their accounts in the OGE Energy Corp. Common Stock Fund, to the extent such accounts consist of contributions made to the Plan during their employment by OGE Holdings.

Eligible employees who do not affirmatively elect to either participate or not participate in the Plan are automatically enrolled in the Plan to contribute three percent of their compensation per pay period as a Tax-Deferred Contribution, which enrollment is effective as of the 30th day following the date the eligible employee satisfies the eligibility requirements of the Plan. In the absence of an investment election, the participant's Tax-Deferred Contributions will be invested in the applicable Fidelity Freedom K® Fund based upon the participant's date of birth. If an eligible employee ceases to be an eligible employee by reason of termination of employment or otherwise, the automatic enrollment will not apply to such eligible employee on any subsequent re-employment with the Company or on otherwise again becoming an eligible employee.

A participant may elect, in accordance with the Plan's procedures, to have his or her rate of Tax-Deferred Contributions to be made in the future automatically increased annually on a date and in an amount as specified by the participant in such election, which amount will be one percent, two percent or three percent of his or her compensation per pay period. Such election will remain in effect until cancelled by the participant in accordance with the Plan's procedures.

The Plan also allows rollovers from other eligible retirement plans, defined in the Plan as "Rollover Contributions." Participants may invest their Rollover Contributions into the OGE Energy Corp. Common Stock Fund or any of the other investment options available under the Plan. Amounts rolled over cannot be withdrawn during employment.

#### Employer Contributions

The Plan was amended to provide that, on and after January 1, 2010, for any employee whose employment or re-employment date occurs on or after December 1, 2009, the Company will contribute 200 percent of the participant's Regular Contributions, up to five percent of compensation. For employees whose employment or re-employment date occurred before December 1, 2009, the Company will contribute, depending on certain elections made by the employees with respect to their participation in the Company's qualified defined benefit retirement plan ("Pension Plan"), the amounts described below.

For participants whose employment or re-employment date occurred before February 1, 2000 and who elected to continue to earn additional benefits under the Pension Plan, the Company contributes to the Plan each pay period an amount equal to 50 percent of the participant's Regular Contributions up to six percent of compensation if the participant has less than 20 years of service, as defined in the Plan, and an amount equal to 75 percent of the participant's Regular Contributions up to six percent of compensation if the participant has 20 or more years of service, as defined in the Plan. If such participants elected to freeze their accruals under the Pension Plan, depending on the freeze options they elected, the Company contributes either 100 percent of the participant's Regular Contributions up to six percent of compensation or 200 percent of the participant's Regular Contributions up to five percent of compensation.

For participants whose employment or re-employment date occurred on or after February 1, 2000 and before December 1, 2009, the Company contributes 100 percent of the participant's Regular Contributions up to six percent of compensation if the participant elected to participate in the Pension Plan, or 200 percent of the participant's Regular Contributions up to five percent of compensation if the participant elected not to participate in the Pension Plan. For purposes of the Company's contributions, "compensation" does not include overtime payments, pay-in-lieu of overtime for exempt personnel, special lump-sum recognition awards and lump-sum merit awards included in compensation for determining the amount of participant contributions. The Company's contributions may be directed to any available investment option in the Plan. In the absence of an investment election, the participant's Company matching contributions will be invested in the OGE

Energy Corp. Common Stock Fund. During 2011, there were no non-cash Company contributions made to the Plan.

**Vesting**  
Participants' Regular Contributions, Supplemental Contributions, Rollover Contributions and Catch-Up Contributions are fully vested and non-forfeitable, as are participants' ESOP contribution accounts. Employees participating in the Plan vest in their allocated share of Company contributions over a three-year period. Participants become 20 percent vested in their Company contribution account after two years of service and become fully vested after three years of service. In addition, participants fully vest when they are eligible for normal or early retirement under the Company's Pension Plan, in the event of their termination due to death or permanent disability, or upon attainment of age 65 while employed by the Company or its affiliates. Participants who die while performing qualified military service will be treated as if they had resumed and then terminated employment on account of death. Under the Company's Pension Plan, participants are eligible for normal retirement when they retire on or after their normal retirement date at age 65. Under the Company's Pension Plan, participants are eligible for early retirement when they retire prior to their normal retirement date and on or after age 55 with at least five years of vesting service, as defined in the Company's Pension Plan.

Forfeitures of non-vested Company contributions are used to reduce the Company's contributions. During 2011, there were no material forfeitures of non-vested Company contributions. At December 31, 2011 and 2010, there were no material forfeited and unallocated assets. Forfeitures are reinstated if the participant is re-employed by the Company or an affiliate thereof within five years of the date of termination.

#### Withdrawals

During employment, participants may not withdraw Tax-Deferred Contributions or Catch-Up Contributions and income earned thereon until attainment of age 59½, except in the event of financial hardship where a participant may withdraw the participant's Tax-Deferred Contributions and Catch-Up Contributions exclusive of earnings after 1988 and except in the event of a "permissible withdrawal" as described below. Withdrawals are made in cash. Participants can generally make one withdrawal per calendar year for no less than either \$300 or 100 percent of the participant's after-tax contribution account, whichever is less. Subject to the foregoing, a withdrawal can be comprised of after-tax contributions, vested Company contributions, Catch-Up Contributions and Tax-Deferred Contributions and any income earned thereon. Hardship withdrawals must be approved by the Benefits Committee. As of the last business day of any quarter, participants may also withdraw in cash or in Company common stock all amounts allocated to their ESOP accounts.

Eligible employees who are automatically enrolled in the Plan may no later than 90 days after the first Tax-Deferred Contribution is deducted from their compensation elect to make a "permissible withdrawal" from the Plan of all of his or her Tax-Deferred Contributions (and any earnings (or losses) attributable thereto). Any Company matching contributions (as adjusted for earnings (or losses) attributable thereto) that are attributable to amounts distributed to a participant by reason of a permissible withdrawal will be forfeited and be considered a forfeiture as of the date the distribution is made. Also, the participant's automatic enrollment agreement will terminate upon electing to make a permissible withdrawal and no further Tax-Deferred Contributions will be made on the participant's behalf unless and until the participant makes an election to resume making Tax-Deferred Contributions.

#### Distributions

Participants may request distribution of their vested accounts upon termination of employment with the Company and its affiliates for any reason. If a participant's vested account balance is less than or equal to \$1,000, it will automatically be distributed in a lump-sum payment to the participant as soon as administratively possible following termination. If a participant's vested account balance is greater than \$1,000, it may be distributed in a lump-sum payment, installment payments or a combination thereof at the participant's election, and participants who are under age 70½ at termination may defer commencement of their distributions to not later than April 1 of the year after the year in which they reach age 70½.

All distributions are made in cash or in kind as the participant elects. All amounts invested in the OGE Energy Corp. Common Stock Fund, whether purchased with participant or Company contributions, may be paid in cash, in full shares of the Company's common stock with fractional shares being paid in cash or a combination thereof at the participant's election. The Plan implements a dividend pass-through program in which all dividends allocable to shares

of the Company common stock in participants' accounts are automatically paid in cash to participants based on the number of shares allocated to their accounts as of the ex-dividend date for such dividend unless otherwise requested. Any dividends not distributed in cash are used to purchase additional shares of the Company's common stock, which are allocated to the respective participants' accounts in the form of additional units which are fully vested regardless of the participants' years of service. Participants or spouse beneficiaries receiving distributions or withdrawals which are eligible rollover distributions, as defined in the Plan, may elect to make rollovers to an eligible retirement plan provided that such eligible retirement plan accepts direct rollovers. The Plan also allows a non-spouse

beneficiary to directly rollover an eligible rollover distribution to an eligible individual retirement account.

#### Notes Receivable from Participants (Participant Loans)

The maximum amount that a participant may borrow is the lesser of either \$50,000 or 50 percent of the participant's vested account balance. No amounts may be borrowed from a participant's ESOP account. A participant may have no more than two loans outstanding at one time. The loans are secured by the participant's vested account balance. All loans granted must be repaid pursuant to a written repayment schedule not to exceed five years and evidenced by a written promissory note signed by the borrower. Borrowed amounts do not share in the earnings and losses of the investment funds. Rather, interest payments on the loan are credited to the participant's account in the Plan. If a participant should terminate employment, the participant may repay the entire loan amount at that time or, if distribution is deferred, may elect to continue repayments by check. If a participant defaults in the payment of principal or interest under the terms of the loan at the time the participant is entitled to a distribution, the participant's account will be offset by the outstanding loan amount. Loans made to participants will be liquidated from a participant's account in accordance with rules established by the Benefits Committee.

The interest rate for loans, as established by the Benefits Committee, is equal to the "prime rate," as published in the Wall Street Journal on the first business day of the month on or next preceding the date the loan is made, plus one percent. The interest rate was 4.25 percent for loans initiated during 2011. Interest incurred on loans during 2011 was \$599,533.

#### Administrative Expenses

Certain expenses of administering the Plan are expected to be paid by the participants. Participants obtaining a loan are charged \$35.00 to initiate the loan and \$15.00 annually for maintenance. Investment management fees for participants electing to participate in the managed account option are also paid by electing participants. All fees, commissions, charges and penalties incurred by a participant in connection with investments made through Fidelity Brokerage Link are paid from the electing participant's account. All other administrative expenses of the Plan, including legal, accounting and trustee fees, are paid by the Plan except to the extent paid by the Company. Investment fees are generally assessed by an investment option and are deducted from the option's investment returns. Any transaction-based fees charged by an investment option will be charged directly by the investment option to applicable participant accounts.

#### Plan Termination

The Company intends to continue the Plan indefinitely, but reserves the right to alter, amend, modify, revoke or terminate the Plan at any time upon the direction of the Company's Board of Directors or the Company's Benefits Oversight Committee, as provided in the Plan. If the Plan is terminated for any reason, the interests of all affected participants will be fully vested and the Benefits Committee will direct that the participants' account balances be distributed as provided in the Plan. The Company has no continuing liability under the Plan after the final disposition of the assets of the Plan.

## 2. Summary of Significant Accounting Policies

#### Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles ("GAAP"). Distributions to participants are recorded when paid.

#### New Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board ("FASB") issued "Fair Value Measurements and Disclosures: Improving Disclosures about Fair Value Measurements," which required new disclosures and clarified existing disclosure requirements about fair value measurement as set forth in previously issued accounting guidance in this area. The Plan adopted the relevant provisions of this new standard effective January 1, 2010 and included the required disclosures beginning in the Plan's Form 11-K for the year ended December 31, 2010. The new standard also required additional disclosures related to presenting separate information about purchases, sales, issuances and settlements (on a gross basis) in the reconciliation for fair value measurements using significant unobservable inputs (Level 3). These additional disclosures were effective for interim and annual reporting periods beginning after December 15, 2010. The Plan adopted these additional provisions effective January 1, 2011. The adoption of this new

standard did not impact the Plan's financial statements as the Plan currently has no level 3 investments.

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In May 2011, the FASB issued "Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs," which reconciled differences between U.S. GAAP and International Financial Reporting Standards and clarified existing disclosure requirements about fair value measurement as set forth in previously issued accounting guidance in this area. The new standard requires additional disclosures relating to the valuation processes used by the Plan related to its fair value measurements using significant unobservable inputs (Level 3) as well as the sensitivity of the fair value measurement to the changes in unobservable inputs. The new standard is effective for interim and annual reporting periods beginning after December 15, 2011, and should be applied prospectively. Early adoption of this new standard was not permitted. The Plan adopted this new standard effective January 1, 2012. The Plan currently has no Level 3 investments.

In December 2011, the FASB issued "Balance Sheet: Disclosures about Offsetting Assets and Liabilities." The new standard requires plans to disclose information about financial instruments and derivative instruments that are either offset on the statement of net assets available for benefits or are subject to a master netting arrangement, including providing both gross information and net information for recognized assets and liabilities, the net amounts presented on a plan's statement of net assets available for benefits and a description of the rights of setoff associated with these assets and liabilities. The new standard is applicable for all plans that have financial instruments and derivative instruments shown using a net presentation on a plan's statement of net assets available for benefits or are subject to a master netting arrangement. The new standard is effective for interim and annual reporting periods for fiscal years beginning on or after January 1, 2013 and should be applied retrospectively for all periods presented. The Plan intends to adopt this new standard effective January 1, 2013 and will provide any additional disclosures necessary to comply with the new standard.

#### Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements, accompanying notes and supplemental schedule. Actual results could differ from those estimates.

#### Investments

Common and preferred stocks are of U.S. and foreign companies and are valued at published market prices. Mutual funds are valued at published market prices, which represent the net asset value of shares held by the Plan at year-end. The common/collective trusts in which the Plan invests, the Fidelity Managed Income Portfolio and the Fidelity Managed Income Portfolio II ("MIP"), are valued by the trustee thereof at net asset value based on the fair values of the underlying investments of the trust using a variety of pricing sources. The MIP holds, among other investments, investments in fully benefit-responsive investment contracts. As required by the FASB, an adjustment from fair value to contract value to equal the sum of all benefits owed to participants in fully benefit-responsive investment contracts held in the common/collective trusts are presented in the Statements of Net Assets Available for Benefits. Contract value represents contributions made to such trusts, plus earnings, less participant withdrawals, administrative expenses and other charges or adjustments. Participant-directed redemptions in the MIP have no restrictions; however, the Plan is required to provide a 12-month redemption notice to liquidate its entire share in the MIP. The primary strategy of the MIP is to seek the preservation of capital as well as provide a competitive level of income over time consistent with the preservation of capital. Interest-bearing cash is in U.S. dollars. U.S. Government obligations are comprised of U.S. treasury notes and bonds and are valued using quoted prices in an active market. Bonds, debentures and notes are primarily comprised of U.S. corporate bonds with an investment grade rating of A1 by Moody's Investors Service and AA+ by Standard & Poor's Ratings Service. The Plan utilizes the market approach in determining the fair value of its bonds, debentures and notes using quoted market prices and estimates of current rates available for similar issues with similar maturities.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and that such

changes could materially affect participants' account balances and the amounts reported in the Statements of Net Assets Available for Benefits.

The Fidelity Managed Income Portfolio Fund was removed from the available investment options effective after the close of business on June 1, 2011. Any funds that were not reallocated as of the close of business on June 1, 2011 from the Fidelity Managed Income Portfolio Fund were automatically transferred to the Fidelity Managed Income Portfolio II Fund - Class 1.

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The Nominating and Corporate Governance Committee will consider director candidates suggested by shareholders by applying the criteria for candidates described above and considering the additional information referred to below. Shareholders who would like to suggest a candidate should write to the Company's Corporate Secretary and include:

- \* A statement that the writer is a shareholder and is proposing a candidate for consideration as a director nominee;
  
- \* The name of and contact information for the candidate;

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- \* A statement of the candidate's business and educational experience;
- \* Information regarding each of the factors listed above, sufficient to enable the committee to evaluate the candidate;
- \* A statement detailing any relationship between the candidate and the Company, Company affiliates and any competitor of the Company;
- \* Detailed information about any relationship or understanding between the proposing shareholder and the candidate;
- \* Information on the candidate's share ownership in the Company; and
- \* The candidate's written consent to being named a nominee and serving as a director, if elected.

When seeking a candidate for director, the Nominating and Corporate Governance Committee may solicit suggestions from incumbent directors, management or others. The committee may also retain a search firm to identify potential candidates.

The Nominating and Corporate Governance Committee has an ongoing program of identifying potential director candidates throughout the Company's service territories. As candidates are identified, their qualifications are reviewed in light of the selection criteria, as outlined above. Whether any of such candidates are selected depends upon the current director composition, the dynamics of the Board and the ongoing requirements of the Company.

Shareholders may also nominate a person for election to the Board at an annual meeting by giving written notice to the Company not less than 120 days prior to the first anniversary of the date of the proxy statement for the preceding year's annual meeting, or within 10 days after notice is mailed or public disclosure is made regarding either a change of the annual meeting by more than 30 days or a special meeting at which directors are to be elected. In order to make such a nomination, a shareholder is required to include in the written notice the following:

- \* As to each person whom the shareholder proposes to nominate for election or reelection as a director, all the information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required pursuant to Regulation 14A of the Exchange Act;
- \* Each person's written consent to being named a nominee and serving as a director, if elected;
- \* The name and address of the proposing shareholder or beneficial owner; and
- \* The class and number of shares of the Company's Common Stock held directly or indirectly by the proposing shareholder.

**Shareholder Nominees**

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There have been no director nominees submitted by shareholders for consideration for election at this year's Annual Meeting of Shareholders, and the deadline for submissions has passed.

### **Transactions with Related Persons**

The Company has written policies and procedures for the review, approval and ratification of transactions with related persons. The policy addresses transactions in which the Company was or is a participant, the amount exceeds \$120,000 and a related person had or will have a direct or indirect material interest. The definition of related person includes any director, officer, nominee for director or five percent beneficial owner and any of their immediate family members. These transactions will be reported to the Company's General Counsel, reviewed by the Nominating and Corporate Governance Committee and approved or ratified only if the committee determines that the transaction is not inconsistent with the best interests of the Company. The policy, included in the Company's Corporate Governance Guidelines, is available on the Company's website at <http://www.swgas.com>.

Each transaction with a related person is unique and must be assessed on a case-by-case basis. In determining whether or not a transaction is inconsistent with the best interests of the Company, the Nominating and Corporate Governance Committee considers all of the relevant facts and circumstances available to the committee, including without limitation:

- \* The related person's interest in the proposed transaction;

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- \* The approximate dollar value of the amount involved in the proposed transaction;
- \* The approximate dollar value of the amount of the related person's interest in the proposed transaction without regard to the amount of any profit or loss;
- \* Whether the transaction is proposed to be, or was, undertaken in the ordinary course of business of the Company;
- \* Whether the transaction is proposed to be, or was, entered into on terms no less favorable to the Company than terms that could have been reached with an unrelated third party;
- \* The purpose of, and the potential benefits to the Company from, the transaction;
- \* The impact on a director's independence in the event the related person is a director, an immediate family member of a director or an entity in which a director is a partner, shareholder or executive officer; and
- \* Any other information regarding the transaction or the related person in the context of the proposed transaction that would be material to investors in light of the circumstances of the particular transaction.

The Company was engaged in one reportable related person transaction during 2015. The transaction involves a consulting agreement with an entity owned by Dr. Joseph W. Haller, the spouse of Karen S. Haller, the Company's General Counsel and Corporate Secretary. The agreement the Company entered into with Dr. Haller in 2008 was designed to secure computer application development/support for the Company's transmission pipeline integrity management program and engineering data analysis services. The Company's actual cost under the agreement for 2015 was \$150,583. In December 2015, the agreement was renewed for the calendar year 2016 at an expected cost of \$175,000. The Nominating and Corporate Governance Committee determined that Ms. Haller has a direct material interest in the transaction; however, consistent with the Company's related person transaction policy, the committee determined that entering into and continuing the agreement is not inconsistent with the best interests of the Company. Given the valuable skill set that Dr. Haller possesses, the Company anticipates that the agreement may continue to be extended periodically.

## **Directors and Officers Share Ownership Guidelines**

In order to better align the interests of management and the Board with that of all shareholders, the Company has adopted Common Stock ownership guidelines for directors and officers.

Each outside director is required to retain at least five times the value of his or her annual cash retainer in Company Common Stock (or equivalents), and a portion of this ownership requirement equal to at least two times the annual cash retainer must be Company Common Stock purchased by the outside director. Each outside director is required to fulfill the purchase requirement within two years of beginning service on the Board. All equity compensation received by each outside director must be held until end of service on the Board. All outside directors are currently in compliance with these guidelines.

Each Company officer is required to accumulate Company Common Stock with a target value equal to a multiple of the officer's base salary, ranging from one times base salary for vice presidents, three times base salary at the senior vice president level and above and five times base

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salary for the Chief Executive Officer. If an officer has not yet reached the applicable target ownership requirement, he or she is required to retain a portion of the shares of Company Common Stock acquired from any stock option exercise or the vesting of restricted stock units or performance shares. The applicable retention rate is 75% for the Chief Executive Officer and 50% for all other officers. Qualified shares include Common Stock owned directly by the officer or his or her spouse, Company Common Stock held by the officer or his or her spouse in the Company's 401(k) or Dividend Reinvestment Plan and performance-based restricted stock units and performance shares which have been granted but are subject to time vesting requirements. All officers are currently in compliance with these guidelines.

### **Compensation Committee Interlocks and Insider Participation**

Board members who served on the Compensation Committee during 2015 were directors Boughner, Chestnut, Comer, Melarkey, Thoman and Wright. None of these directors has ever been an officer or employee of the Company or any of its subsidiaries, and no compensation committee interlocks existed during 2015. No member of the Compensation Committee had any relationship requiring disclosure under any paragraph of Item 404 of Regulation S-K of the Exchange Act.

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**Director Attendance at Annual Meetings**

We normally schedule Board meetings in conjunction with each annual meeting of shareholders and each director nominee is expected to attend the Board meetings and the annual meeting of shareholders. Last year, all of the directors attended the 2015 Annual Meeting of Shareholders.

**Communications with Directors**

Any shareholder and other interested parties who would like to communicate with the Board, the Presiding Director or any individual director can write to:

Southwest Gas Corporation

Corporate Secretary

5241 Spring Mountain Road

P.O. Box 98510

Las Vegas, NV 89193-8510

Depending on the subject matter, the Corporate Secretary will either:

- \* Forward the communication to the director or directors to whom it is addressed;
- \* Attempt to handle the inquiry directly, for example, where it is a request for information about the Company or a stock-related matter; or
- \* Not forward the communication, if it is primarily commercial in nature, or if it relates to an improper or irrelevant topic.

If the communication is addressed to the Presiding Director, the communication will be forwarded directly to the Presiding Director and will not be processed by the Corporate Secretary. At each regular Board meeting, management presents a summary of all communications received since the last Board meeting which were not previously forwarded and such communications are made available to all of the directors.

**ELECTION OF DIRECTORS**

*(Proposal 1 on the Proxy Card)*



**The Board of Directors Recommends a Vote FOR Election of the Director Nominees.**

**Names, Qualifications and Reasons for Selection of Nominees**

Each director elected at an annual meeting will serve until the next annual meeting and until his or her successor is elected and qualified. Each of the nominees was elected to his or her present term of office at the 2015 Annual Meeting. The authorized number of directors is currently fixed at 12. Mr. Shaw will not be nominated for reelection at this year's Annual Meeting. As a result, the Board has determined to fix the number of authorized directors at 11, effective upon the election of directors at the Annual Meeting.

The director nominees, as outlined below, possess core competencies in the areas of business, finance and administration and have a familiarity with regional and national business matters and the energy industry. The nominees, as a group, have integrity, varying ages, experience in accounting and construction in both residential and commercial markets and reside or do business in a cross-section of the Company's service territories.

The 11 nominees for director receiving the highest number of votes, a plurality, will be elected to serve until the next Annual Meeting. The names of the nominees, their principal occupation and the Board's reasons for their selection are set forth on the following pages. Except as noted, each of the nominees has held the position below his or her name for at least the past five years.

**Robert L. Boughner**

Executive Vice President and Chief Business Development Officer

Boyd Gaming Corporation

Director Since: 2008

Board Committees: Audit, Compensation (Chair)

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Mr. Boughner, 63, has served as a director of the Boyd Gaming Corporation ( Boyd ) since April 1996 and has more than 25 years of senior management experience with Boyd. Mr. Boughner announced that he will retire, effective summer 2016, from serving as Boyd's Executive Vice President and Chief Business Development Officer, a position he has held since December 2009, but he will remain a member of Boyd's board of directors following his retirement. Additionally, from January 2009 through November 2012, Mr. Boughner served as the President and Chief Operating Officer of Marina District Development Company ( MDDC ), a 50-50 joint venture of Boyd and MGM Resorts International. MDDC owns and operates the Borgata Hotel Casino and Spa and the Water Club in Atlantic City, New Jersey. He also served as President and Chief Executive Officer of Boyd's Echelon Place project, from July 2005 through the sale of the project in March 2013. Prior to his work on Echelon, Mr. Boughner held the position of Chief Executive Officer of MDDC from January 1999 through June 2006. Prior to his initial service with MDDC, Mr. Boughner served as Chief Operating Officer and Senior Executive Vice President of Boyd, from April 1990 and May 1998, respectively, through October 2001. He is active in civic and industry affairs and recently served on the board of directors of Western Alliance Bank.

The Board determined that Mr. Boughner should serve as a director of the Company because of his business and leadership experience with Boyd both in Nevada and nationally, as well as his experience as a director of Boyd and the Western Alliance Bank.

### **José A. Cárdenas**

Senior Vice President and General Counsel

Arizona State University

Director Since: 2011

Board Committees: Nominating and Corporate Governance, Pension Plan Investment

Mr. Cárdenas, 63, has been Senior Vice President and General Counsel for Arizona State University ( ASU ) since January 2009. In addition to serving as chief legal officer of the University, he serves as a representative on and to the boards of directors of ASU affiliated and related entities such as the ASU Foundation. From 1982 through 2008, Mr. Cárdenas was a partner in the Phoenix based law firm of Lewis and Roca. He was the firm's managing partner (chief executive) from 1999 to 2003 and then the firm's chairman from 2003 through 2008. Mr. Cárdenas is a native of Las Vegas, Nevada. He received his undergraduate degree from the University of Nevada, Las Vegas in 1974 and a law degree from Stanford University Law School in 1977. Mr. Cárdenas has been admitted to practice law in Arizona, California, the Ninth Circuit Court of Appeals and the United States Supreme Court and is a member of various bar associations, including the Hispanic National Bar Association. Mr. Cárdenas is a member of the board of directors of Swift Transportation Company (NYSE: SWFT). He is active in community and charitable activities, including service as a trustee of the Virginia G. Piper Charitable Trust. He is a past chairman of the boards of Greater Phoenix Leadership, Valley of the Sun United Way, the Translational Genomics Research Institute and O'Connor House.

The Board determined that Mr. Cárdenas should serve as a director because of his business and legal experience and his leadership experience as a director of Swift Transportation Company and as a trustee or chairman for a number of private foundations and institutes.

### **Thomas E. Chestnut**

Retired Construction Executive

Director Since: 2004

Board Committees: Audit, Compensation

Mr. Chestnut, 65, was the owner, President and Chief Executive Officer of Chestnut Construction Company from 1990 until 2013. After serving in Vietnam with the U.S. Army, he began a career in the construction industry in 1972 with Del Webb Corporation. Leaving Del Webb in 1980 as Manager of Commercial Operations, Mr. Chestnut took a position with The Wray Company, a commercial contractor and wholly owned subsidiary of Weyerhaeuser Company. He remained with Wray until 1990 when he founded Chestnut Construction Company in Tucson, Arizona. Mr. Chestnut is a past president and life director of the Arizona Builders Alliance and a past president of the Arizona Building Chapter of the Associated General Contractors of America. He is a past chair and life trustee of the Carondelet Foundation, a member and past president of the Tucson Conquistadors and a member and past director of the Centurions of St. Mary's Hospital. Mr. Chestnut was named the 2001 Tucson Small Business Leader of the Year by the Tucson Metropolitan Chamber of Commerce and the 2002 Arizona Small Business Person of the Year by the United States Small Business Administration.

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The Board determined that Mr. Chestnut should serve as a director of the Company because of his business experience in the residential and commercial construction businesses, his leadership experience in managing his construction business and his commitment to civic and charitable organizations in southern Arizona. In addition, the Board has based its recommendation on his knowledge of the business and operations of the Company, resulting from his service as a director since 2004.

### **Stephen C. Comer**

Retired Managing Partner

Deloitte & Touche LLP

Director Since: 2007

Board Committees: Audit, Compensation

Mr. Comer, 66, received his degree in business administration from California State University Northridge in 1972. He began his career with Arthur Andersen LLP in Los Angeles and established Arthur Andersen's Las Vegas office, as its managing partner, in 1985. Leaving Arthur Andersen in 2002, Mr. Comer took a position as partner with Deloitte & Touche LLP and was promoted to managing partner of its Nevada practice in 2004. He retired in 2006. He serves as a director of Pinnacle Entertainment, Inc. (NYSE: PNK). He is a member of the American Institute of Certified Public Accountants and the Nevada Society of Certified Public Accountants and holds professional CPA licenses in the states of California (inactive) and Nevada. He is also involved in numerous civic, educational and charitable organizations.

The Board determined that Mr. Comer should serve as a director of the Company because of his business, accounting and auditing experience with Arthur Andersen LLP and Deloitte & Touche LLP and his leadership positions with both entities, as well as his experience as a director of Pinnacle Entertainment, Inc.

### **LeRoy C. Hanneman, Jr.**

Retired Construction Executive

Private Investor

Director Since: 2009 (also Director September 2003 to March 2008)

Board Committees: Audit, Nominating and Corporate Governance (Chair)

Mr. Hanneman, 69, received his undergraduate degree in construction engineering from Arizona State University. From 2002 until his retirement in 2010, he was the Chief Executive Officer and managing member of Element Homes, L.L.C., a homebuilding and real estate development company with projects in the metropolitan Phoenix, Arizona area. Mr. Hanneman is a 35-year veteran of the housing industry and former President, Chief Operating and Executive Officer of Del Webb Corporation. Mr. Hanneman left Del Webb Corporation after its merger with Pulte Homes Corporation in 2001. He has served on a number of charitable organization boards including United Way, Boy Scouts of America

and Boys & Girls Clubs of America.

The Board determined that Mr. Hanneman should serve as a director of the Company because of his business and leadership experience in the housing industry with Del Webb Corporation throughout the Company's service territory.

**John P. Hester**

President and Chief Executive Officer

Southwest Gas Corporation

Director Since: 2015

Board Committees: None

Mr. Hester, 53, has been President and Chief Executive Officer since March 2015 and was named President in August 2014. Mr. Hester joined the Company in 1989, and has been named to various positions at the Company, such as Director/Regulatory Affairs and Systems Planning in 2002, Vice President/Regulatory Affairs and Systems Planning in 2003, Senior Vice President/Regulatory Affairs and Energy Resources in 2006, and Executive Vice President in 2013. Prior to joining Southwest Gas, he worked at the Illinois Department of Energy and Natural Resources, as well as the Illinois Commerce Commission. He received his bachelor's and master's degrees in economics from Northern Illinois University. Mr. Hester currently serves on the Opportunity Village Foundation Board of Directors, the Catholic Charities of Southern Nevada Board of Trustees, the College of Southern Nevada Foundation Board of Trustees and the Las Vegas Metro Chamber of Commerce Board of Trustees.

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The Board determined that Mr. Hester should serve as a director because, as President and Chief Executive Officer of the Company, he has an intimate working knowledge of all aspects of the Company's operations.

**Anne L. Mariucci**

Retired Construction Executive

Private Investor

Director Since: 2006

Board Committees: Nominating and Corporate Governance, Pension Plan Investment (Chair)

Ms. Mariucci, 58, has over 30 years of experience in homebuilding and real estate. Prior to 2003, Ms. Mariucci held a number of senior executive management roles with Del Webb Corporation and was responsible for its large-scale community development and homebuilding business. She also served as President of Del Webb following its merger with Pulte Homes, Inc. in 2001 until 2003. Since 2003, she has been affiliated with the private equity firms Hawkeye Partners (Austin, Texas) and Glencoe Capital (Chicago, Illinois). Ms. Mariucci received her undergraduate degree in accounting and finance from the University of Arizona and completed the corporate finance program at the Stanford University Graduate School of Business. She serves as a director of Corrections Corporation of America (NYSE:CXE), Taylor Morrison Home Corporation (NYSE: TMHC), Banner Health, the Arizona State University Foundation and the Fresh Start Women's Foundation. Ms. Mariucci is a past chairman of the Arizona Board of Regents and served on the board from 2006 to 2014. She is a past director of the Arizona State Retirement System, Scottsdale Healthcare and Action Performance Companies, as well as a past trustee of the Urban Land Institute.

The Board determined that Ms. Mariucci should serve as a director of the Company because of her experience as a director of other publicly traded companies and business and financial experience in the housing industry with Del Webb Corporation and Pulte Homes throughout the Company's service territories, as well as her commitment to government, civic and charitable organizations throughout Arizona.

**Michael J. Melarkey**

Retired Partner

Avansino, Melarkey, Knobel, Mulligan & McKenzie

Chairman and Manager

Pioneer Crossing Casinos

Director Since: 2004

Chairman of the Board

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Board Committees: Compensation, Nominating and Corporate Governance

Mr. Melarkey, 66, was a partner in the law firm of Avansino, Melarkey, Knobel, Mulligan & McKenzie for more than 35 years until the firm's merger in July 2015 with McDonald, Carano and Wilson, a statewide Nevada law firm (MCW). He received his undergraduate degree from the University of Nevada, Reno, his law degree from the University of San Francisco and his masters in laws in taxation from New York University. Mr. Melarkey was actively engaged in private legal practice in Reno, Nevada from 1976 until his firm's merger with MCW. Following the merger, Mr. Melarkey was named Of Counsel with MCW and also became employed by the Pioneer Crossing Casinos as Chairman and Manager. Mr. Melarkey is a former member of the American Bar Association and the International Association of Gaming Lawyers and is licensed to practice law in the State of Nevada. He is a trustee of the Bretzlaff Foundation, the Robert S. and Dorothy J. Keyser Foundation, the Roxie and Azad Joseph Foundation and the E. L. Wiegand Trust. He is Vice President of Miami Oil Producers, Inc. and has ownership interests in the Pioneer Crossing Casino in Fernley, Nevada, the Pioneer Crossing Casino in Dayton, Nevada, and the Pioneer Crossing Casino in Yerington, Nevada. He also serves as a director of the Bancroft Fund, Ltd., the Ellsworth Growth and Income Fund, Ltd., the Gabelli Dividend & Income Trust, the Gabelli Global Utility and Income Trust, GDL Fund, the GAMCO Global Gold, Natural Resources & Income Trust by Gabelli, and the GAMCO Natural Resources, Gold & Income Trust by Gabelli, all closed-end mutual funds.

The Board determined that Mr. Melarkey should serve as a director because of his business and legal experience, his leadership abilities as a trustee for a number of private foundations and as a director of a number of closed-end mutual funds. In addition, the Board has based its recommendation on his knowledge of the business and operations of the Company, resulting from his service as a director since 2004.

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### **A. Randall Thoman**

Retired Partner

Deloitte & Touche LLP

Director Since: 2010

Board Committees: Audit (Chair), Nominating and Corporate Governance

Mr. Thoman, 64, received his degree in accounting from the University of Utah and has been a Certified Public Accountant for more than 30 years. He began his career with Deloitte & Touche LLP and became a Partner in June 1991. For 15 years, Mr. Thoman was the Partner with primary responsibility for the technical interpretation and application of accounting principles and audit standards and the review of all reporting issues and financial statements for Nevada-based companies registered with the SEC. Mr. Thoman retired from Deloitte & Touche LLP in October 2009. He currently serves on the Audit Committee of SLS Hotel & Casino Las Vegas. Mr. Thoman also served on the board of SHFL Entertainment, Inc. until its acquisition in 2013.

The Board determined that Mr. Thoman should serve as a director of the Company because of his business, accounting and auditing experience with Deloitte & Touche LLP and his leadership positions at the firm, his experience with SEC reporting and compliance, as well as his experience as a former director of several non-profit entities.

### **Thomas A. Thomas**

Managing Partner

Thomas & Mack Co. LLC

Director Since: 2008

Board Committees: Audit, Pension Plan Investment

Mr. Thomas, 58, received his undergraduate degree in finance and his juris doctorate from the University of Utah. After obtaining his law degree, he joined Valley Bank of Nevada and held various executive positions with the bank until its merger with Bank of America in 1992. After the merger, he became managing partner of Thomas & Mack Co., an investment management and commercial real estate development company with properties and developments in Nevada, California, Arizona, and Utah. Mr. Thomas is actively involved in numerous charitable organizations including the Opportunity Village Foundation, the UNLV Foundation Advisory Board, the Las Vegas Rotary Club and the Las Vegas Area Council of the Boy Scouts of America. He is a member of the Nevada Bar Association and was instrumental in establishing the Thomas & Mack Legal Clinic and Moot Court Facility at the UNLV Boyd School of Law.

The Board determined that Mr. Thomas should serve as a director because of his banking and business experience, his familiarity with the commercial markets throughout the Company's service territories and his commitment to civic and charitable organizations in southern Nevada.



**Terrence Terry L. Wright**

Owner/Chairman of the Board of Directors

Nevada Title Company

Director Since: 1997

Board Committees: Compensation, Nominating and Corporate Governance

Mr. Wright, 66, received his undergraduate degree in business administration and his juris doctorate from DePaul University. He joined Chicago Title Insurance Company while in law school and after graduation remained with the company and eventually moved to its Las Vegas, Nevada office. In 1978, he acquired the assets of Western Title to form what is now Nevada Title Company. Mr. Wright is the chairman of the board and majority owner of Westcor Land Title Insurance Company, which is licensed to issue policies of title insurance in 48 states. He is a member of the California and Illinois bar associations and has served on the board of directors for Nevada Land Title Association and the Tournament Players Club at Summerlin. He is a past chairman of the Nevada Development Authority, the Nevada Chapter of the Young Presidents Organization, the UNLV Foundation and the Council for a Better Nevada. Mr. Wright also serves on the board of directors of Golden Entertainment (NASDAQ: GDEN).

The Board determined that Mr. Wright should serve as a director because of his business and leadership experience with Nevada Title Company and Westcor Land Title Insurance Company, his familiarity with residential and commercial markets throughout the Company's service territories, as well as his commitment to civic and charitable organizations in

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southern Nevada. In addition, the Board has based its recommendation on his knowledge of the business and operations of the Company, resulting from his service as a director since 1997.

**Securities Ownership by Directors, Director Nominees, Executive Officers, and Certain Beneficial Owners**

*Directors, Director Nominees and Executive Officers.* The following table discloses all Common Stock beneficially owned by the Company's directors, the nominees for director and the executive officers of the Company, as of March 8, 2016.

Directors, Nominees & Executive Officers	No. of Shares Beneficially Owned(1)	Percent of Outstanding Common Stock(2)
Robert L. Boughner	31,279	*
José A. Cárdenas	13,856	*
Thomas E. Chestnut	23,576	*
Stephen C. Comer	23,076 <sup>(3)</sup>	*
LeRoy C. Hanneman, Jr.	20,547 <sup>(4)</sup>	*
John. P. Hester	67,155 <sup>(5)(6)</sup>	*
Anne L. Mariucci	22,576	*
Michael J. Melarkey	26,911	*
Jeffrey W. Shaw	100,514 <sup>(7)</sup>	*
A. Randall Thoman	17,443 <sup>(8)</sup>	*
Thomas A. Thomas	21,779	*
Terrence L. Wright	32,576	*
Roy R. Centrella	38,082 <sup>(6)</sup>	*
William N. Moody	25,905 <sup>(9)</sup>	*
Karen S. Haller	25,511 <sup>(6)(10)</sup>	*
Eric DeBonis	23,043	*
Other Executive Officers	122,362 <sup>(11)</sup>	*
All Directors and Executive Officers	636,191 <sup>(12)</sup>	1.34%

(1) Common Stock holdings listed in this column include performance shares granted to the Company's executive officers under the Company's Management Incentive Plan in 2014, 2015, and 2016, restricted stock units granted to the Company's executive officers under the Company's Restricted Stock Unit Plan (the RSUP) in 2014, 2015 and 2016 and restricted stock units granted to the Company's directors under the RSUP.

(2) \* No individual officer or director owned more than 1% of outstanding Common Stock.

(3) The holdings include 3,500 shares over which Mr. Comer has shared voting and investment power with his spouse through a family trust.

(4) The holdings include 4,190 shares over which Mr. Hanneman has shared voting and investment control with his spouse through a family trust.

(5) The holdings include 7,765 shares over which Mr. Hester's spouse has voting and investment control.

(6)

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Number of shares does not include 28,018 shares held by the Southwest Gas Corporation Foundation, which is a charitable trust. Messrs. Hester and Centrella and Ms. Haller are trustees of the Foundation but disclaim beneficial ownership of the shares held by the foundation.

- (7) The holdings include 96,393 shares over which Mr. Shaw has shared voting and investment power with his spouse through a family trust.
- (8) The holdings include 2,994 shares over which Mr. Thoman has shared voting and investment power with his spouse through a family trust.
- (9) The holdings include 115 shares over which Mr. Moody has shared voting and investment power with his children through custodial accounts.
- (10) The holdings include 984 shares over which Ms. Haller's spouse has voting and investment control.
- (11) The holdings of other executive officers include 3,600 shares that may be acquired through the exercise of options under the Option Plan.
- (12) The holdings of the directors and executive officers combined include 3,600 shares that may be acquired through exercise of options under the Option Plan.

*Beneficial Owners.* BlackRock Inc. reported on Schedule 13G, filed on January 27, 2016, ownership in excess of 5% of the Company's Common Stock. The Vanguard Group, Inc. reported on Schedule 13G, filed on February 11, 2016, ownership in excess of 5% of the Company's Common Stock. GAMCO Investors, Inc. et. al. reported on Form 13D, filed on August 11,

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2015, ownership in excess of 5% of the Company's Common Stock. The holdings of these entities on the dates noted in the filings and as a percentage of the shares outstanding on March 8, 2016, are as follows:

Beneficial Owner	No. of Shares Beneficially Owned	Percent of Outstanding Common Stock
BlackRock Inc.(1) 55 East 52 <sup>nd</sup> Street  New York, New York 10055	4,536,057	9.56%
The Vanguard Group, Inc.(2) 100 Vanguard Blvd.  Malvern, Pennsylvania 19355	3,511,354	7.40%
GAMCO Investors, Inc. et. al.(3) One Corporate Center  Rye, New York 10580	3,044,315	6.41%

(1) BlackRock Inc. has sole voting power over 4,395,199 shares, no voting power over 140,858 shares and sole dispositive power over all of the shares beneficially owned.

(2) The Vanguard Group, Inc. has sole voting power over 63,542 shares, shared dispositive power over 59,542 shares and sole dispositive power over 3,451,812 of the shares beneficially owned.

(3) GAMCO Investors, Inc. et. al. has sole voting power over 2,894,845 shares, no voting power over 149,470 shares and sole dispositive power over all of the shares beneficially owned.

**Section 16(a) Beneficial Ownership Reporting Compliance**

The Company has procedures in place to assist directors and executive officers in complying with Section 16(a) of the Exchange Act, which includes the preparation of forms for filing. Based upon a review of filings with the SEC and written representations that no other reports were required, we believe that all of our directors and executive officers complied during 2015 with the reporting requirements of Section 16(a) of the Exchange Act.

**EXECUTIVE COMPENSATION**

**COMPENSATION DISCUSSION AND ANALYSIS**

This Compensation Discussion and Analysis describes our 2015 executive compensation program, the compensation decisions made by the Compensation Committee (the committee) under our executive compensation program and the factors considered in making such decisions. This

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section focuses on the compensation of the Company's named executive officers (NEOs) for fiscal 2015, who were:

- \* John P. Hester, President and Chief Executive Officer
- \* Roy R. Centrella, Senior Vice President/Chief Financial Officer
- \* William N. Moody, Executive Vice President
- \* Karen S. Haller, Senior Vice President/General Counsel and Corporate Secretary
- \* Eric DeBonis, Senior Vice President/Operations
- \* Jeffrey W. Shaw, former Chief Executive Officer (retired March 1, 2015)

### **Executive Summary**

#### *Objectives*

The objectives of our executive compensation program are to:

- \* Align the interests of the NEOs with those of the Company, its customers and its shareholders;
- \* Recruit, retain and motivate executive talent;
- \* Be fair and competitive; and
- \* Recognize and reward performance that meets or exceeds the Company's targets.

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*2015 Incentive Compensation and Performance*

Our annual incentive compensation plan (the Management Incentive Program or MIP) is based on performance in the five core areas set forth below, and our long-term incentive program (the Restricted Stock/Unit Plan or RSUP) is based on the average MIP payout for the last three years. If awards are earned, the MIP pays out in a range between 70% and 140% of the target award amount for each officer, and RSUP awards can range from between 50% to 150% of target awards. In 2015, the results in the five core performance areas, each of which is weighted 20% in the overall MIP payout percentage, were as follows:

- \* Return-On-Equity ( ROE ). We achieved ROE of 7.46% in our regulated utility segment (between our threshold of 6.58% and target of 7.55%) for a payout of 19.44%, or 97.2% of target.
- \* Customer Satisfaction. We achieved 92.75% customer satisfaction in 2015 (above our target of 90% and below the 97% maximum) for a payout 23.14%, or 115.7% of target.
- \* Customer-To-Employee Ratio. The end of the year ratio was 881-to-1 (between our threshold of 879-to-1 and target of 888-to-1) for a payout of 15.33%, or 76.7% of target.
- \* Operating Cost Increases. Costs increased 3.29% year-over-year (between our threshold of 4.10% and target of 3.10%) for a payout of 18.86%, or 94.3% of target.
- \* Safety. Damage per 1,000 tickets was 1.78 (better than our maximum goal of 1.80), and response time within 30 minutes was 67.4% (above our target of 65% and below the maximum of 70%), for a combined payout of 25.92%, or 129.6% of target.

For most officers, including Ms. Haller and Messrs. Moody and DeBonis, these results aggregated for a MIP payout of 103% of target and an RSUP payout of 132.5% of target (based on a three-year MIP average of 113%). In addition to the five core measures set forth above, the 2015 incentive programs for Messrs. Hester and Centrella and Shaw also included a performance measure based on our Canadian construction services operations. For these executives ROE and construction services were each weighted as 10% of the total MIP payout percentage, and each of the other four measures was weighted 20%. Below threshold results for the construction services performance measure negatively impacted payouts for these NEOs, which were 93% of target for the MIP and 125% of target for the RSUP (based on a three-year MIP average of 110%).

We believe that our compensation program, by focusing on the core fundamentals of our business, has been and continues to be successful at motivating the operational and strategic achievements that foster the creation of shareholder value over the long term. 2015 was another year of strong results for the metrics emphasized by the MIP and RSUP, and the committee sees significant linkage between the Company's achievements in these areas and the impressive record of shareholder returns over the last several years. Recent accomplishments include the following:

- \* Basic earnings per share remained strong in 2015 at \$2.94 despite nearing the end of a five-year rate case moratorium in Arizona.
- \* Dividends declared per share were \$1.32 in 2013, \$1.46 in 2014 and \$1.62 in 2015. In February 2016, the Board increased the quarterly dividend from 40.5 cents to 45 cents per share (\$1.80 on an annual basis and an 11% increase), effective with the June 2016 payment.

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- \* In 2015, our natural gas operations achieved record operating margin of \$891 million and invested \$438 million in our gas system.
- \* Our Paiute Pipeline subsidiary completed a 35-mile, \$35 million lateral interconnect with Ruby Pipeline to increase gas supply deliverability to Elko, Nevada.
- \* We received approval of a \$43.5 million infrastructure replacement mechanism in Nevada in 2015, and the Company now has the ability to reduce regulatory lag in all three of its state jurisdictions through various forms of infrastructure tracking mechanisms.
- \* Centuri Construction Group, our primary construction services subsidiary (Centuri), successfully completed the integration of the Link-Line Group of Companies following their fourth quarter 2014 acquisition, including implementing the Company's internal control structure over the acquired operations.
- \* In 2015, Centuri's combined operations produced record revenues of \$1 billion and contributed record net income of \$26.7 million.

Past performance has established a strong financial platform for sustainable growth into the future, and these recent accomplishments are expected to contribute to our ability to provide total shareholder returns over the long term. Going forward, we expect further alignment between executive compensation and shareholder returns as our NEOs are currently

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working through RSUP performance periods that will be subject to the total shareholder return (TSR) modifier recently implemented by the committee. The TSR modifier applies to each RSUP performance period starting with the period beginning in 2015 (to modify awards payable from and after the end of 2017).

### *Program Design*

Compensation for NEOs includes:

- \* Cash in the form of base salary;
- \* Annual at-risk variable incentive compensation in the form of cash and stock-based compensation under the MIP;
- \* Long-term at-risk variable incentive compensation in the form of restricted stock units under the RSUP;
- \* Cash bonuses, under exceptional circumstances;
- \* Perquisites in the form of car allowances, cable internet access, allowances for annual physical examinations, life insurance and financial and estate planning allowances; and
- \* Other benefits that include the same group health and welfare benefit programs and tax-qualified retirement plans available to all employees, as well as executive nonqualified retirement plans.

None of the NEOs have employment agreements with the Company. Long-term incentive compensation and a significant portion of annual incentive compensation, when earned, are delivered as stock-based awards to align management interests with those of shareholders. Service vesting of these stock-based awards, in addition to retirement benefits, promotes long-term employment commitments. The performance measures selected to drive achievements in the core areas of our business are designed to create appropriate alignment between the interests of management and those of our customers.

Base salary is designed to approximate the median (50<sup>th</sup> percentile) of the amounts paid by peer group companies (as discussed below), and we seek to set overall compensation to be competitive in a range of plus or minus 15% of the peer group median. For 2015, overall total direct compensation for the NEOs, as a group, was below the median of the peer group.

### *Current vs. At-Risk Compensation*

Total direct compensation of the Company's NEOs, other than base salary, is at risk and must be earned by achieving annual and long-term performance goals. The portion of total direct compensation designed to be paid in base salary versus variable pay depends upon the NEO's position and the ability of that position to influence outcomes, as well as compensation market factors and risk mitigation considerations. The principal executive officer (PEO) has the largest portion of pay at risk. In 2015, the percentage of targeted total direct compensation opportunity



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at risk or earned by achieving performance goals was approximately 64% for the PEO, and, for the other NEOs, the average percentage of such compensation at risk was approximately 52%.

### *Commitment to Best Practices*

We are committed to adopting executive compensation policies that are consistent with best practices. We annually review all elements of NEO pay and, where appropriate for the business and shareholders, make changes to incorporate current best practices. In keeping with best practices, we have:

- \* Adopted stock ownership guidelines for all NEOs and directors, with retention thresholds set at a meaningful factor times annual base salary;
- \* Aligned pay practices with shareholder and customer interests, with an eye toward remaining competitive;
- \* Reviewed, analyzed and considered whether the Company's compensation policies and practices create risks that are reasonably likely to have a material adverse effect on the Company, and concluded that no such material risks were identified;
- \* A compensation committee that is composed of only independent directors;
- \* An independent compensation consultant retained by, and which reports to, the committee and has no other business with the Company;
- \* Annual reviews of our compensation peer group;
- \* Regular briefings from the committee's compensation consultant regarding key trends;

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- \* An annual review of PEO performance;
- \* No employment agreements between the Company and the NEOs;
- \* Change in control agreements with the NEOs, which do not provide for tax gross-ups or severance amounts that exceed more than three times base pay and bonus, and which do include double trigger vesting provisions for equity awards;
- \* No cash dividends paid on unvested stock-based awards (in lieu of cash dividends, recipients receive additional restricted stock-based awards that will vest/forfeit based on the same measures applicable to the underlying awards); and
- \* No tax reimbursements or gross-ups for life insurance, bonus, trusts or stock vesting.

### *Summary of Changes to Compensation Program*

Shareholders supported the Company's executive compensation with a positive say-on-pay vote of over 98% of the votes cast at our 2015 Annual Meeting. In light of this support, the committee determined to make only limited changes to the executive compensation programs described in our 2015 Proxy Statement. Notably, however, the committee revised how the Company's incentive compensation plans measure performance of the Company's construction services segment. For plan year 2016, the construction services performance measure will be based on the performance of the Company's entire construction services segment (Centuri). This is a departure from the approach to plan year 2015, when the construction services performance measure was focused exclusively on Canadian construction operations to stress the importance of the integration of the Link-Line Group of Companies following their acquisition in the fourth quarter of 2014. As in 2015, for plan year 2016, the construction services performance measure will only factor into the incentive compensation awards of a select group of the NEOs, which will include Messrs. Hester and Centrella and Ms. Haller. For these executives, the weighting of ROE will be reduced to 10%, construction services will be weighted 10%, and the other four core areas will each be weighted 20%.

The remainder of this Compensation Discussion and Analysis offers a detailed explanation of the Company's compensation policies and decisions with respect to the NEOs.

### **Compensation Program Administration**

The committee administers the executive compensation program. The committee annually reviews and approves the corporate goals and objectives relevant to the PEO's compensation, the PEO's performance in relation to such goals and objectives and, together with the other Independent Directors of the Board of Directors, the PEO's actual compensation. The committee also reviews, together with the PEO, and approves the salaries and incentive compensation for the other executive officers.

Management, including the NEOs, provides guidance to, and receives direction from, the committee regarding the executive compensation program. Management annually provides information to the committee regarding what it believes to be appropriate levels of the various elements of direct compensation (including target awards for incentive compensation), as well as the thresholds, targets and maximums of the performance measures used in the MIP. Information is gathered from Company operating data, external independent surveys and publicly available compensation comparisons.

While consultants may be retained by management to assess the compensation program, the committee has the authority, independent of management, to employ and retain consultants to assist it in establishing the executive compensation program objectives and in determining whether the objectives have been satisfied. The committee engaged Pay Governance as an independent consultant to perform a competitive pay benchmarking analysis of the officers, independent from management's recommendations. Pay Governance's engagement with the committee also included a review of the Company's internal director compensation comparison. Pay Governance did not receive any fees from the Company for services other than the fees paid with respect to executive and director compensation services.

For 2015, the committee also analyzed whether the work of any executive compensation advisor raised any conflict of interest, taking into consideration all relevant factors, including those set forth in Rule 10C-1(b)(4)(i) through (vi) under the Exchange Act. The committee determined, based on its analysis of all relevant factors, that no conflicts of interest were present.

### **Compensation Program Objectives, Key Considerations and Principles**

The objectives of the compensation program are to recruit, retain, reward and motivate talented executives and to align their interests with our customers and shareholders, while eliciting long-term employment commitments. We also aim to set

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NEO salaries and incentive compensation opportunities at levels that ensure reasonableness, market competitiveness and internal equity for each position. The Company's customer service obligations shape the overall structure of the program, and the committee developed the program to address the key business considerations and related compensation principles discussed below:

- \* *Pay for performance.* The committee is firmly committed to providing the Company's executives with incentive compensation opportunities tied to the measures of performance that it believes lead to shareholder value creation. We also recognize that we are in a competitive environment for executives, and the compensation program should reward strong performance. Accordingly, a significant portion of each NEO's total direct compensation is at risk and must be earned by achieving annual and long-term performance goals, and we calibrate the size and form of potential incentive awards to be appropriately competitive within the relevant market for executive talent.
- \* *The Company prioritizes safety and customer satisfaction.* As a public utility, the Company is committed to providing its customers safe, continuous service at reasonable rates. The committee has implemented compensation performance measures focused on safety and customer satisfaction, in addition to placing additional attention on increasing productivity and containing costs, to motivate achievement of these long-term corporate and customer goals. The committee has designed certain compensation incentives to create appropriate alignment of management's interests with the Company's customers.
- \* *Shareholder value is promoted by aligning management interests with the Company's shareholders.* The committee seeks to align management's interest with shareholders by (i) requiring meaningful officer stock ownership, (ii) providing significant components of incentive compensation based on total shareholder return, ROE and construction services performance measures, which foster growth in both our regulated and unregulated business segments and (iii) delivering long-term incentive compensation and a significant portion of annual incentive payouts in the form of equity subject to service vesting.
- \* *Customer-oriented achievements foster enhanced shareholder value.* The Company strives to work collaboratively with regulators to achieve positive results for both customers and shareholders, and we recognize that customer satisfaction and the Company's safety record are both essential elements in the regulatory process. By emphasizing the Company's core mission and values of safety, service and reliability, the committee believes that it motivates achievements that are the platform for increased shareholder returns.
- \* *As a public utility, the Company has a lower risk tolerance.* The committee has designed incentive compensation, and implemented other policies, with a view to mitigating risk. The performance measures employed in the Company's incentive compensation programs, in addition to being reflective of the Company's core mission and business strategies, are also interdependent such that overemphasis by management in one area (such as cost containment) has the potential to negatively impact performance in other areas (such as customer satisfaction ratings and incident response times). We believe that the tension between the measures mitigates risk, and we believe that we can further mitigate risk by capping incentive award payouts and by setting target opportunities at levels that strike a reasonable balance among base salary and both annual and long-term incentives. We believe that stock ownership guidelines instill a sense of ownership by management that disincentivizes focusing on short-term results at the expense of long-term value.
- \* *The Company operates in a highly regulated environment.* Our compensation program must be responsive to the regulatory environment we face as a public utility. Compensation costs, like all utility operating expenses, are subject to reasonableness and prudence reviews by the regulatory bodies with jurisdiction over our operations. Performance measures for operational efficiencies, safety and overall customer satisfaction, which are connected to customer goals, have historically been recognized in the regulatory review process. The committee considers the potential for regulatory recovery of compensation expenses in connection with contemplated program design changes.
- \* *Long-term corporate goals require long-term executive employment commitments.* The Company's deep understanding of the utility industry and its regulatory landscape, peer company connections, reputation and institutional knowledge are chiefly derived from long-tenured executives. Because these attributes enhance our ability to increase shareholder value, achieve operational efficiencies and provide continued exceptional customer satisfaction over the long-term, we utilize awards subject to service vesting, retirement

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benefit opportunities and post-termination benefits with the objective of attracting and retaining a talented management team over long-term employment commitments.

- \* *The executive compensation program should be prospective.* The committee does not take into consideration the results of previously earned performance awards and the deferral of cash compensation in establishing the appropriate level of future compensation. The committee does, however, take into consideration the Company's past performance in determining the long-term performance awards and in setting new performance targets.

We discuss the elements of compensation employed to achieve our objectives, consistent with the foregoing compensation principles, below.

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**Elements of Compensation Program and Why We Pay Each Element**

The nature of the Company's operations and competitive considerations have led the committee to design and employ a compensation program that we believe is comparable to compensation programs widely used in the industry by public utilities and accepted by various utility regulatory agencies. To accomplish our objectives, the program is designed to respond to changing market conditions and to offer a broad spectrum of compensation opportunities. Performance is the critical component of the program, and both individual and overall Company performance can impact an officer's level of compensation on an annual basis. The elements of the executive compensation program for the NEOs and the purpose for providing each element are set forth below:

<b>Element</b>	<b>Purpose</b>	<b>Summary of Features</b>
<b><i>Base Salary</i></b>	<ul style="list-style-type: none"> <li>* Recognize NEO leadership responsibilities and value of executive's position to the Company.</li> <li>* Serve as a competitive compensation foundation.</li> </ul>	<ul style="list-style-type: none"> <li>* Targeted at 50th percentile of peer group companies.</li> <li>* Adjustments are made based upon the value of the position to the business, the performance of the individual and pay relative to the appropriate comparison market.</li> </ul>
<b><i>Annual Incentive Plan (MIP)</i></b>	<ul style="list-style-type: none"> <li>* Encourage and reward NEO contributions in achieving performance goals through cash and equity incentives based on performance.</li> <li>* Align management interests with customers and shareholders.</li> <li>* Mitigate risk through selection of interdependent performance measures.</li> <li>* Address individual performance goals for the NEOs.</li> <li>* Retain management with awards subject to service vesting.</li> <li>* Support Board's dividend policy.</li> </ul>	<ul style="list-style-type: none"> <li>* Awards are earned based on achievement of interdependent customer and shareholder performance goals.</li> <li>* Awards paid out annually 60% in cash and 40% in equity subject to service vesting.</li> <li>* Equity awarded cliff vests three years after the award date, assuming continued service.</li> <li>* NEO award values are subject to downward adjustment for failure to satisfy individual goals.</li> <li>* No awards paid if annual dividends do not meet or exceed those of prior year.</li> </ul>
<b><i>Long-Term Incentive Plan (RSUP)</i></b>	<ul style="list-style-type: none"> <li>* Provide executives with an incentive to work toward.</li> <li>* Align management interests with customers and shareholders.</li> <li>* Mitigate risk though selection of interdependent performance measures.</li> <li>* Retain management with awards subject to service vesting.</li> </ul>	<ul style="list-style-type: none"> <li>* Awards are earned based on three-year average of MIP performance achievements.</li> <li>* Awards paid out 100% in equity subject to service vesting.</li> <li>* Restricted stock awards vest 40% one year after the award date and 30% following each of the next two years, assuming continued service.</li> <li>* Starting with awards payable for plan year 2017, value of awards earned based on three-year MIP performance average may be adjusted (up or down) based on total shareholder return versus peer companies.</li> </ul>
<b><i>Bonuses</i></b>	<ul style="list-style-type: none"> <li>* Recognize exceptional performance or significant achievements that fall outside of an NEO's core responsibilities.</li> </ul>	<ul style="list-style-type: none"> <li>* Paid in cash in extraordinary circumstances.</li> </ul>

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***Executive Health, Welfare  
and Retirement Benefits***

- \* Provide executives reasonable and competitive benefits.
- \* Encourage savings for retirement.
- \* Retain executives with pension benefits subject to service vesting.
- \* Deemphasize direct compensation.
- \* Mitigate the impact of limits on qualified plan benefits imposed by the Internal Revenue Code.
- \* Health and welfare benefits consistent with standard benefits provided to all employees.
- \* 401(k) plan and non-qualified deferred compensation plans allow for deferral of compensation and certain Company matching contributions on such deferrals.
- \* Qualified and supplemental non-qualified pension benefits.

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<b>Element</b>	<b>Purpose</b>	<b>Summary of Features</b>
<b><i>Change-In-Control Arrangements</i></b>	<ul style="list-style-type: none"> <li>* Ensure attention and dedication to performance without distraction in the circumstance of a potential change in control of Southwest Gas.</li> <li>* Enables executives to maintain objectivity with respect to merger or acquisition offers considered by the Board.</li> </ul>	<ul style="list-style-type: none"> <li>* Double trigger change-in-control severance agreements without any tax gross up.</li> <li>* Severance payment of three times annual compensation for PEO.</li> <li>* Accelerated vesting of equity awards.</li> <li>* Potential increase to supplemental pension benefit.</li> </ul>

Salaries and performance-based compensation are linked to recognize each officer's responsibilities and individual contribution to the success of the Company. As explained in greater detail below, an officer's award opportunity is based on a percentage of salary and, as a result, will move in relation to changes in salary. How an officer satisfies his or her direct individual responsibilities can also impact the level of an individual officer's performance-based compensation. Exemplary performance is expected and rewarded with the compensation elements of the program, while poor performance may result in the reduction or possible elimination of an award under the MIP. Exceptional individual performance or significant achievements that fall outside of an NEO's core responsibilities may warrant cash bonuses on occasion.

Incentive award opportunities under both the MIP and RSUP increase with the ability of a position to influence outcomes. Risk mitigation is achieved by capping incentive award payouts and setting target opportunities at levels that strike a reasonable balance among base salary and both annual and long-term incentives. Long-term incentive compensation and a significant portion of annual incentive compensation is awarded, when earned, in the form of stock-based compensation to align management interests with those of shareholders. Full value share awards, such as restricted stock and performance shares, are granted instead of stock options based on accounting considerations and because their value is more tangible to management. When awards are earned through performance, equity compensation granted to executives is subject to service vesting requirements to promote long-term employment commitments.

The availability of pension benefits allows the Company to deemphasize total direct compensation while still remaining competitive. The level of deferral opportunities under the Company's qualified and nonqualified plans, however, do not influence the committee's decisions regarding the appropriate level of overall compensation. Welfare benefits and perquisites are also viewed by the committee on a stand-alone basis. The Company has not entered into employment agreements with any of the NEOs. However, post-termination benefits, which are influenced by current salary levels, are provided by change in control agreements, as applicable.

How we determine the amounts paid for each element of compensation, including additional discussion of certain key features of these elements, is set forth below.

**How We Determine Amounts Paid for Each Element of Compensation Program**

Salaries and performance-based compensation paid to the NEOs are determined by using a variety of sources, including compensation surveys prepared by the American Gas Association, Towers Watson, the HayGroup and Mercer for the components of compensation and competitive market compensation levels. Each source discussed below serves as only one component of the committee's analysis, and no one resource is weighted more heavily than any other in the committee's analysis or decisions.



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Compensation is reviewed annually and is subject to mid-year adjustment. In determining compensation for July 1, 2015 through June 30, 2016, the committee, in consultation with Pay Governance, referenced an internal annual compensation comparison performed by the Company ( Company Study ). Pay Governance also conducted its own study ( Pay Governance Study ), which compared the Company s compensation packages, including base salary, total cash compensation and total direct compensation (which also includes stock-based awards under the MIP and the RSUP), to compensation data from two primary sources: 1) published compensation surveys that best represent the Company in the marketplace, and 2) peer company proxy filings, from a peer group of comparable companies primarily developed by Towers Watson and the Company (as described below). The structures of the incentive, deferred compensation and supplemental retirement programs of the Company were also reviewed in comparison to structures of peers. Methods similar to those used in the Pay Governance Study were employed in annual compensation comparisons and analyses performed by the Company and Towers Watson in 2014, which the committee used in determining compensation for July 1, 2014 through June 30, 2015.

In addition to reviewing published market surveys, the Pay Governance Study and the Company Study included compensation comparison and analysis using proxy peer data. The peer group for both studies was composed of

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16 companies in the utility industry that are deemed to be of comparable size and to have similar basic structure and operational complexity, which at the time of selection had no less than half and no more than twice the reported revenue of the Company. The peer group included the following companies:

- |                                    |                                     |
|------------------------------------|-------------------------------------|
| * AGL Resources, Inc.              | * ONE Gas                           |
| * Atmos Energy Corporation         | * Piedmont Natural Gas Co., Inc.    |
| * Avista Corporation               | * Pinnacle West Capital Corporation |
| * Black Hills Corporation          | * PNM Resources, Inc.               |
| * Great Plains Energy, Inc.        | * Portland General Electric Company |
| * The Laclede Group Inc.           | * Questar Corporation               |
| * New Jersey Resources Corporation | * Vectren Corporation               |
| * Northwestern Corporation         | * Westar Energy, Inc.               |

The committee sets base salaries for the NEOs at amounts that approximate the 50<sup>th</sup> percentile of the amounts paid by the peer group of companies discussed above. The committee's goal is for overall compensation at target to be competitive in a range plus or minus 15% from the peer group median ( target range ). The selection of this range is designed to be comparable and competitive with the peer group, to address the regulatory environment in which the Company operates and to provide a reasonable range of incentives to reward performance. For 2015, however, total direct compensation of each of our NEOs was at or below the bottom end of the target range. As a result, the committee is considering adjustments to NEO incentive opportunities that would bring overall compensation at target within the target range.

Other elements of overall compensation (perquisites, welfare benefits, retirement benefits and post-termination benefits) were implemented at various times over the past several years to remain competitive with the relevant market. In determining the Company's overall compensation, we annually compare the Company's elements of compensation and the level of benefits with those of the relevant market to ensure the Company remains competitive.

*Salaries*

Salaries for the Company's NEOs are established based on the scope of their responsibilities, taking into account competitive market compensation paid by the peer group and additional salary survey data for similar positions. Data from the Pay Governance and Company Studies and utility and general industry surveys were used by the committee to help ensure that salaries are reasonable, competitive and properly address position responsibility. The range of salaries available through this review provides an objective standard to determine the appropriate level of salary for a given executive position. Salaries are reviewed annually and are subject to mid-year adjustment to realign salaries with market levels after taking into consideration individual responsibilities, performance, inflation and experience. Mid-year salary increases were provided to the NEOs in 2015 based on this methodology.

*Incentive Compensation*

The performance elements of the Company's executive compensation program are designed to reward Company performance and consist of non-equity incentive compensation and restricted stock-based awards provided through the MIP and the RSUP (collectively, Incentive Plans ). For plan year 2015, the committee designed the Incentive Plans to focus on specific annual and long-term Company financial, productivity, safety and customer satisfaction performance goals.

MIP

Annually, we establish incentive opportunities under the MIP, expressed as a percentage of each individual's salary at year-end (after taking into account any mid-year salary adjustment), corresponding with each individual's position and responsibilities with the Company, and determine the performance goals to be measured against these opportunities. For plan year 2015, the target incentive opportunities for the NEOs were set at the following percentages of salary:

	<b>Incentive Opportunities (% of salary)</b>
John P. Hester	115%
Roy R. Centrella	75%
William N. Moody	90%
Karen S. Haller	75%
Eric DeBonis	75%
Jeffrey W. Shaw	115%

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The performance measures selected by the committee to determine 2015 incentive compensation under the MIP were tied to measures of financial performance and productivity, safety and customer satisfaction of the Company's natural gas operations in line with the compensation principles discussed above. The primary financial measure, ROE, is designed to reward success in reaching the average authorized return-on-equity, which benefits both shareholders and customers by correlating with earnings per share and cost of service. The productivity measures are designed to reward success in reaching a predetermined customer satisfaction percentage, a percentage improvement in the customer-to-employee ratio, and a predetermined percentage of operating cost increases. The committee chose the two components of the safety performance measure because they are oriented towards incidents associated with the Company's gas distribution systems and thereby linked to risks in areas such as regulation, operations, reputation and franchise value. For select NEOs, the committee included the Construction Services performance measure in recognition of the increased stature and oversight requirements, particularly during the integration process, of the segment following the acquisition of the Link-Line Group of Companies based in Canada. For these three executives, the calculation of MIP awards incorporated a measurement of earnings for our Canadian construction services operations.

For 2015, the committee derived the targets for our five core performance measures as follows:

- \* **ROE** The target for the ROE component of the MIP was 7.55%, which represented 80% of the Company-wide authorized weighted average ROE of 9.75%, minus 0.25% to remove the volatility associated with Company-owned life insurance.
- \* **Customer Satisfaction** The Company ranks highly versus its utility industry peers in customer satisfaction ratings. The target for this component remained at 90% customer satisfaction based on independent customer surveys conducted in each of our utility operating divisions.
- \* **Customer-to-Employee Ratio** The target for this component of the MIP for 2015 was set at 888 customers per employee, which represents a 1% improvement over the actual ratio of 879 customers per employee at December 31, 2014.
- \* **Operating Costs** For the operating cost component of the MIP, we use a target that reflects estimated inflation and a growth factor. The inflation estimate is derived from the Blue Chip Economic Indicators publication and was 1.9%. This percentage is used along with a net growth factor of 1.2% to calculate the target measure. As a result, the target for 2015 was set at 3.10%.
- \* **Safety** The Company's 2015 target for damage per 1,000 tickets is 2.15, a higher level of achievement than the American Gas Association peer median. The target for incident response time within 30 minutes was 65%, representing a 2% improvement from the Company's 2014 response times.

For plan year 2015, for most of the Company's officers, the five core measures were equally weighted (ROE: 20%, Customer Satisfaction: 20%, Customer-to-Employee Ratio: 20%, Operating Cost Increases: 20% and Safety: 20%). For the PEO, Chief Financial Officer and Senior Vice President/Corporate Development, the weighting of ROE was 10%, Construction Services was weighted 10%, and each of the other four measures was weighted 20%.

Actual awards for each measure are determined as of year-end by comparing the Company's performance to the threshold, target and maximum levels set by the committee at the beginning of the year for each performance measure. When threshold performance for any measure is achieved, an award with respect to that measure is earned. Award payouts can range from 70% (at threshold) to 100% (at target) to 140% (at maximum) of the assigned incentive opportunity for each measure, based on where actual results fall in the range from threshold to target to maximum. We determine actual payouts under the MIP through linear interpolation.

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As an illustration, Customer Satisfaction was weighted as 20% of each NEO's award opportunity for 2015, and the Company achieved 92.75% customer satisfaction in 2015 (above our target of 90% and below the maximum performance level of 97%). Based on this performance, the actual award payout earned was 23.14%, or 115.7% of the 20% target. The percentage payouts under each of the performance measures are aggregated and multiplied by the total MIP incentive opportunity (expressed above as a percentage of base salary) to determine the overall dollar value of the annual MIP award.

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The thresholds, targets and maximums and our actual results under the five core performance measures for 2015 are set forth below:

Measure	Threshold	Target	Maximum	Actual	Weighting	Payout %
ROE	6.58%	7.55%	9.01%	7.46%	20% <sup>1</sup>	<b>19.44%</b>
Customer Satisfaction	83%	90%	97%	92.75%	20%	<b>23.14%</b>
Customer-To-Employee Ratio	879-to-1	888-to-1	905-to-1	881-to-1	20%	<b>15.33%</b>
Operating Cost Increases	4.10%	3.10%	2.10%	3.29%	20%	<b>18.86%</b>
<b>Safety</b>						
Damage per 1,000 Tickets	2.50	2.15	1.80	1.78	10%	<b>14.00%</b>
Response Times within 30 Minutes	60%	65%	70%	67.40%	10%	<b>11.92%</b>
<b>Total</b>						<b>103%<sup>1</sup></b>

- (1) For a select group of officers, including Messrs. Hester and Centrella, ROE was weighted 10% and Construction Services was included with 10% weighting. Below threshold performance under the Construction Services measure negatively impacted their overall MIP payout, which was 93% of target.

Additional detail regarding our achievements under the performance measures for 2015 is included in the narrative following the Summary Compensation and Grants of Plan-Based Awards Tables.

If annual performance awards are earned and payable, as they were for 2015, the committee has the discretion to reduce an NEO's overall MIP award for failure to satisfy individual performance goals. The committee reviews the PEO's individual performance to determine whether there will be any downward adjustment. For 2015, individual performance goals for the PEO centered on promoting fundamental business strategies, maximizing shareholder value, pursuing regulatory initiatives and overseeing the construction services segment.

The PEO reviews the other executive officers' individual performances to determine whether there will be any downward adjustment in the performance awards. As a result of such review, if the PEO recommends a downward adjustment in the performance awards, the PEO will bring the matter before the committee for review and approval. Mr. Centrella's goals were centered on investor relations activities, financial planning and execution, external reporting, regulatory compliance and strategic planning matters. Mr. Moody's goals were focused on natural gas distribution system integrity, information systems development and cyber-security. Ms. Haller's goals pertain to legal matters, corporate ethics and compliance, enterprise risk management, and oversight of the corporate secretary and human resources functions. Mr. DeBonis' goals were directed to maintaining system safety and reliability, controlling operating costs and enhancing customer service. The individual performance goals for the PEO and other NEOs were satisfied, and there were no reductions in their MIP awards in respect to 2015.

No awards are paid in any year unless dividends paid on our Common Stock for such year equal or exceed the prior year's dividends. Dividends paid in 2015 exceeded 2014 dividends, and for most officers, including Ms. Haller and Messrs. Moody and DeBonis, achievements under the performance measures aggregated for a MIP payout of 103% of the target incentive award opportunity. For Messrs. Hester, Centrella and Shaw below threshold results for the Construction Services performance measure (which carried a 10% weighting) negatively impacted their overall MIP payout, which was 93% of target.

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The annual MIP awards are paid in a mix of cash and equity. Awards for 2015 were paid 60% in cash (which is disclosed as non-equity incentive plan compensation in the Summary Compensation Table), with the remaining 40% converted into performance shares (which are disclosed as stock awards in the Summary Compensation and Grants of Plan-Based Awards Tables Narrative) tied to a five-day average value of the Company's Common Stock for the first five trading days in January. The performance shares are restricted for three years, and the ultimate payout in Common Stock is subject to continued employment during this restriction period; provided, however, that MIP performance shares vest immediately when a MIP participant retires after the age of 55 (subject to restrictions under Internal Revenue Service Code Section 409A).

For 2016, MIP incentive opportunities as a percentage of salary and based on job position are the same as they were for 2015. The committee has also set performance targets for 2016 for the previously utilized performance measures. The target for the ROE for 2016 is set at 7.55%, which represents 80% of the Company-wide authorized weighted average ROE, adjusted downward by 25 basis points to reflect the removal of Company-owned life insurance returns from consideration in the MIP. The customer satisfaction target is set at 90%, and the customer-to-employee target is set at 881 customers per employee, which is equal to the actual ratio at the end of 2015. The operating cost target is set at 2.8%, a target that reflects estimated inflation at 2.0% and a net growth factor of 0.8%. With regards to safety, the target for damages per 1,000 tickets is set at 2.00, within the top quartile of utility industry peers. The target for response times within 30 minutes is set at 67%,

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which represents a 2% improvement from the Company's 2015 response time target. The target for the Construction Services performance measure was set at Centuri's internal projection of 2016 pre-tax profit, which is consistent with the Company's publicly disclosed outlook for this segment. As in 2015, for most of the Company's officers, 2016 MIP awards will be based on five, equally weighted performance measures (ROE: 20%, Customer Satisfaction: 20%, Customer-to-Employee Ratio: 20%, Operating Costs: 20% and Safety: 20%). For the PEO, Chief Financial Officer, General Counsel and Senior Vice President/Corporate Development, the weighting of ROE will be 10%, Construction Services will be weighted 10%, and the other four measures will be weighted 20%.

**RSUP**

The RSUP is designed to provide incentives for maintaining long-term performance and strengthening shareholder value. The award opportunities, like that of the MIP, are based on a percentage of salary and job position. For plan year 2015, the target incentive opportunities for the NEOs were set at the following percentages:

	<b>Incentive Opportunities (% of salary)</b>
John P. Hester	45%
Roy R. Centrella	20%
William N. Moody	25%
Karen S. Haller	20%
Eric DeBonis	20%
Jeffrey W. Shaw	45%

The performance goal used to determine whether an award is earned is the average MIP payout percentage for each of the three years in the three-year period ending with the plan year. For plan year 2015, RSUP performance was based on the average of the MIP payout percentages for 2013, 2014 and 2015. No awards are earned unless the three-year average MIP payout percentage is at or above 90%. Awards are granted in the range of 50% to 150% of the target incentive opportunity, with a 90% MIP average receiving 50% of the target incentive opportunity, a 100% MIP average receiving 100% of target and a 120% or above MIP average receiving 150% of target. For each percentage point increase in the MIP average from 90% to 100%, the RSUP payout increases 5%. For each percentage point increase in the MIP average from 100% to 120%, the RSUP payout increases 2.5%.

Awards are granted in the form of restricted stock or restricted stock units, based on the five-day average value of the Company's Common Stock for the first five trading days in January. Restricted stock and/or restricted stock units vest in percentages (40%, 30% and 30%) over the three years following the date of the award; provided, however, that RSUP awards vest immediately when an RSUP participant retires after the age of 55 (subject to restrictions under Internal Revenue Service Code Section 409A).

For the three-year performance period ending with 2015, for most officers, the RSUP payout was 132.5% of target (based on a three-year MIP average of 113%). For the officers, including the PEO, for whom the Construction Services MIP measure applied in 2015, the RSUP payout was 125% of target (based on a three-year MIP average of 110%). We discuss the success in achieving the performance measures for 2015 in the narrative following the Summary Compensation and Grants of Plan-based Awards Tables.

Starting with the three-year performance period beginning in 2015, a total shareholder return modifier will apply to the RSUP awards of all officers, including the NEOs. Total shareholder return of the Company, comprising stock price appreciation or depreciation over three years,



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plus dividends, will be compared to total shareholder returns of peer companies based on the Bloomberg Transmission Distribution List. The adjustment range of the modifier will be negative 25% to positive 50% of each officer's RSUP award (as determined according to the same methodology used to determine awards for plan year 2015). Relative performance that places the Company at or above the 75<sup>th</sup> percentile of the peer group would result in maximum upward adjustment by 50%, performance in the range between the 25<sup>th</sup> and 75<sup>th</sup> percentiles would result in no adjustment, and performance at or below the 25<sup>th</sup> percentile of the peer group would result in maximum downward adjustment by 25%. The committee determined that the modifier should not be symmetrical because RSUP awards are 100% at risk as currently designed (e.g., if MIP payout percentages average less than 90% over the applicable three-year period, no RSUP will be earned). The modifier will be applied as of the end of the applicable three-year performance period to link the average MIP performance for each of the three years then ended with the market's reaction to that performance. The first RSUP awards to be subject to the modifier will be the awards, if earned, payable for plan year 2017 for the three-year performance period beginning in 2015.

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For plan year 2016, RSUP performance criteria and incentive opportunities (as a percentage of salary and based on job position) are the same as they were for 2015.

### *Perquisites*

The Company provides a limited number of perquisites to its executive officers. The executive officers receive car allowances, cable internet access, annual \$2,500 allowances for physical examinations, life insurance and a \$5,000 allowance once every three years to assist in financial and estate planning. Senior officers are also provided social club memberships.

### *Retirement Benefits*

Four retirement benefit plans are available to the executive officers. Two of the plans, the Retirement Plan for Employees of Southwest Gas Corporation ( Retirement Plan ) and the Employees Investment Plan ( EIP ), both tax-qualified plans, are available to all of our employees. Two additional plans are offered to the executive officers, the Supplemental Executive Retirement Plan ( SERP ) and the Executive Deferral Plan ( EDP ). These additional plans were established to attract and retain qualified executive officers and to address the dollar limitations imposed on the two tax-qualified plans.

Benefits under the Retirement Plan are based on (i) the executive's years of service with the Company, up to a maximum of 30 years, and (ii) the average of the executive's highest five consecutive years' salaries, within the final 10 years of service, not to exceed a maximum compensation level established by the Internal Revenue Service. The SERP is designed to supplement the benefits under the Retirement Plan to a level of 50-60% of salary. To qualify for benefits under the SERP, which is based on a 12-month average of the highest consecutive 36-months of salary, an executive is required to have reached (i) age 55, with 20 years of service with the Company, or (ii) age 65, with 10 years of service.

Executives may participate in the EIP and defer salary up to the maximum annual dollar amount permitted for 401(k) plans under the Code. Investments of these deferrals are controlled by the individual executives from a selection of investment options offered through the EIP. The Company does not match contributions for executive deferrals into the EIP. The EDP supplements the deferral opportunities by permitting executives to defer up to 100% of their annual salary and non-equity incentive compensation. As part of the EDP, the Company provides matching contributions that parallel the contributions made under the EIP to non-executives, up to 3.5% of their annual salary. Amounts deferred and Company matching contributions bear interest at 150% of the Moody's Seasoned Corporate Bond Rate. At retirement or termination, with five years of service with the Company, the executive officers will receive EDP balances paid out at the election of the participant over a period of 10, 15, or 20 years and will be credited during the applicable payment period with interest at 150% of the average of the Moody's Seasoned Corporate Bond Rate on each January 1<sup>st</sup> for the five years prior to the start of retirement.

### *Bonuses*

On rare occasions, the committee may award one-time bonuses to recognize exceptional performance or significant achievements that fall outside of an NEOs core responsibilities. The amount of one-time bonuses, when warranted, are driven by internal equity and the value of individual contributions. No bonuses were paid for 2015.

*Post-Termination Benefits*

The Company offers change in control agreements to its officers to align their interests with shareholders and to retain and motivate high caliber executive talent. Providing change in control benefits is designed to reduce the reluctance of management to pursue potential change in control transactions that may be in the best interests of shareholders and helps ensure stability and continued performance during the potentially protracted process of merging with or acquiring a regulated utility. We engaged independent consultants and outside counsel to ensure that the provisions of the change in control agreements are appropriately consistent with current market practice.

Each change in control agreement provides for a term that commences upon execution of the agreement and terminates 12 months following written notice from the Company to the officer of the termination of the agreement. Any notice of termination of the agreement will be deemed null and void if, prior to the proposed termination date, an event that was expected to result in a change in control of the Company occurs. The protection period for officers is 24 months after a change in control. A change in control event under the agreements is generally defined to include approval by the Company's shareholders of the dissolution or liquidation of the Company, consummation of a merger or a similar transaction which results in more than a 50% change in ownership, acquisition by one person (or group of persons) of at least 30% of the

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ownership of the Company, consummation of the sale of substantially all of the Company's business and/or assets, or the replacement of the majority of the members of the incumbent Board of Directors (excluding replacement directors nominated by the incumbent Board).

Upon a change in control event and the termination of employment without cause or as a result of a significant reduction in his duties, responsibilities, location or compensation, the officer will receive a lump-sum severance payment equal to the sum of (a) for the PEO, 36 months, for Messrs. Centrella, Moody and DeBonis and Ms. Haller and other senior officers, 30 months, and for the other officers, 24 months, of annual base salary and (b) in the form of cash, an amount equal to any annual incentive compensation calculated at 100% of the target amount payable for the same periods. Restricted stock awards, stock options and other similar awards, as well as benefits under nonqualified plans may vest and/or become exercisable upon a change in control event. In addition, at the minimum age of 50 and for purposes of determining eligibility for benefits, vesting and calculation of benefits under the SERP, Messrs. Hester, Centrella, Moody and DeBonis, Ms. Haller and other senior officers will be permitted to add six points, while all other officers will be permitted to add five points to the applicable formulas under the SERP. Finally, each officer shall be entitled to reimbursement of reasonable outplacement services not to exceed \$30,000. The change in control agreements include a "double trigger" provision, which requires both a change in control and the officer's termination of employment for good reason or the Company's termination of the officer's employment for reasons other than death, disability or cause, for payment of a severance benefit.

These change in control agreements have no tax gross-up provisions and instead employ a "best net" approach whereby benefits would be reduced if a reduced benefit would result in a greater after-tax benefit to the officer. If any payment under these agreements would constitute a "parachute payment" subject to any excise tax under the Code, the Company will not pay the tax on behalf of the officers.

## **Interaction of the Compensation Elements in Relation to the Compensation Objectives**

The Company's executive compensation program is intended to reward performance and to promote long-term employment commitments. Being rewarded for actual performance recognizes the Company's commitments to increasing shareholder value, implementing operational efficiencies and maintaining customer satisfaction and improving safety. Salary, retirement benefits and the opportunity to be rewarded for performance provide the incentive to secure long-term commitments to the Company. Taken as a whole, the program supports the Company's commitment to its shareholders and its long-term commitment to its customers.

## **Say-on-Pay**

The committee attempts to balance the interests of the Company, its shareholders and customers. The Company provides an annual say-on-pay advisory vote regarding executive compensation. The Company received majority approval in 2015, with more than 98% of the votes cast in favor of the compensation of the NEOs as described in the proxy statement for the 2015 annual meeting. The Board and the committee reviewed the final vote results and made only limited changes to the compensation policies as a result of these votes, as described in the Executive Summary. We determined that our shareholders should vote on a say-on-pay proposal each year. Accordingly, the Board recommends that you vote FOR Proposal 4 at the Annual Meeting. For more information, see "ADVISORY VOTE TO APPROVE THE COMPANY'S EXECUTIVE COMPENSATION" in this Proxy Statement.

## **Deductibility of Compensation**

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Section 162(m) of the Code generally disallows a tax deduction to public companies for compensation over \$1 million paid to the chief executive officer or any of the other four most highly compensated executive officers. Generally, awards under the MIP, which permits the grant of performance-based compensation, may not be subject to the deduction limit if certain requirements are met. We have also structured certain other performance-based portions of the executive compensation program in a manner that is designed to comply with the exceptions to the deductibility limitations of Section 162(m). While we intend for the performance-based compensation arrangements to meet the requirements of Section 162(m), we can provide no assurances that such compensation arrangements would ultimately satisfy such requirements.

The committee believes, however, that in certain circumstances, factors other than tax deductibility take precedence when determining the forms and levels of executive compensation most appropriate and in the best interests of the Company and its shareholders. Given our industry and business, as well as the competitive market for outstanding executives, the committee believes that it is important to retain the flexibility to design compensation programs consistent with the overall executive compensation program even if some executive compensation is not fully deductible. The committee has from time to time approved elements of compensation for certain officers that may not be fully deductible and reserves the right to do so in the future when appropriate.

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**COMPENSATION COMMITTEE REPORT**

As a part of the committee's duties, it is charged with the responsibility of producing a report on executive compensation for inclusion in the Annual Report on Form 10-K and this Proxy Statement. This report is based on the committee's review of the Compensation Discussion and Analysis and the discussion of its content with management.

The committee, based on its review of the Compensation Discussion and Analysis and its discussions with management, recommended to the Board (and the Board has approved and directed) that the Compensation Discussion and Analysis be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015, and this Proxy Statement.

*Compensation Committee*

*Robert L. Boughner (Chair)*  
*Stephen C. Comer*  
*Terrence L. Wright*

*Thomas E. Chestnut*  
*Michael J. Melarkey*

**Table of Contents****Summary Compensation Table**

The following table includes information concerning compensation during 2015, 2014 and 2013 for the named executive officers, whom we refer to as the NEOs.

Name and Principal Position	Year	Salary \$(1)	Bonus \$(2)	Stock Awards \$(3)	Non-Equity Incentive Plan Compensation \$(1)(4)	Change in Pension Value and Nonqualified Deferred Compensation Earnings \$(5)	All Other Compensation \$(6)(7)(8)	Total (\$)
John P. Hester President and Chief Executive Officer	2015	603,342		560,729	423,522	825,559	32,652	2,445,804
	2014	382,027	150,000	378,369	224,480	833,865	27,432	1,996,173
	2013	325,685		325,600	139,536	61,976	24,868	877,665
Roy R. Centrella Senior Vice President/ Chief Financial Officer	2015	375,822		319,726	163,215	172,165	36,812	1,067,740
	2014	336,507	75,000	296,050	133,590	666,653	31,732	1,539,532
	2013	300,685		299,758	107,730	243,471	31,698	983,342
William N. Moody Executive Vice President	2015	388,822		403,122	224,149	356,911	38,238	1,411,242
	2014	338,363		333,855	166,018	705,912	34,896	1,579,044
	2013	264,945		263,581	123,120	75,107	31,251	758,004
Karen S. Haller Senior Vice President/ General Counsel and Corporate Secretary	2015	318,822		269,796	154,346	191,854	32,246	967,064
	2014	273,808	75,000	233,082	112,728	1,009,190	34,571	1,738,379
	2013	237,693		237,740	84,816	9,121	26,243	595,613
Eric DeBonis Senior Vice President/ Operations	2015	288,060		247,021	137,196	83,561	34,131	789,969
	2014	275,162		253,758	103,212	520,471	32,633	1,185,236
	2013	261,411		263,581	92,340	13,735	34,104	665,171
Jeffrey W. Shaw Chief Executive Officer (retired)	2015	141,425		1,390,682	158,960	108,675	429,277	2,229,019
	2014	861,507	350,000	1,318,816	499,468	1,889,173	61,123	4,980,087
	2013	817,096		1,380,197	440,496	188,840	52,231	2,878,860

(1) Amounts shown in this column include any amounts deferred by the NEOs into the EIP and EDP.

(2) Amounts shown in this column represent one-time cash bonuses for performance in 2014 related to the acquisition of the Link-Line Group of Companies.

(3) Amounts shown in this column represent the grant date fair value of awards of performance shares and restricted stock units granted in 2013, 2014 and 2015 based on performance criteria established in 2012, 2013, and 2014 under the MIP and the RSUP. In each case, the amounts were determined in accordance with Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ) Topic 718. The assumptions used to calculate these amounts are included in Note 11 Stock-Based Compensation of Exhibit 13.01 to our 2015 Annual Report on Form 10-K. However, as required, the amounts shown exclude the impact of estimated forfeitures. The stock awards granted in 2016 based on performance in 2015 are discussed below under the caption Summary Compensation and Grants of Plan-Based Awards Tables Narrative.

Performance shares vest three years after grant. Restricted stock units vest 40% at the end of the first year and 30% at the end of each of the second and third years. The valuation of the performance shares and restricted stock units are based on the Common Stock share price on the date of grant. Because the last option awards were made in 2006, there is no need to maintain the Options column.

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- (4) Amounts shown in this column represent the cash awards paid through the MIP in 2014, 2015 and 2016 for services performed in 2013, 2014 and 2015, respectively. The cash awards paid in 2016 for performance in 2015 are also discussed below under the caption Summary Compensation and Grants of Plan-Based Awards Table Narrative.
- (5) The aggregate change in the actuarial present value of the NEOs accumulated benefit under the Retirement Plan and the SERP for 2015 and the above-market interest (in excess of 120% of the applicable federal long-term rate with compounding) earned on EDP balances for 2015 are as follows:

	<b>Increase in Pension Values</b>	<b>Above-Market Interest</b>
Mr. Hester	\$ 759,553	\$ 66,006
Mr. Centrella	116,610	55,555
Mr. Moody	313,002	43,909
Ms. Haller	177,492	14,362
Mr. DeBonis	67,158	16,403
Mr. Shaw	0	108,675

No amounts are payable from the pension plans before a participant attains age 55 and experiences a separation in service from the Company.



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- (6) Company matching contributions equal to one-half of the amount deferred by the NEOs under the EDP, up to 3.5% of the NEO's respective annual salary in 2015, are as follows:

	<b>Matching Contributions</b>
Mr. Hester	\$ 16,100
Mr. Centrella	13,637
Mr. Moody	13,230
Ms. Haller	11,565
Mr. DeBonis	10,457
Mr. Shaw	5,990

- (7) The aggregate incremental costs of the perquisites and personal benefits to the NEOs are based on the taxable value of the personal use of company cars and internet access, while club dues, life insurance, financial planning and physicals are based on the cost to the Company. The life insurance costs include deemed earnings for the value of excess group life insurance coverage premiums and the cost of purchasing supplemental life insurance equal to two times salary. The perquisites and personal benefits, by type and amount, for 2015 are as follows:

	<b>Car Allowance</b>	<b>Club Dues</b>	<b>Cable Internet</b>	<b>Physicals</b>	<b>Life Insurance</b>	<b>Financial Planning</b>
Mr. Hester	\$ 8,402	\$ 2,060	\$ 480	\$ 2,500	\$ 3,110	\$ 0
Mr. Centrella	7,793	6,975	480	2,500	5,427	0
Mr. Moody	9,903	6,975	0	2,500	5,630	0
Ms. Haller	13,674	4,100	480	0	2,427	0
Mr. DeBonis	12,753	6,975	0	2,500	1,446	0
Mr. Shaw	3,378	1,500	0	0	2,060	2,500

- (8) The amount includes: (i) \$175,891 in other compensation paid to Mr. Shaw at retirement, consisting of \$39,228 for the value of his Company car, \$119,808 in paid-out vacation, \$15,000 for a retirement gift, \$1,855 for the value of his electronic devices, (ii) retirement benefits of \$85,880 and \$110,528 received in 2015 under the Retirement Plan and the SERP, respectively and (iii) \$41,550 in director compensation paid to Mr. Shaw following his retirement.

**Grants of Plan-Based Awards (2015)**

The following table sets forth information regarding each grant of an award made under our Incentive Plans to our NEOs during the fiscal year ended December 31, 2015.

Name	Award Type(1)(2)	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards		
		Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)
John P. Hester	MIP	318,780	455,400	637,560	3,843	5,490	7,686
	RSUP				2,685	5,370	8,055
Roy R. Centrella	MIP	122,850	175,500	245,700	1,481	2,116	2,962
	RSUP				705	1,410	2,116
William N. Moody	MIP	152,334	217,620	304,668	1,836	2,623	3,673
	RSUP				911	1,822	2,733
Karen S. Haller	MIP	104,895	149,850	209,790	1,264	1,806	2,529
	RSUP				602	1,204	1,806
Eric DeBonis	MIP	93,240	133,200	186,480	1,124	1,606	2,248

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	RSUP				535	1,070	1,606
Jeffrey W. Shaw	MIP	429,870	614,100	859,740	5,182	7,403	10,364
	RSUP				3,621	7,242	10,863

- (1) Represents the annual award opportunities established under the MIP for the 2015 fiscal year, 60% of which is paid in cash and 40% of which is awarded in performance shares. The number of performance shares granted in 2016 for performance in 2015 was determined by dividing the value of the percentage of applicable award opportunities to be paid in performance shares at Threshold, Target and Maximum performance levels by a share price that is determined by the five-day average closing price of Common Stock ending on January 8 2016, which was \$55.30.

The award amount under the MIP is based upon the Company achieving a percentage of the target levels under the MIP, as described under Compensation Discussion and Analysis How We Determine Amounts Paid for Each Element of Compensation Program. The Threshold column above presents the award value assuming threshold level performance for each of the applicable performance measures under the MIP, and equals 70% of the NEO's incentive opportunity under the MIP; the Target column presents the award value assuming target level performance for each of the applicable performance measures under the MIP, and equals 100% of the NEO's incentive opportunity under the MIP; and the Maximum column presents the award value assuming maximum level performance for each of the applicable performance measures under the MIP, and equals 140% of the NEO's incentive opportunity under the MIP.

The MIP equity awards generally vest three years after the date the actual awards are granted. However, because Messrs. Centrella and Moody are over age 55 and are eligible to retire, the awards will vest at their termination of employment, pursuant to the terms of the MIP. Because

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Mr. Shaw was over 55 when he retired in March 2015, his equity awards vested upon termination and were issued following the waiting period imposed by Internal Revenue Service Code Section 409A.

The grant date fair value of the actual number of performance shares granted on February 23, 2016 pursuant to the applicable MIP annual award for the 2015 plan year, computed in accordance with FASB ASC Topic 718, was \$301,473 for Mr. Hester, \$116,180 for Mr. Centrella, \$159,554 for Mr. Moody, \$109,867 for Ms. Haller and \$97,659 for Mr. DeBonis. The non-equity incentive plan awards for the 2015 plan year are shown in the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table above. Mr. Shaw retired in March 2015. As a result of his retirement, he received a pro rata 2015 MIP award, paid 100% in cash.

- (2) Represents the annual award opportunities established under the RSUP for the 2015 plan year, but granted in 2016. The number of restricted stock units granted in 2016 for performance in 2015 was determined by dividing the applicable Threshold, Target and Maximum amounts by the five-day average closing price of Common Stock ending on January 8, 2016, which was \$55.30.

The award amount under the RSUP is based upon the average MIP payout percentage for the three years immediately preceding the RSUP award determination date, as described under Compensation Discussion and Analysis How We Determine Amounts Paid for Each Element of Compensation Program. The Threshold column above presents the award value assuming an MIP average payout percentage of 90%, and equals 50% of the NEO's incentive opportunity under the RSUP; the Target column above presents the award value assuming an MIP average payout percentage of 100%, and equals 100% of the NEO's incentive opportunity under the RSUP; and the Maximum column presents the award value assuming an MIP average payout percentage of at least 120%, and equals 150% of the NEO's incentive opportunity under the RSUP. No award will be earned under the RSUP unless the MIP average payout percentage is at least 90%.

A percentage of the RSUP awards vests each year over the three years following the date of determination of the actual award amount. Because Messrs. Centrella and Moody are over age 55 and are eligible to retire, the awards will fully vest at their termination of employment pursuant to the terms of the RSUP. Because Mr. Shaw was over 55 when he retired in March 2015, his awards vested upon termination and were issued following the waiting period imposed by Internal Revenue Service Code Section 409A. The grant date fair value of the actual number of restricted stock units granted on February 23, 2016, pursuant to the applicable RSUP annual award for the 2015 plan year, computed in accordance with FASB ASC Topic 718, was \$396,397 for Mr. Hester, \$104,104 for Mr. Centrella, \$142,536 for Mr. Moody, \$94,222 for Ms. Haller, \$83,753 for Mr. DeBonis and \$89,267 for Mr. Shaw. Mr. Shaw retired in March 2015. As a result of his retirement, he received a pro rata 2015 RSUP award.

**Summary Compensation and Grants of Plan-Based Awards Tables Narrative**

Salaries for the NEOs were increased in July 2015. The increases in salaries reflect additional time and experience in these positions and changes to the midpoints to reflect market trends.

As presented in the Compensation Discussion and Analysis, during fiscal year 2015, the Company achieved 103% of the established target levels under the core MIP performance measures, and most officers, including Mrs. Moody and DeBonis and Ms. Haller, earned 103% of their respective incentive opportunities. Messrs. Hester, Centrella and Shaw, for whom Construction Services was a performance measure, earned 93% of their respective incentive opportunities. These results compare to the 2014 and 2013 performance results in which the Company achieved 122% and 114%, respectively, of the overall performance targets. No downward adjustments were made to the awards to the NEOs.

60% of the MIP awards were paid in cash in February 2016 and the remaining 40% of the MIP awards were converted into performance shares in February 2016 based on the five-day average price of Common Stock for January 4, 5, 6, 7 and 8, 2016, which equaled \$55.30 per share. The MIP cash awards paid in 2016 for services performed in 2015 (and included in the Summary Compensation Table) were \$423,522 for Mr. Hester, \$163,215 for Mr. Centrella, \$224,149 for Mr. Moody, \$154,346 for Ms. Haller and \$137,196 for Mr. DeBonis.

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The dollar value of the 2015 MIP performance share awards, the number of performance shares granted (rounded to whole shares) as a result thereof, and the grant date fair values of the performance shares granted on February 23, 2016 are as follows:

	<b>Dollar Values</b>	<b>Performance Shares</b>	<b>Grant Date Fair Value(1)</b>
Mr. Hester	\$ 282,348	5,105	\$ 301,473
Mr. Centrella	108,810	1,967	116,180
Mr. Moody	149,432	2,702	159,554
Ms. Haller	102,897	1,861	109,867
Mr. DeBonis	91,464	1,654	97,659
Mr. Shaw(2)			

(1) The grant date fair value was \$59.05 on February 23, 2016.

(2) Mr. Shaw retired from the Company in March 2015 and his MIP award was prorated for his period of employment with the Company during 2015 and paid in cash. The amount of the award is shown in the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table for Mr. Shaw.

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The Company's 2015 performance also resulted in an award under the RSUP. The three-year average of MIP payout percentage equaled 113% under the core measures, resulting in an award of 132.5% of the target incentive opportunity for most officers, including Messrs. Moody and DeBonis and Ms. Haller. Messrs. Hester, Centrella and Shaw, for whom Construction Services was a performance measure, had a three-year average MIP payout percentage of 110%, resulting in an award of 125% of their respective incentive award opportunities. The dollar value of the 2015 RSUP awards, the number of restricted stock units granted (rounded to whole shares) as a result thereof, and the grant date fair values of the performance shares granted on February 23, 2016 are as follows:

	Dollar Values	Restricted Stock Units	Grant Date Fair Value(1)
Mr. Hester	\$ 371,250	6,713	\$ 396,397
Mr. Centrella	97,500	1,763	104,104
Mr. Moody	133,494	2,414	142,536
Ms. Haller	88,245	1,596	94,222
Mr. DeBonis	78,440	1,418	83,753
Mr. Shaw(2)	83,604	1,512	89,267

(1) The grant date fair value was \$59.05 on February 23, 2016.

(2) Mr. Shaw retired from the Company in March 2015, and his RSUP award was prorated for his period of employment with the Company during 2015.

**Outstanding Equity Awards at Fiscal Year-End 2015**

The following table sets forth information regarding unexercised options under our Option Plan, unvested performance share awards under the MIP and unit awards under the RSUP for each of the NEOs, in each case, outstanding as of December 31, 2015.

Name	Option Awards				Stock Awards	
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)(1)	Market Value of Shares or Units of Stock That Have Not Vested (\$)(2)
John P. Hester	0	0	N/A	N/A	20,604	1,136,517
Roy R. Centrella	662	0	33.07	7/31/16	14,909	822,380
William N. Moody	0	0	N/A	N/A	16,295	898,832
Karen S. Haller	0	0	N/A	N/A	12,061	665,285
Eric DeBonis	0	0	N/A	N/A	12,447	686,577
Jeffrey W. Shaw	0	0	N/A	N/A	0	0

(1) The MIP performance share awards vest as follows:

	Grants in 2013 January 2016	Grants in 2014 January 2017	Grants in 2015 January 2018
Mr. Hester	4,313	4,037	5,699
Mr. Centrella	3,971	3,117	3,392

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Mr. Moody	3,492	3,562	4,215
Ms. Haller	3,149	2,454	2,862
Mr. DeBonis	3,492	2,671	2,620
Mr. Shaw	0	0	0

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The RSUP unit awards granted in 2013, 2014 and 2015 (plan years 2012, 2013 and 2014, respectively), including dividends reinvested, vest as follows:

	<b>Plan Year</b>	<b>January 2016</b>	<b>January 2017</b>	<b>January 2018</b>
Mr. Hester	2014	1,378	1,034	1,033
	2013	1,021	1,020	
	2012	1,069		
Mr. Centrella	2014	729	547	546
	2013	811	811	
	2012	985		
Mr. Moody	2014	944	708	707
	2013	901	900	
	2012	866		
Ms. Haller	2014	615	462	461
	2013	639	638	
	2012	781		
Mr. DeBonis	2014	563	423	422
	2013	695	695	
	2012	866		
Mr. Shaw	2014	0	0	0
	2013	0	0	
	2012	0		

Because Messrs. Centrella and Moody are over age 55 and are eligible for retirement, the MIP performance shares and the RSUP units will vest when their employment with the Company ends. Because Mr. Shaw was past age 55 when he retired in March 2015, all of his MIP performance shares and RSUP units vested at that time.

(2) The market value of Common Stock was \$55.16 per share, the closing price on December 31, 2015.

**Option Exercises and Stock Vested During 2015**

The following table sets forth the number of options to purchase Common Stock that were exercised and the aggregate dollar value realized upon exercise (the difference between the market price of the underlying securities at exercise and the exercise price of the options). The number of MIP performance shares and RSUP units that vested during 2015 and the value realized on vesting (the market price at vesting) are also shown in the table.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
John P. Hester	0	0	7,233	446,201
Roy R. Centrella	0	0	6,451	397,997

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William N. Moody	0	0	5,695	351,259
Karen S. Haller	0	0	4,032	248,660
Eric DeBonis	0	0	5,692	351,158
Jeffrey W. Shaw(1)	0	0	94,321	5,394,760

- (1) Stock Award shares for Mr. Shaw, in addition to those vesting according to the normal vesting schedule, also included 25,131 MIP performance shares and 13,623 RSUP units outstanding at the time of his retirement in March 2015, all of which vested in connection with his retirement and were later distributed to him in compliance with Code Section 409A. For purposes of this table, such shares were valued based on the closing share price of Common Stock on the date of distribution.

### Pension Benefits

We offer two defined benefit retirement plans to the NEOs and the other Company officers. They include the Retirement Plan, which is available to all employees of the Company, and the SERP.

Benefits under the Retirement Plan are based on the NEO's (i) years of service with the Company, up to a maximum of 30 years, and (ii) average of the highest five consecutive years' salary, within the final 10 years of service, not to exceed a maximum compensation level established by the Internal Revenue Service. Vesting in the Retirement Plan occurs after five years of service with the Company.

The SERP is designed to supplement the benefits under the Retirement Plan to a level of 50 - 60% of salary, as shown in the *Salary* column of the *Summary Compensation Table*. Salary is currently based on the 12-month average of the



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highest 36 months of salary at the time of retirement. Vesting in the SERP occurs at age 55, with 20 years of service with the Company.

Upon retirement, the plans will provide a lifetime annuity to the NEOs, with a 50% survivor benefit to their spouses. No lump sum payments are permitted under the Plans.

Messrs. Centrella and Moody are vested in both plans and could retire at this time and start receiving full benefits. Messrs. Hester and DeBonis and Ms. Haller are vested only in the Retirement Plan and, if any left the Company as of the date of this Proxy Statement, his or her accrued benefit under the Retirement Plan would be reduced by 58.6% and benefits would not commence until age 55. Mr. Shaw was vested in both plans at his retirement in March 2015 and started receiving benefits with an 11.25% reduction under both the Retirement Plan and SERP.

*Pension Benefits as of December 31, 2015*

The following table sets forth the number of years of credited service and present value of accumulated benefits as of December 31, 2015, and payments received during the last fiscal year, under both the Retirement Plan and the SERP for each NEO.

Name	Plan Name	Number of Years Credited Service(#)	Present Value of Accumulated Benefit\$(1)	Payments During Last Fiscal Year(\$)
John P. Hester	Retirement Plan	26	1,595,614	0
	SERP	26	2,058,402	0
Roy R. Centrella	Retirement Plan	30	1,960,939	0
	SERP	30	1,191,663	0
William N. Moody	Retirement Plan	30	1,873,775	0
	SERP	30	1,087,259	0
Karen S. Haller	Retirement Plan	18	755,789	0
	SERP	18	1,080,533	0
Eric DeBonis	Retirement Plan	22	956,819	0
	SERP	22	894,056	0
Jeffrey W. Shaw	Retirement Plan	27	1,646,334	85,880
	SERP	27	5,531,317	110,528

(1) The valuation method and all material assumptions applied in quantifying the present value of the accrued benefits are described in Note 10 Pension and Other Postretirement Benefits of Exhibit 13.01 to our 2015 Annual Report on Form 10-K.

**Nonqualified Deferred Compensation**

In addition to participating in the EIP, which is available to all employees, the NEOs and the other Company officers can participate in the EDP. The EDP supplements the deferral opportunities by permitting executives to defer up to 100% of their annual salary and non-equity incentive plan compensation. As part of the EDP, the Company provides matching contributions up to 3.5% of participants' annual base salary. Matching contributions are not available to the NEOs and the other Company officers for deferrals into the EIP.

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Amounts deferred under the EDP and the matching contributions made during a plan year bear interest at 150% of the Moody's Seasoned Corporate Bond Rate (the Bond Rate) from the start of the plan year. The interest rate is set for the plan year using the Bond Rate published by Moody's Investors Services as of January 1 prior to the start of a new plan year. The interest rate formula was defined in the EDP at the time it was adopted in 1986. For plan year 2014, the interest rate was 7.38%, and for plan year 2015, the interest rate was 6.26%.

At retirement or termination of employment with five years of service, the EDP balances will be paid out at the election of the participant over a period of 10, 15 or 20 years and will be credited during the applicable payment period with interest at 150% of the average of the Bond Rate on each January 1 for the five years prior to distribution.

Deferrals and the matching contributions to the EDP are unfunded obligations of the Company, and the rights of our named executive officers and other Company officers participating in such plan benefits are no greater than those of an unsecured creditor.

**Table of Contents***Nonqualified Deferred Compensation in 2015*

The following table presents nonqualified deferred compensation during 2015 for each NEO.

Name	Executive Contributions in Last Fiscal Year\$(1)	Registrant Contributions in Last Fiscal Year\$(2)	Aggregate Earnings in Last Fiscal Year\$(2)	Aggregate Withdrawals / Distributions \$(3)	Aggregate Balance at Last Fiscal Year-End\$(4)
John P. Hester	219,204	16,100	119,319	0	1,724,101
Roy R. Centrella	181,721	13,637	104,959	0	1,629,411
William N. Moody	149,818	13,230	78,882	0	1,132,506
Karen S. Haller	63,123	11,565	27,281	0	448,057
Eric DeBonis	66,648	10,457	30,194	0	462,222
Jeffrey W. Shaw	19,250	5,990	209,243	138,561	2,984,384

- (1) Amounts shown in this column are included in the Salary and Non-Equity Incentive Compensation columns of the Summary Compensation Table.
- (2) EDP earnings, which were above-market, and matching contributions are also reported in the Change in Pension Value and Nonqualified Deferred Compensation Earnings and the All Other Compensation columns, respectively, of the Summary Compensation Table. Those amounts for the NEOs are as follows:

	Above-Market Interest	Matching Contributions	Total
Mr. Hester	\$ 66,006	\$ 16,100	\$ 82,106
Mr. Centrella	55,555	13,637	69,192
Mr. Moody	43,909	13,230	57,139
Ms. Haller	14,362	11,565	25,927
Mr. DeBonis	16,403	10,457	26,860
Mr. Shaw	108,675	5,990	114,665

- (3) Represents distributions made after Mr. Shaw's retirement in March 2015.
- (4) The amounts reported in this column that were previously reported as compensation to the NEOs in the Summary Compensation Table for previous years are as follows:

	2013	2014	2015
Mr. Hester	\$ 165,084	\$ 194,179	\$ 301,310
Mr. Centrella	148,102	195,781	250,913
Mr. Moody	118,190	150,510	206,957
Ms. Haller	52,952	60,883	89,050
Mr. DeBonis	78,475	82,828	93,508
Mr. Shaw	211,872	213,015	133,915

**Post-Termination Benefits**

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The Company has no employment agreements or severance arrangements. Each officer of the Company has a change in control agreement, which provides benefits upon certain termination events following a change in control of the Company. If the termination of employment without cause or as a result of a significant reduction in duties, responsibilities, location or compensation occurs within two years after a change in control (which includes an acquisition by one person or a group of persons of at least 30% of the ownership of the Company, replacement of a majority of incumbent Board members, or a merger or similar transaction resulting in more than a 50% change of ownership of the Company) (collectively referred to as a "Double Trigger Event"), the affected NEOs would receive the following:

- \* Salary for three years for the PEO and two and one-half years for all other NEOs;
- \* Incentive compensation under the MIP and the RSUP for three years for the PEO and two and one-half years for all other NEOs;
- \* Welfare benefits including the cost of medical, dental and life insurance coverage under the current Company plans (for three years for the PEO and two and one-half years for all other NEOs);
- \* Vesting of all unvested stock-based awards and stock options, with the options being exercisable for 90 days;

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- \* Additional credit that may affect eligibility, vesting, and the calculation of benefits under the SERP (see discussion in the Compensation Discussion and Analysis section above); and
- \* Outplacement services of up to \$30,000.

Under the assumption that a Double Trigger Event occurred on December 31, 2015, based on the terms of the change in control agreements for the NEOs, it is estimated that the NEOs would have received the compensation presented in the following table.

Name	Salary	Incentive Compensation	Welfare Benefits	Stock Acceleration(1)	Outplacement Services	Additional SERP Benefits(2)	Total
John P. Hester	\$ 1,980,000	\$ 3,168,000	\$ 47,172	\$ 1,136,517	\$ 30,000	\$ 1,627,425	\$ 7,989,114
Roy R. Centrella	975,000	926,250	47,893	0	30,000	0	1,979,143
William N. Moody	1,007,500	1,158,625	39,245	0	30,000	0	2,235,370
Karen S. Haller	832,500	790,875	47,588	665,285	30,000	1,257,859	3,624,107
Eric DeBonis	740,000	703,000	47,448	686,577	30,000	0	2,207,025
Jeffrey W. Shaw	n/a	n/a	n/a	n/a	n/a	n/a	n/a

- (1) Because Messrs. Centrella and Moody are over age 55 and able to retire under the Incentive Plans with full vesting, termination of employment does not affect their rights to vested and unvested stock-based awards or options. The number and value of the stock-based awards and the number of options for these individuals are shown in the *Outstanding Equity Awards at Fiscal Year-End 2015* table.
- (2) Additional SERP benefits are shown on a present value basis, using the valuation method and all material assumptions described in Note 10 Pension and Other Postretirement Benefits of Exhibit 13.01 to our 2015 Annual Report on Form 10-K.
- (3) Because Mr. Shaw retired in March 2015, no potential payments have been reflected for him.

**DIRECTORS COMPENSATION**

**2015 Directors Compensation Table**

Name	Fees Earned or Paid in Cash(\$)	Stock Awards (\$)(1)(2)(3)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)(4)	All Other Compensation (\$)(5)	Total(\$)
Robert L. Boughner	80,550	143,530	21,922	160	246,162
José A. Cárdenas	63,100	143,530	0	160	206,790
Thomas E. Chestnut	66,400	143,530	37,448	160	247,538

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Stephen C. Comer	73,900	143,530	27,915	160	245,505
LeRoy C. Hanneman, Jr.	75,550	143,530	0	160	219,240
Michael O. Maffie (retired)	20,000	143,530	0	0	163,530
Anne L. Mariucci	70,600	143,530	22,943	160	237,233
Michael J. Melarkey	114,750	143,530	38,014	160	296,454
Jeffrey W. Shaw	41,550		0	0	41,550
A. Randall Thoman	73,990	143,530	12,640	160	230,230
Thomas A. Thomas	63,100	143,530	15,495	160	222,285
Terrence L. Wright	64,750	143,530	69,443	160	277,883

- (1) The amounts in this column represent the grant date fair value of restricted stock units earned in 2014 but not granted until 2015, based on the Company's performance over the past three fiscal years, as determined by the MIP. Mr. Shaw did not receive a director grant in 2015 because he was an officer at that time. On February 23, 2016, each director serving at that time received 2,125 restricted stock units. The restricted stock units are valued at the closing price of Common Stock on the date of grant. Because the last option awards were made in 2006, there is no need to maintain the Options column.
- (2) The grant date fair value of the 2,275 restricted stock units granted in 2015 was based on the closing price of Common Stock of \$63.09 on January 26, 2015. The amounts were determined in accordance with FASB ASC Topic 718. The assumptions used to calculate these amounts are included in Note 11 Stock-Based Compensation to our audited financial statements for the year ended December 31, 2015, included in our Annual Report to Shareholders, a portion of which was filed with the SEC on February 25, 2016 as Exhibit 13.01 to our 2015 Annual Report on Form 10-K. However, as required, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions.

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(3) Stock and option awards outstanding at December 31, 2015, for each of the listed directors are as follows:

	Stock Awards	Options
Mr. Boughner	16,033	0
Mr. Cárdenas	9,801	0
Mr. Chestnut	17,321	0
Mr. Comer	17,321	0
Mr. Hanneman	14,123	0
Mr. Maffie	0	0
Ms. Mariucci	17,321	0
Mr. Melarkey	17,321	3,000
Mr. Shaw	0	0
Mr. Thoman	12,263	0
Mr. Thomas	16,033	0
Mr. Wright	17,321	3,000

Mr. Shaw's executive awards are disclosed above in the discussion with the NEOs.

- (4) The pension value of Mr. Wright's retirement benefits increased by \$0. The amounts in this column also reflect above-market interest on nonqualified deferred compensation balances for 2015. Mr. Shaw's executive pension and deferred compensation are disclosed above in the discussion of the NEOs.
- (5) The All Other Compensation column represents the cost of life insurance for directors other than Messrs. Maffie and Shaw. Former officers of the Company do not receive life insurance benefits for serving as a director.

**Directors Compensation Narrative**

The outside directors receive an annual retainer of \$40,000 and \$1,650 for each Board and committee meeting attended and for any additional day of service performed for the Company. The chairperson of the Audit Committee receives an additional \$15,000 annually, the chairperson of the Compensation Committee receives an additional \$12,500 annually and the chairpersons of the other permanent committees each receive an additional \$7,500 annually. The Chairman of the Board receives an additional \$50,000 annually for serving in that capacity. Directors who are full-time employees of the Company or its subsidiaries receive no additional compensation for serving on the Board.

Outside directors are granted 800 restricted stock units annually, and they have an opportunity to earn additional restricted stock units tied to maintaining long-term performance and based on how the Company performed over the last three years under the MIP performance measures. The incentive award was set at a target of 1,000 restricted stock units. No award will be paid unless the average payout percentage under the MIP for the last three years is at or above 90%. If an award is earned, it can range from 50% to 150% of the incentive opportunity. An incentive award was earned for 2015, and each director on the grant date received an additional grant of 1,325 restricted stock units on February 23, 2016. The restricted stock units are valued at the closing price of the Company's Common Stock on the date of grant. Restricted stock units awarded prior to January 2012 vested in increments over three years commencing with the first anniversary of the grant. Restricted stock units granted in subsequent years vested immediately upon grant. Even though the units are vested, they are not converted into shares of Common Stock until the outside directors leave the Board.

Cash compensation received by the outside directors may be deferred until retirement or termination of their status as directors pursuant to the Directors Deferral Plan. Amounts deferred bear interest at 150% of the Moody's Seasoned Corporate Bond Rate. At retirement or termination,

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such deferrals will be paid out over 5, 10, 15 or 20 years, and will be credited during the applicable payment period with interest at 150% of the average of the Moody's Seasoned Corporate Bond Rate on January 1 for the five years prior to retirement or termination.

The Company also provides a retirement plan for the one outside director (Mr. Wright) elected to the Board prior to the 2003 Annual Meeting of Shareholders. Under the provisions of the plan, he will receive an annual benefit equal to the annual retainer at the time of his retirement.



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**AMENDMENT AND REAPPROVAL OF  
RESTRICTED STOCK/UNIT PLAN**

*(Proposal 2 on the Proxy Card)*

**The Board of Directors Recommends a VOTE FOR this Proposal**

In January 2012 the Board adopted, and in May 2012 the shareholders approved, the Company's Amended and Restated Restricted Stock/Unit Plan (RSUP). The RSUP gives the Board authority to grant restricted stock and restricted stock units and, in its discretion, to design such awards that are intended to qualify as performance-based compensation as defined under Section 162(m) of the Internal Revenue Code (the Code). Awards that so qualify may be exempt from the limit on tax deductibility under Code Section 162(m). The Code requires that the material terms of the RSUP be reapproved by the shareholders no less frequently than every five years in order for awards under the RSUP to continue to be designated to qualify as performance-based compensation. The Board also proposes to increase the share reserve under the RSUP, to extend the term of the RSUP, and to expand the list of potential performance criteria under the RSUP, as described below. The RSUP is being submitted to shareholders for these reasons.

As of March 8, 2016, 418,205 shares had been issued under the RSUP and target awards covering a total of 252,666 shares were outstanding, and there were no shares not subject to target awards and available for issuance under the RSUP. To ensure that sufficient shares are authorized for the RSUP to cover future awards, the Board believes that additional shares are needed. Accordingly, in February 2016, the Board approved an amendment to the RSUP, subject to shareholder approval, to reserve an additional 400,000 shares of Common Stock for the RSUP, thereby increasing the total number of shares reserved for issuance under the RSUP from 650,000 to 1,050,000 shares. Additionally, the Board approved, subject to shareholder approval, the extension of the term of the RSUP until May 31, 2021, and additional performance criteria for individual performance, safety and subsidiary and regional financial performance.

The material terms of the RSUP are described below, and a complete copy of the RSUP, marked to show the proposed amendments, is attached to this Proxy Statement as Appendix A. The following description is qualified in its entirety by the terms of the RSUP, a copy of which is attached to this Proxy Statement as Appendix A and is incorporated herein by reference.

**General Description**

*Purpose*

The purpose of the RSUP is to provide the Company's officers, directors and employees, whose present and potential contributions are important to the success of the Company, an incentive, through ownership of Common Stock of the Company, to continue in service to the Company, and to help the Company compete effectively with other enterprises for the services of qualified individuals.

*Shares Reserved for Issuance under the RSUP*

If the amendment is approved by the shareholders, a total of 1,050,000 shares of Common Stock will be reserved for issuance under the RSUP. The number of shares of Common Stock available under the RSUP will be subject to adjustment in the event of a stock split, stock or other extraordinary dividend, or other similar change in the Company Common Stock or capital structure of the Company.

The maximum number of shares with respect to which awards of restricted stock and restricted stock units that are intended to be performance-based compensation under Section 162(m) of the Code that may be granted to a participant during a calendar year is 20,000 shares. The foregoing limitations shall be adjusted proportionately in connection with any change in the Company's capitalization due to a stock split, stock dividend, or similar event affecting Company Common Stock and its determination shall be final, binding and conclusive.

#### *Administration*

The RSUP is administered by the Administrator (the Administrator), defined as one or more committees we designate consisting of independent directors. The RSUP is administered by the Compensation Committee. With respect to grants to officers, directors, and employees who are considered a covered employee for purposes of Section 162(m) of the Code, the Compensation Committee shall be constituted in such a manner as to satisfy applicable laws, including Rule 16b-3 promulgated under the Securities Exchange Act of 1934, as amended, and Section 162(m) of the Code.

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### *Eligibility*

Participants in the RSUP include directors, managerial employees and officers, including the Company's CEO and the other executives named in the Summary Compensation Table. As of March 8, 2016, 11 directors and 58 managerial employees and officers were eligible to be RSUP participants, and 12 directors and 57 managerial employees and officers were RSUP participants for 2015. Mr. Shaw's participation in the RSUP ended with the 2015 plan year.

### *Terms and Conditions of Awards*

The RSUP provides for the grant of restricted stock and restricted stock units (collectively referred to as awards). Awards may be granted to officers, directors, and employees of the Company and its related entities. Each award granted under the RSUP is designated in an award agreement.

Subject to applicable laws, the Administrator has the authority, in its discretion, to select officers, directors and employees to whom awards may be granted from time to time, to determine whether and to what extent, awards are granted, to determine the number of shares of Common Stock, or the amount of other consideration to be covered by each award (subject to the limitations set forth under the above sub-section of this Proposal 2 titled "Shares Reserved for Issuance under the RSUP"), to approve award agreements for use under the RSUP, to determine the terms and conditions of any award (including the vesting schedule applicable to the award), to amend the terms of any outstanding award granted under the Plan, to construe and interpret the terms of the RSUP and awards granted, and to take such other action not inconsistent with the terms of the RSUP, as the Administrator deems appropriate.

The RSUP includes the following performance criteria that may be considered by the Administrator when granting awards intended to qualify as performance-based awards: (i) increase in share price, (ii) earnings per share, (iii) total shareholder return, (iv) operating margin, (v) operating costs, (vi) gross margin, (vii) return on equity, (viii) return on assets, (ix) return on investment, (x) operating income, (xi) net operating income, (xii) pre-tax profit, (xiii) cash flow, (xiv) revenue, (xv) expenses, (xvi) earnings before interest, taxes and depreciation, (xvii) economic value added, (xviii) market share, (xix) gas segment return on equity, (xx) customer to employee ratio, (xxi) customer service satisfaction, (xxii) performance of the Company relative to a peer group of companies and/or indexes, (xxiii) individual performance, (xxiv) safety goals and (xxv) financial performance of subsidiaries or individual business segments and/or operating regions. The performance criteria may be applicable to the Company, entities related to the Company, and/or any individual business units of the Company or any related entity.

### *Procedures for Calculating and Paying Actual Awards*

The performance goal currently used by the Administrator to determine whether awards are earned by participants is the average MIP payout percentage for the three years immediately preceding the award determination date. The target is set at an average MIP payout percentage of 100%; however, no award will be earned unless the average MIP payout percentage is at or above 90%. If an award is earned, it can range from 50% to 150% of the incentive opportunity. The incentive opportunity for each of the Company's employees participating under the RSUP is based on the percentage of base salary as set forth in Appendix A of the RSUP. Non-employee directors also receive an award based on the Company's three-year performance under the MIP criteria, with the target award being 1,000 restricted stock units. Non-employee directors also receive an annual grant of 800 shares of restricted stock or restricted stock units under the RSUP as a portion of their annual compensation.

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The RSUP provides that any amendment that would adversely affect the grantee's rights under outstanding awards shall not be made without the grantee's written consent. The Administrator may issue awards under the RSUP in settlement, assumption, or substitution for, outstanding awards or obligations to grant future awards in connection with the Company acquiring another entity in a merger or some other form of transaction.

### *Vesting of Awards*

With respect to awards made to officers and employees, unless otherwise set forth in an individual award agreement or in an amendment to Appendix A to the RSUP (which sets forth the vesting schedule of awards), the shares or units subject to an award made to any employee of the Company will vest and be paid out in shares of Common Stock over a three year period as follows: 40% of the shares or units subject to the award will vest on the 4th of January following the grant date of the award and 30% of the shares or units subject to the award will vest on each of the second and third anniversaries of the vesting commencement date.

Awards made to directors will vest on the date of grant. Awards of restricted stock units, however, will not be converted into shares of Common Stock until the director's continuous service terminates or upon a Change in Control Event (as described below in the sub-section of this Proposal 2 titled "Change in Control Event").

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### *Termination of Service*

In the event an employee's continuous service with the Company terminates as a result of death, disability, or retirement (as defined in the RSUP), 100% of the shares or units subject to the award will become fully vested and no longer subject to forfeiture.

### *Transferability of Awards*

Under the RSUP, awards are transferable by will and by the laws of descent and distribution, and during the lifetime of a participant, to the extent and in the manner authorized by the Administrator. The RSUP permits the designation of beneficiaries by holders of awards.

### *Change in Capitalization*

Subject to any required action by the shareholders of the Company, the number of shares of Common Stock covered by outstanding awards, the number of shares of Common Stock that have been authorized for issuance under the RSUP, the exercise or purchase price of each outstanding award, the maximum number of shares of Common Stock that may be granted subject to awards to any participant in a calendar year, and the like, shall be proportionally adjusted by the Administrator in the event of: (i) any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, stock dividend, combination or reclassification or similar event affecting the Common Stock of the Company; (ii) any other increase or decrease in the number of issued shares of Common Stock effected without receipt of consideration by the Company; or (iii) any other transaction with respect to Common Stock including a corporate merger, consolidation, acquisition of property or stock, separation (including a spin-off or other distribution of stock or property), reorganization, liquidation (whether partial or complete), distribution of cash or other assets to shareholders other than a normal cash dividend, or any similar transaction; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been effected without receipt of consideration. Except as the Administrator determines, no issuance by the Company of shares of any class shall affect, and no adjustment shall be made with respect to, the number of shares of Common Stock subject to an award.

### *Change in Control Event*

Except as provided otherwise in an individual award agreement, in the event of a Change in Control Event (as defined in the RSUP), each award, which is at the time outstanding under the RSUP, will automatically become fully vested and be released from any repurchase, forfeiture, or transfer restrictions and, with respect to restricted stock units, be converted in full to shares of Common Stock immediately prior to the specified effective date of such Change in Control Event.

Under the RSUP, a Change in Control Event is generally defined as the consummation of any of the following:

- \* a complete liquidation or dissolution;

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- \* acquisition of 20% or more of the Company's stock by any unrelated individual or entity including by tender offer or a reverse merger;
- \* a merger or consolidation in which the Company is not the surviving entity;
- \* a sale of substantially all the Company's assets to an unrelated entity; and
- \* during any period not longer than twelve consecutive months, members of the Board who at the beginning of such period cease to constitute at least a majority of the Board, unless the election, or the nomination for election of each new Board member, was approved by a vote of at least 3/4 of the Board members then still in office who were Board members at the beginning of such period.

Notwithstanding the foregoing, prior to the occurrence of any of the events listed above (except a complete liquidation or dissolution of the Company), we may determine that such an event will not constitute a Change in Control Event for purposes of the RSUP and the awards granted under the RSUP.

### *Amendment, Suspension or Termination of the RSUP*

We may at any time amend, suspend or terminate the RSUP. Assuming shareholder approval of the amendment, the term of the RSUP will run until May 31, 2021, unless sooner terminated. Awards may be granted under the RSUP upon it becoming effective, but awards granted prior to obtaining shareholder approval will be rescinded if the shareholders do not approve the RSUP. To the extent necessary to comply with applicable provisions of federal securities laws, state corporate

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and securities laws, the Code, the rules of any applicable stock exchange or national market system, and the rules of any non-U.S. jurisdiction applicable to awards granted to residents therein, the Company shall obtain shareholder approval of any such amendment to the RSUP in such a manner and to such a degree as is required.

**Plan Benefits**

Because grants of restricted stock units under the RSUP (other than the annual grant to directors of 800 restricted stock units) are determined by the three-year average MIP payout percentage, it is not possible to conclusively state the amount of benefits which will be paid under the RSUP for plan year 2016. The incentive award opportunities for employees are identical to the opportunities for 2015 and are expressed as a percentage of each individual's salary at year-end (after taking into account any mid-year salary increase). The opportunities by position are as follows: chief executive officer, 45%; president, 30%; executive vice president, 25%; senior vice president, 20%; vice president, 15%; senior management, 10%. Incentive awards to directors are based on a target award of 1,000 restricted stock units.

The following table includes estimated 2016 awards based on 2016 incentive award opportunities, base salaries as of December 31, 2015, and an RSUP payout percentage of 132.5% (which is equal to the RSUP payout percentage that was applicable to most officers for plan year 2015). Past award levels may not be indicative of future award levels.

**2016 Estimated Future Restricted Stock Unit Awards**

<b>Name and Position</b>	<b>Restricted Stock Units (# Units)(1)(2)</b>
John P. Hester	7,116
President and Chief Executive Officer	
Roy R. Centrella	1,869
Senior Vice President/	
Chief Financial Officer	
William N. Moody	2,414
Executive Vice President	
Karen S. Haller	1,596
Senior Vice President/	
General Counsel and	
Corporate Secretary	
Eric DeBonis	1,418
Senior Vice President/	

Operations	
Jeffrey W. Shaw(3)	0
Chief Executive Officer (retired)	
Executive Group (#9)	18,813
Non-Executive Director Group (#11)	23,375
Non-Executive Officer/Employee Group (#48)	21,900

- (1) Restricted stock unit figures are based on a Common Stock price of \$55.30, the average of the closing prices on the New York Stock Exchange for the first five trading days of the month of January 2016.
- (2) The dollar value of the maximum incentive award opportunities for the named executive officers would be \$445,500 for Mr. Hester, \$117,000 for Mr. Centrella, \$151,125 for Mr. Moody, \$99,900 for Ms. Haller, \$88,800 for Mr. DeBonis, respectively.
- (3) Mr. Shaw's participation in the RSUP ended with the 2015 plan year.

### Certain Federal Tax Consequences

The following summary of the federal income tax consequences of the RSUP and the awards granted thereunder is based upon federal income tax laws in effect on the date of this Proxy Statement.

#### *Restricted Stock*

The grant of restricted stock will subject the recipient to ordinary compensation income on the difference between the amount paid for such stock and the fair market value of the shares on the date that the restrictions lapse. This income is subject to withholding for federal income and employment tax purposes. The Company is entitled to an income tax deduction in the amount of the ordinary income recognized by the recipient, subject to possible limitations imposed by Section 162(m)



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of the Code, and so long as the Company withholds the appropriate taxes with respect to such income (if required), and the recipient's total compensation is deemed reasonable in amount. Any gain or loss on the recipient's subsequent disposition of the shares will receive long or short-term capital gain or loss treatment depending on how long the stock has been held since the restrictions lapsed. The Company does not receive a tax deduction for any such gain.

Recipients of restricted stock may make an election under Section 83(b) of the Code ( *Section 83(b) Election* ) to recognize, as ordinary compensation income in the year that such restricted stock is granted, the amount equal to the spread between the amount paid for such stock and the fair market value on the date of the issuance of the stock. If such an election is made, the recipient recognizes no further amounts of compensation income upon the lapse of any restrictions and any gain or loss on subsequent disposition will be long or short-term capital gain to the recipient. The *Section 83(b) Election* must be made within 30 days from the time the restricted stock is issued.

### *Restricted Stock Units*

Recipients of restricted stock units generally should not recognize income until such units are converted into cash or shares of stock. Upon conversion, the recipient will normally recognize taxable ordinary income for federal income tax purposes equal to the amount of cash and fair market value of the shares, if any, received upon such conversion. Recipients who are employees will be subject to withholding for federal income and employment tax purposes with respect to income recognized upon conversion of the restricted stock units. Participants will recognize gain upon the disposition of any shares received upon conversion of the restricted stock units equal to the excess of (i) the amount realized on such disposition over (ii) the ordinary income recognized with respect to such shares under the principles set forth above. That gain will be taxable as long or short-term capital gain depending on whether the shares were held for more than one year. The Company will be entitled to a tax deduction to the extent and in the year that ordinary income is recognized by the recipient, subject to possible limitations imposed by Section 162(m) of the Code, and so long as the Company withholds the appropriate taxes with respect to such income (if required), and the recipient's total compensation is deemed reasonable in amount.

Restricted stock units also can be considered nonqualified deferred compensation and subject to Code Section 409A. A grant of restricted stock units that does not meet the requirements of Code Section 409A will result in an additional 20% tax obligation, plus penalties and interest to such recipient. RSUP award agreements, which are executed by each RSUP participant, contain provisions to ensure compliance with Code Section 409A.

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**AMENDMENT TO THE BYLAWS TO  
REDUCE THE UPPER AND LOWER LIMITS OF THE RANGE OF  
REQUIRED DIRECTORS**

*(Proposal 3 on the Proxy Card)*

**The Board of Directors Recommends a VOTE FOR this Proposal**

Our Bylaws currently authorize a Board with a size in the range of eleven (11) to fourteen (14) directors. In February 2016, the Board adopted a resolution approving an amendment to our bylaws, subject to obtaining shareholder approval, to change the authorized range to a minimum of nine (9) and a maximum of thirteen (13).

**Background and reasons for the Proposal**

Under California law, a corporation may allow the directors to establish the exact size of the Board within a stated range, provided that any change to the range adopted in the Bylaws may only be adopted by approval of a majority of the Company's outstanding shares.

After careful consideration of our governance structure, the functioning of our Board and the availability of candidates for director, our Board determined that it is in the Company's and our shareholders' best interest to reduce the minimum number of directors of our Board to nine (9) and the maximum number of directors of the Board to thirteen (13). The Board believes that the added flexibility to consider a smaller board size would aid the Board in determining the optimal board size for effectively facilitating communications and decision-making. The Board believes that reducing the upper and lower limits of the range of required directors would also avoid the potential situation of having to quickly fill any unexpected vacancies in order to meet the existing minimum size requirements. Given the importance of recruiting qualified, independent directors to serve as directors of our Company, the Board believes that it is prudent to conduct an organized search for a replacement when vacancies occur in order to preserve the high quality of the Board and maintain its diversity of experience. The Board therefore recommends that our shareholders approve of the following amendment to the Bylaws.

**Proposed Amendment**

The full text of Article III, Section 1, of the Bylaws of the Company, as proposed to be amended, is as follows:

Section 1. Number Quorum

The business of the Corporation shall be managed by a Board of Directors, whose number shall be not fewer than nine (9) nor greater than thirteen (13), as the Board of Directors by resolution or the shareholders by amendment of these Bylaws may establish, provided, however, that a

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reduction in the authorized number of directors shall not remove any director prior to the expiration of his term of office, and provided further that the shareholders may, pursuant to law, establish a different and definite number of directors or different maximum and minimum numbers of directors by amendment of the Articles of Incorporation or by a duly adopted amendment to these Bylaws. A majority of the prescribed number of directors shall be necessary to constitute a quorum for the transaction of business. At a meeting at which a quorum is present, every decision or act of a majority of the directors present made or done when duly assembled shall be valid as the act of the Board of Directors, provided that a minority of the directors, in the absence of a quorum, may adjourn from day to day but may transact no business.

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**ADVISORY VOTE TO APPROVE THE COMPANY'S EXECUTIVE COMPENSATION**

*(Proposal 4 on the Proxy Card)*

**The Board of Directors Recommends a Vote FOR approval of executive compensation.**

In light of the advisory vote at the 2011 Annual Meeting of Shareholders on the frequency of "say-on-pay" advisory votes, the Company's Board of Directors unanimously determined that the Company will hold an advisory vote on executive compensation on an annual basis, including a vote at the 2016 Annual Meeting of Shareholders. In accordance with the requirements of Section 14A of the Exchange Act, shareholders will have the opportunity to approve or not approve the compensation of the named executive officers through a non-binding vote (commonly known as "say-on-pay" vote) on the following resolution:

RESOLVED, that the compensation paid to the Company's named executive officers, as disclosed in the Company's Proxy Statement for the 2016 Annual Meeting of Shareholders pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the Compensation Discussion and Analysis, compensation tables and narrative discussion, is hereby APPROVED.

The Company's compensation program is designed and administered by the Compensation Committee of the Board, which is composed entirely of independent directors and carefully considers many different factors, as described in the Compensation Discussion and Analysis, in order to provide appropriate compensation for the Company's executives. As discussed in the Compensation Discussion and Analysis, the compensation package for the Company's named executive officers (who are the officers listed in the Summary Compensation Table in the Executive Compensation section) is designed to support the Company's objectives of attracting, motivating and retaining the executive talent required to achieve our corporate objectives and increase shareholder value.

The compensation program is based on the Board-approved executive compensation philosophy of (i) paying base salary at the median (50<sup>th</sup> percentile) of the amounts paid by our peer group of companies (the "relative market"), (ii) providing short- and long-term incentive awards that are designed to motivate the named executive officers to focus on specific annual and long-term Company financial, productivity, safety and customer satisfaction performance goals and achieve superior Company performance while placing a significant amount of total compensation at risk and (iii) paying total direct compensation (base salary and short- and long-term incentive awards) to be competitive with the relative market.

Consistent with the SEC rule implementing the requirement that the Company periodically include a say-on-pay proposal in its proxy statement, the vote on this proposal is advisory and is not binding on the Company, the Compensation Committee or the Board. The Compensation Committee and the Board value the opinions that shareholders express in their votes and to the extent there is any significant vote against the named executive officer compensation, will consider the outcome of the vote when making future executive compensation decisions and evaluate whether any actions are necessary to address shareholder concerns expressed by such vote. It is expected that the next advisory vote on executive compensation will occur at the 2017 Annual Meeting of Shareholders.

We encourage you to review the complete description of the Company's executive compensation programs provided in this Proxy Statement, including the Compensation Discussion and Analysis and the accompanying compensation tables.

**Table of Contents****AUDIT COMMITTEE INFORMATION****SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM***(Proposal 5 on the Proxy Card)***The Board of Directors Recommends a Vote FOR Ratification.**

The Audit Committee has selected PricewaterhouseCoopers LLP as the independent registered public accounting firm for the Company for the year ending December 31, 2016, subject to ratification of the selection by the shareholders. PricewaterhouseCoopers LLP has been the Company's independent public accounting firm since 2002. To the committee's knowledge, at no time has PricewaterhouseCoopers LLP had any direct or indirect financial interest in or connection with the Company or any of our subsidiaries other than for services rendered to the Company as described below.

The committee is composed of independent directors and meets periodically with the Company's internal auditors and independent registered public accounting firm to review the scope and results of the audit function and the policies relating to auditing procedures. In making its annual recommendation, the committee reviews both the audit scope and proposed fees for the coming year.

An affirmative vote of a majority of the shares represented and voting at the Annual Meeting in person or by proxy (which shares voting affirmatively also constitute at least a majority of the required quorum) is necessary to ratify the selection of PricewaterhouseCoopers LLP as the independent registered public accounting firm for the Company. If the shareholders do not ratify our selection, other certified public accounting firms will be considered and one will be selected by the committee to be the Company's independent registered public accounting firm for 2016.

During fiscal years 2014 and 2015, PricewaterhouseCoopers LLP provided the following audit, audit-related and other professional services for the Company. The cost and description of these services are as follows:

	2014	2015
<b><i>Audit Fees:</i></b>	<b>\$ 2,136,000</b>	<b>\$ 2,100,000</b>
<i>Annual audit/§404 internal control attestation</i>	1,100,000	1,090,000
<i>Quarterly reviews</i>	120,000	125,000
<i>Subsidiary audit</i>	850,000	748,000
<i>Comfort letters and consents</i>	66,000	137,000

The services include the audit of the annual financial statements included in the Company's Annual Report on Form 10-K, the reviews of unaudited quarterly financial statements included in the Company's Quarterly Reports on Form 10-Q, subsidiary audits, consultation, and comfort letters and consents for various financings and SEC filings, and the assessment of the Company's internal control over financial reporting.

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<b>Audit-Related Fees:</b>	<b>\$ 226,500</b>	<b>\$ 183,500</b>
<i>Benefit plan audits</i>	88,000	115,000
<i>Affiliate rules audit</i>	16,500	16,500
<i>Other (including Form 2-A filings)</i>	122,000	52,000

The services include benefit plan audits, regulatory audits, and regulatory compliance. The 2014 amounts include services relating to the construction services acquisition.

<b>Tax Fees:</b>	<b>\$ 248,500</b>	<b>\$ 321,000</b>
<i>Tax return reviews</i>	36,200	109,000
<i>Tax planning and advice</i>	212,300	212,000

The services include corporate tax return reviews and corporate tax planning and advice. The independent registered public accounting firm's independence is assessed with respect to tax planning and advice services to be provided, and in light of the prohibition of representing the Company on tax matters before any regulatory or judicial proceeding or providing tax services to Company executives or directors.

<b>All Other Fees:</b>	<b>\$ 172,000</b>	<b>\$ 221,000</b>
<i>Software development advice</i>	172,000	221,000

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These services include permitted advisory services with regard to technological systems and software development planning, neither of which were the subject of audit or audit-related services performed.

Under the committee's charter, the committee must pre-approve all Company engagements of PricewaterhouseCoopers LLP, unless an exception exists under the provisions of the Exchange Act or applicable SEC rules. At the beginning of each audit cycle, the committee evaluates the anticipated engagements of the independent registered public accounting firm, including the scope of work proposed to be performed and the proposed fees, and approves or rejects each service, consistent with its preapproval policy, taking into account whether the services are permissible under applicable laws and the possible impact of each nonaudit service on PricewaterhouseCoopers LLP's independence from management. The committee also considers whether the independent registered public accounting firm is best positioned to provide effective and efficient service, and whether the service may enhance the Company's ability to manage and control risk or improve audit quality. Throughout the year, the committee reviews updates of the services actually provided and fees charged by PricewaterhouseCoopers LLP.

Requests for the independent registered public accounting firm to provide additional services are presented to the committee by the Company's chief financial or accounting officer, on an as-needed basis. The committee has delegated to the chairperson of the committee the authority to evaluate and approve engagements on the committee's behalf in the event that a need arises for preapproval between committee meetings. Approvals of additional services will be made consistent with the preapproval policy and will be reported to the committee at its next scheduled meeting.

Since the effective date of the preapproval process, the committee has approved, in advance, each new engagement of PricewaterhouseCoopers LLP, and none of those engagements made use of the de minimis exception to the preapproval requirement contained in the SEC rules.

Representatives of PricewaterhouseCoopers LLP will be present at the Annual Meeting of Shareholders. They will have the opportunity to make statements, if they are so inclined, and will be available to respond to appropriate questions.

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**AUDIT COMMITTEE REPORT**

The committee, which consists entirely of directors who meet the independence and experience requirements of the NYSE and the SEC, is furnishing the following report:

The committee assists the Board in fulfilling its oversight responsibility by reviewing the financial information provided to shareholders and others, the system of internal control which management and the Board have established, and the audit process. Management is responsible for the Company's consolidated financial statements, for maintaining internal control over the Company's financial reporting, and for assessing the effectiveness of that control. PricewaterhouseCoopers LLP, the Company's independent registered public accounting firm, is responsible for performing an integrated audit of the Company's consolidated financial statements in accordance with generally accepted auditing standards, attesting to the effectiveness of the Company's internal control over financial reporting based on the audit, and issuing a report thereon. The committee's role and responsibilities are to monitor and oversee these processes as set forth in a written committee charter adopted by the Board. The committee charter is available on the Company's website at <http://www.swgas.com>. The committee reviews and assesses the adequacy of the Charter at least annually and recommends any changes to the Board for approval.

In fulfilling our responsibilities for 2015, the committee:

- \* Reviewed and discussed the audited consolidated financial statements, for the year ended December 31, 2015, with management and PricewaterhouseCoopers LLP;
- \* Discussed with PricewaterhouseCoopers LLP the matters required to be discussed by Auditing Standard No. 16, as amended, *Communications with Audit Committees*, as adopted by the Public Company Accounting Oversight Board ( PCAOB ); and
- \* Received the written disclosures and the letter from PricewaterhouseCoopers LLP required by the applicable requirements of the PCAOB regarding their communications with the committee concerning independence, and the committee has discussed their independence with them.

Based on the review and discussions referred to above, the committee recommended to the Board that the audited consolidated financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015, filed with the SEC.

*Audit Committee*

*A. Randall Thoman (Chair)  
Thomas E. Chestnut  
LeRoy C. Hanneman, Jr.*

*Robert L. Boughner  
Stephen C. Comer  
Thomas A. Thomas*



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**OTHER MATTERS TO COME BEFORE THE MEETING**

If any business not described in this Proxy Statement should come before the Annual Meeting for your consideration, it is intended that the shares represented by our proxies will be voted at their discretion. As of the date of this Proxy Statement, we knew of no other matter which might be presented for shareholder action at the meeting.

**SUBMISSION OF SHAREHOLDER PROPOSALS**

You are advised that any shareholder proposal intended for consideration at the 2017 Annual Meeting and inclusion in the Company's proxy materials for that meeting must be received in writing by the Company on or before November 1, 2016. If you intend to offer any proposal at that meeting without using the Company's proxy materials, written notice of your intended action has to be received by the Company on or before November 1, 2016, in order for your proposal to be considered timely and be presented to shareholders for consideration.

All proposals to be submitted to shareholders must comply with applicable SEC rules. You must submit your proposals for inclusion in the Company's proxy materials and notices to the Company to the Corporate Secretary, and it is recommended that you send it by certified mail, return receipt requested to ensure timely delivery.

By Order of the Board of Directors  
Karen S. Haller

Senior Vice President/General Counsel

and Corporate Secretary

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**APPENDIX A**

**SOUTHWEST GAS CORPORATION**

**RESTRICTED STOCK/UNIT PLAN<sup>1</sup>**

<sup>1</sup> This Appendix A presents the terms of the Plan, as amended and restated. Double-underlined mater is new. Matter crossed out is proposed to be deleted.

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**SOUTHWEST GAS CORPORATION**

**RESTRICTED STOCK/UNIT PLAN**

**1. Purposes of the Plan**

The purpose of this Plan is to promote the success of the Company by providing an additional means through the grant of Awards to attract, motivate, retain, and reward key Employees, including Officers of the Company, with incentives for high levels of individual performance and improved financial performance of the Company and to attract, motivate, and retain experienced and knowledgeable independent Directors.

**2. Definitions**

The following definitions shall apply as used herein and in the Award Agreements and Notices except as defined otherwise in an Award Agreement or Notices. In the event a term is separately defined in an Award Agreement, such definition shall supersede the definition contained in this Section 2.

- (a) **Administrator** means the compensation committee of the Board or such other Committee appointed to administer the Plan, consisting of independent members of the Board.
- (b) **Applicable Laws** means the legal requirements relating to the Plan and the Awards under applicable provisions of federal securities laws, state corporate and securities laws, the Code, the rules of any applicable stock exchange or national market system, and the rules of any non-U.S. jurisdiction applicable to Awards granted to residents therein.
- (c) **Award** means the grant of Restricted Stock or Restricted Stock Units under the Plan.
- (d) **Award Agreement** means a written agreement specifying the terms and conditions of Awards and Restricted Stock Units granted under this Plan executed by the Company and the Grantee, including any amendments thereto.
- (e) **Board** means the Board of Directors of the Company.
- (f) **Cause** means (i) a material act of theft, misappropriation, or conversion of corporate funds committed by the Grantee, or (ii) the Grantee's demonstrably willful, deliberate, and continued failure to follow reasonable directives of the Board or the Chief Executive Officer of the Company which are within the Grantee's ability to perform. Notwithstanding the foregoing, for the 24-month period following a Change in Control Event, the Grantee shall not be deemed to have been terminated for Cause unless and until: (1) there shall have been delivered to the Grantee a copy of a resolution duly adopted by the Board in good faith at a meeting of the Board called and held for such purpose (after reasonable notice to the Grantee and an opportunity for the Grantee, together with his or her counsel, to be heard before the Board), finding that the Grantee was guilty of conduct set forth above and specifying the particulars thereof in reasonable detail; and (2) if the Grantee contests such finding (or a conclusion that he or she has failed to timely cure the performance in response thereto), the arbitrator, by final determination in an arbitration proceeding pursuant to Section 17 hereof, has concluded that the Grantee's conduct met the standard for termination for Cause above and that the Board's conduct met the standards of good faith and satisfied the procedural and substantive conditions of this Section 2(f) (collectively, the **Necessary Findings**). The

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Grantee's costs of the arbitration shall be advanced by the Company and shall be repaid to the Company if the arbitrator makes the Necessary Findings.

- (g) Change in Control Event means the consummation of any of the following:
- (i) The dissolution or liquidation of the Company, other than in the context of a transaction that does not constitute a Change in Control Event under clause (ii) below.
  - (ii) A merger, consolidation, or other reorganization, with or into, or the sale of all or substantially all of the Company's business and/or assets as an entirety to, one or more entities that are not Subsidiaries or other affiliates (a Business Combination), unless (A) as a result of the Business Combination at least 50% of the outstanding securities voting generally in the election of directors of the surviving or resulting entity or a Parent thereof (the Successor Entity) immediately after the reorganization are, or will be, owned, directly or indirectly, by shareholders of the Company immediately before the Business Combination; and (B) at least 50% of the members of the board of directors of the entity resulting from the Business Combination were members of the Board at the time of the execution of the initial agreement or of the action of the Board approving the Business Combination. The shareholders before and after the Business Combination shall be determined on the presumptions that (x) there is no change in the record ownership of the Company's securities from the record date for such approval until the consummation of the Business Combination; and (y) record owners of securities of the Company hold no securities of the other parties to such reorganization.

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- (iii) Any person (as such term is used in Sections 13(d) and 14(d) of the Exchange Act), other than an Excluded Person, becomes the beneficial owner (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing more than 20% of the combined voting power of the Company's then outstanding securities entitled to then vote generally in the election of Directors of the Company, other than as a result of (A) an acquisition directly from the Company, (B) an acquisition by the Company, (C) an acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or a Successor Entity, or an acquisition by any entity pursuant to a transaction which is expressly excluded under clause (ii) above.
- (iv) During any period not longer than twelve consecutive months, individuals who at the beginning of such period constituted the Board cease to constitute at least a majority thereof, unless the election, or the nomination for election by the Company's shareholders, of each new Board member was approved by a vote of at least three-quarters of the Board members then still in office who were Board members at the beginning of such period (including for these purposes, new members whose election or nomination was so approved), but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a person other than the Board.
- (v) Notwithstanding the foregoing, prior to the occurrence of any of the events described in clause (ii) through (iv) above, the Board may determine that such an event shall not constitute a Change in Control Event for purposes of the Plan and Awards granted under it.
- (h) Code means the Internal Revenue Code of 1986, as amended.
- (i) Committee means the Compensation Committee of the Board or such other committee composed of independent members of the Board.
- (j) Common Stock means the common stock of the Company.
- (k) Company means Southwest Gas Corporation, a California corporation, or any successor entity that adopts the Plan in connection with a Change in Control Event.
- (l) Continuous Service means that the provision of services to the Company or a Related Entity in any capacity of Employee, Director, or consultant is not interrupted or terminated. In jurisdictions requiring notice in advance of an effective termination as an Employee, Director, or consultant, Continuous Service shall be deemed terminated upon the actual cessation of providing services to the Company or a Related Entity notwithstanding any required notice period that must be fulfilled before a termination as an Employee, Director, or consultant can be effective under Applicable Laws. A Grantee's Continuous Service shall be deemed to have terminated either upon an actual termination of Continuous Service or upon the entity for which the Grantee provides services ceasing to be a Related Entity. Continuous Service shall not be considered interrupted in the case of (i) any approved leave of absence, (ii) transfers among the Company, any Related Entity, or any successor, in any capacity of Employee, Director or consultant, or (iii) any change in status as long as the individual remains in the service of the Company or a Related Entity in any capacity of Employee, Director or consultant (except as otherwise provided in the Award Agreement). An approved leave of absence shall include sick leave, military leave, or any other authorized personal leave.
- (m) Covered Employee means an Employee who is a covered employee under Section 162(m)(3) of the Code.
- (n) Director means a non-Employee member of the Board or the board of directors of any Related Entity.
- (o)

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**Disability** means as defined under the long-term disability policy of the Company or the Related Entity to which the Grantee provides services regardless of whether the Grantee is covered by such policy. If the Company or the Related Entity to which the Grantee provides service does not have a long-term disability plan in place, **Disability** means that a Grantee is unable to carry out the responsibilities and functions of the position held by the Grantee by reason of any medically determinable physical or mental impairment for a period of not less than one hundred and eighty (180) consecutive days. A Grantee will not be considered to have incurred a Disability unless he or she furnishes proof of such impairment sufficient to satisfy the Administrator in its discretion.

- (p) **Employee** means any person, including an Officer or Director, who is in the employ of the Company or any Related Entity, subject to the control and direction of the Company or any Related Entity as to both the work to be performed and the manner and method of performance. The payment of a director's fee by the Company or a Related Entity shall not be sufficient to constitute employment by the Company.
- (q) **Exchange Act** means the Securities Exchange Act of 1934, as amended.
- (r) **Excluded Person** means (i) any person described in and satisfying the conditions of Rule 13d-1(b)(1) under the Exchange Act, (ii) the Company, or (iii) an employee benefit plan (or related trust) sponsored or maintained by the Company or the Successor Entity.

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- (s) **Grantee** means an Employee or Director who receives an Award under the Plan.
- (t) **Notice** means the written notice memorializing the grant of each Award hereunder and specifying, among other things, the date, number of Restricted Stock Units granted and vesting schedule applicable to each such Award.
- (u) **Officer** means a person who is an officer of the Company or a Related Entity within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.
- (v) **Parent** means a parent corporation, whether now or hereafter existing, as defined in Section 424(e) of the Code.
- (w) **Performance-Based Compensation** means compensation qualifying as performance-based compensation under Section 162(m) of the Code.
- (x) **Plan** means this Restricted Stock/Unit Plan.
- (y) **Related Entity** means any Parent or Subsidiary of the Company.
- (z) **Restricted Stock** means Shares issued under the Plan to the Grantee for such consideration, if any, and subject to such restrictions on transfer, rights of first refusal, repurchase provisions, forfeiture provisions, and other terms and conditions as established by the Administrator.
- (aa) **Restricted Stock Units** or **Units** means an Award which may be earned in whole or in part upon the passage of time or the attainment of performance criteria established by the Administrator and which may be settled for Shares or other securities or a combination of Shares or other securities as established by the Administrator.
- (bb) **Retirement** means:
  - (i) with respect to Employees, a termination of an Employee's employment with the Company or a Related Entity on or after the Employee has attained his or her early retirement date or normal retirement date as defined in the Retirement Plan for Employees of Southwest Gas Corporation, as amended and in effect from time to time.
  - (ii) with respect to non-Employee Directors, a termination of a Director's service to the Company or a Related Entity as a Director on or after his or her normal retirement date which is the earlier of the first day of the month following the month in which the non-Employee Director (A) reaches age seventy-two (72), or (B) has completed at least ten (10) years of service (in the aggregate) to the Company or a Related Entity as a Director.
- (cc) **Rule 16b-3** means Rule 16b-3 promulgated under the Exchange Act or any successor thereto.
- (dd) **Share** means a share of the Common Stock.
- (ee) **Subsidiary** means a subsidiary corporation, whether now or hereafter existing, as defined in Section 424(f) of the Code.

**3. Stock Subject to the Plan**

- (a) Subject to the provisions of Section 9 below, the maximum aggregate number of Shares which may be issued pursuant to all Awards is 1,050,000 ~~650,000~~ Shares. The Shares to be issued pursuant to Awards may be authorized, but unissued, or reacquired Common Stock.
  
- (b) Any Shares covered by an Award (or portion of an Award) which is forfeited, canceled or expired (whether voluntarily or involuntarily) shall be deemed not to have been issued for purposes of determining the maximum aggregate number of Shares which may be issued under the Plan. Shares that actually have been issued under the Plan pursuant to an Award shall not be returned to the Plan and shall not become available for future issuance under the Plan, except that if unvested Shares are forfeited such Shares shall become available for future grant under the Plan. During the ten (10) year period following approval of the Plan by the Company's shareholders and to the extent not prohibited by the listing requirements of the New York Stock Exchange (or other established stock exchange or national market system on which the Common Stock is traded) and Applicable Law, any Shares covered by an Award, which are surrendered in satisfaction of tax withholding obligations incident to the vesting of an Award, shall be deemed not to have been issued for purposes of determining the maximum number of Shares which may be issued pursuant to all Awards under the Plan, unless otherwise determined by the Administrator.

**4. Administration of the Plan**

- (a) Plan Administrator.
  - (i) Administration with Respect to Covered Employees, Directors, and Officers. With respect to grants of Awards to Covered Employees, Directors, and Employees who are also Officers or Directors of the Company, the Plan shall be administered by a Committee designated by the Board, which Committee (A) shall be comprised solely



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of two or more Directors eligible to serve on a committee making Awards qualifying as Performance-Based Compensation and (B) shall be constituted in such a manner as to satisfy the Applicable Laws and to permit such grants and related transactions under the Plan to be exempt from Section 16(b) of the Exchange Act in accordance with Rule 16b-3. Once appointed, such Committee shall continue to serve in its designated capacity until otherwise directed by the Board.

- (ii) Administration Errors. In the event an Award is granted in a manner inconsistent with the provisions of this subsection (a), such Award shall be presumptively valid as of its grant date to the extent permitted by the Applicable Laws.
  
- (b) Powers of the Administrator. Subject to Applicable Laws and the provisions of the Plan (including any other powers given to the Administrator hereunder), and except as otherwise provided by the Board, the Administrator shall have the authority, in its discretion:
  - (i) to select the Employees and Directors to whom Awards may be granted from time to time hereunder;
  
  - (ii) to determine whether and to what extent Awards are granted hereunder;
  
  - (iii) to determine the number of Shares or Restricted Stock Units to be covered by each Award granted hereunder;
  
  - (iv) to approve forms of Award Agreements for use under the Plan;
  
  - (v) to determine the terms and conditions of any Award granted hereunder;
  
  - (vi) to amend the terms of any outstanding Award granted under the Plan, provided that any amendment that would adversely affect the Grantee's rights under an outstanding Award shall not be made without the Grantee's written consent;
  
  - (vii) to construe and interpret the terms of the Plan and Awards, including without limitation, any notice of Award or Award Agreement, granted pursuant to the Plan; and
  
  - (viii) to take such other action, not inconsistent with the terms of the Plan, as the Administrator deems appropriate.

The express grant in the Plan of any specific power to the Administrator shall not be construed as limiting any power or authority of the Administrator; provided that the Administrator may not exercise any right or power reserved to the Board. Any decision made, or action taken, by the Administrator or in connection with the administration of this Plan shall be final, conclusive, and binding on all persons having an interest in the Plan.

- (c) Indemnification. In addition to such other rights of indemnification as they may have as members of the Board or as Officers or Employees of the Company or a Related Entity, members of the Board and any Officers or Employees of the Company or a Related Entity to whom authority to act for the Board, the Administrator or the Company is delegated shall be defended and indemnified by the Company to the extent permitted by law on an after-tax basis against all reasonable expenses, including attorneys' fees, actually and necessarily incurred in connection with the defense of any claim, investigation, action, suit or proceeding, or in connection with any appeal therein, to which they or any of them may be a party by reason of any action taken or failure to act under or in connection with the Plan, or any Award granted hereunder, and against all amounts paid by them in settlement thereof (provided such settlement is approved by the Company) or paid by them in satisfaction of a judgment in any such claim, investigation, action, suit or proceeding, except in relation to matters as to which it shall be adjudged in such claim, investigation, action, suit or proceeding that

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such person is liable for gross negligence, bad faith, or intentional misconduct; provided, however, that within thirty (30) days after the institution of such claim, investigation, action, suit or proceeding, such person shall offer to the Company, in writing, the opportunity at the Company's expense to defend the same.

### 5. Eligibility

Awards may be granted to Employees and Directors. An Employee or Director who has been granted an Award may, if otherwise eligible, be granted additional Awards.

### 6. Terms and Conditions of Awards

- (a) Designation of Award. Each Award shall be designated in a Notice and shall be subject to the terms and conditions of an Award Agreement.
- (b) Conditions of Award. Subject to the terms of the Plan, the Administrator shall determine the provisions, terms, and conditions of each Award including, but not limited to, the Award vesting schedule (if any), resale restrictions applicable to the Shares issued pursuant to Awards, forfeiture provisions, and satisfaction of any performance criteria. The performance criteria established by the Administrator may be based on any one of, or combination of,

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the following: (i) increase in share price, (ii) earnings per share, (iii) total shareholder return, (iv) operating margin, (v) operating costs, (vi) gross margin, (vii) return on equity, (viii) return on assets, (ix) return on investment, (x) operating income, (xi) net operating income, (xii) pre-tax profit, (xiii) cash flow, (xiv) revenue, (xv) expenses, (xvi) earnings before interest, taxes and depreciation, (xvii) economic value added, (xviii) market share, (xix) gas segment return on equity, (xx) customer to employee ratio, (xxi) customer service satisfaction, (xxii) performance of the Company relative to a peer group of companies and/or indexes, (xxiii) individual performance, (xxiv) safety goals, (xxv) financial performance of subsidiaries or individual business segments and/or operating regions. The performance criteria may be applicable to the Company and/or any of its individual business units and may differ from Participant to Participant. In addition and to the extent appropriate, the performance criteria will be calculated in accordance with generally accepted accounting principles, but excluding the effect (whether positive or negative) of any change in accounting standards and any extraordinary, unusual, or nonrecurring item, as determined by the Committee, occurring after the establishment of the performance criteria applicable to the Awards intended to be performance-based compensation. Each such adjustment, if any, shall be made solely for the purpose of providing a consistent basis from period to period for the calculation of performance criteria in order to prevent the dilution or enlargement of the Participant's rights with respect to an Award intended to be performance-based compensation; provided however, that certain categories or types of such adjustments can be specifically included (rather than excluded) at the time the performance criteria are established if so determined by the Committee. Certain provisions, terms and conditions applicable to Awards have been set forth in Appendix A and Appendix B hereto.

- (c) Acquisitions and Other Transactions. The Administrator may issue Awards under the Plan in settlement, assumption, or substitution for, outstanding Awards or obligations to grant future Awards in connection with the Company or a Related Entity acquiring another entity, an interest in another entity or an additional interest in a Related Entity whether by merger, stock purchase, asset purchase, or other form of transaction.
- (d) Separate Programs. The Administrator may establish one or more separate programs under the Plan for the purpose of issuing particular forms of Awards to one or more classes of Grantees on such terms and conditions as determined by the Administrator from time to time.
- (e) Individual Limit for Restricted Stock and Restricted Stock Units. For Awards of Restricted Stock and Restricted Stock Units that are intended to be Performance-Based Compensation, the maximum number of Shares with respect to which such Awards may be granted to any Grantee in any calendar year shall be 20,000 Shares. The foregoing limitation shall be adjusted proportionately in connection with any change in the Company's capitalization pursuant to Section 9 below.
- (f) Transferability of Awards. Awards shall be transferable (i) by will and by the laws of descent and distribution and (ii) during the lifetime of the Grantee, to the extent and in the manner authorized by the Administrator. Notwithstanding the foregoing, the Grantee may designate one or more beneficiaries of the Grantee's Award in the event of the Grantee's death on a beneficiary designation form provided by the Administrator.
- (g) Time of Granting Awards. The date of grant of an Award shall for all purposes be the date on which the Administrator makes the determination to grant such Award.

## 7. Taxes

No Shares shall be delivered under the Plan to any Grantee or other person until such Grantee or other person has made arrangements acceptable to the Administrator for the satisfaction of any federal, state, local, or non-U.S. income and employment tax withholding obligations, including, without limitation, obligations incident to the receipt of Shares. Upon the issuance of Shares, the Company shall withhold or collect from Grantee an amount sufficient to satisfy such tax obligations, including, but not limited to, by surrender of Shares covered by the Award sufficient to satisfy the minimum applicable tax withholding obligations incident to the vesting of an Award.

## 8. Conditions Upon Issuance of Shares

- (a) If at any time the Administrator determines that the delivery of Shares pursuant to an Award is or may be unlawful under Applicable Laws, the vesting or right to exercise an Award or to otherwise receive Shares pursuant to the terms of an Award shall be suspended until the Administrator determines that such delivery is lawful and shall be further subject to the approval of counsel for the Company with respect to such compliance. The Company shall have no obligation to effect any registration or qualification of the Shares under federal or state laws.
  
- (b) As a condition to the exercise or issuance of an Award, the Company may require the person exercising or receiving such Award to represent and warrant at the time of any such exercise or issuance that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required by any Applicable Laws.

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### **9. Adjustments Upon Changes in Capitalization**

Subject to any required action by the shareholders of the Company, the number of Shares covered by each outstanding Award, and the number of Shares which have been authorized for issuance under the Plan but as to which no Awards have yet been granted or which have been returned to the Plan, the maximum number of Shares with respect to which Awards may be granted to any Grantee in any calendar year, as well as any other terms that the Administrator determines require adjustment shall be proportionately adjusted for (i) any increase or decrease in the number of issued Shares resulting from a stock split, reverse stock split, stock dividend, combination, or reclassification of the Shares, or similar transaction affecting the Shares, (ii) any other increase or decrease in the number of issued Shares effected without receipt of consideration by the Company, or (iii) any other transaction with respect to Common Stock including a corporate merger, consolidation, acquisition of property or stock, separation (including a spin-off or other distribution of stock or property), reorganization, liquidation (whether partial or complete), or any similar transaction; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been effected without receipt of consideration. Except as the Administrator determines, no issuance by the Company of shares of any class, or securities convertible into shares of any class, shall affect, and no adjustment by reason hereof shall be made with respect to, the number of Shares subject to an Award.

### **10. Change in Control Event**

Except as provided otherwise in an Award Agreement or a Notice, in the event of a Change in Control Event, each Award which is at the time outstanding under the Plan automatically shall (i) become fully vested and be released from any repurchase, forfeiture, or transfer restrictions and (ii) with respect to Restricted Stock Units, be converted in full to Shares, immediately prior to the specified effective date of the consummation of such Change in Control Event, for all of the Shares or Units at the time represented by such Award.

### **11. Effective Date and Term of Plan**

The Plan was originally effective upon its adoption by the Board and was continued by an affirmative vote of shareholders at the Company's 2007 Annual Meeting for an initial term of ten (10) years from the original effective date. ~~If the An~~ extension of the Plan ~~is was~~ approved ~~by~~ shareholders at the 2012 Annual Meeting, and the term of the Plan ~~shall be was~~ extended for a term ending May 31, 2017. **If the extension of the Plan is approved at the 2016 Annual Meeting, the term of the Plan shall be extended for a term ending May 31, 2021.** Such shareholder approval shall be obtained in the degree and manner required under Applicable Laws. If the Plan, as amended and restated, is not approved by shareholders at the ~~2012~~2016 Annual Meeting, Awards shall not be payable under the Plan with respect to periods beginning in ~~2012~~2016.

### **12. Amendment, Suspension, or Termination of the Plan**

- (a) The Board may at any time amend, suspend, or terminate the Plan; provided, however, that no such amendment shall be made without the approval of the Company's shareholders to the extent such approval is required by Applicable Laws.
- (b) No Award may be granted during any suspension of the Plan or after termination of the Plan.
- (c) No suspension or termination of the Plan shall adversely affect any rights under Awards already granted to a Grantee.

### **13. Reservation of Shares**

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- (a) The Company, during the term of the Plan, will at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan.
  
- (b) The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

### **14. No Effect on Terms of Employment/Consulting Relationship**

The Plan shall not confer upon any Grantee any right with respect to the Grantee's Continuous Service, nor shall it interfere in any way with his or her right or the right of the Company or any Related Entity to terminate the Grantee's Continuous Service at any time, with or without Cause, and with or without notice. The ability of the Company or any Related Entity to terminate the employment of a Grantee who is employed at will is in no way affected by its determination that the Grantee's Continuous Service has been terminated for Cause for the purposes of this Plan.

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### **15. No Effect on Retirement and Other Benefit Plan**

Except as specifically provided in a retirement or other benefit plan of the Company or a Related Entity, Awards shall not be deemed compensation for purposes of computing benefits or contributions under any retirement plan of the Company or a Related Entity, and shall not affect any benefits under any other benefit plan of any kind or any benefit plan subsequently instituted under which the availability or amount of benefits is related to level of compensation. The Plan is not a Retirement Plan or Welfare Plan under the Employee Retirement Income Security Act of 1974, as amended.

### **16. Construction**

Captions and titles contained herein are for convenience only and shall not affect the meaning or interpretation of any provision of the Plan. Except when otherwise indicated by the context, the singular shall include the plural and the plural shall include the singular. Use of the term or is not intended to be exclusive, unless the context clearly requires otherwise.

### **17. Arbitration and Litigation**

- (a) Any dispute, controversy, or claim arising out of or in respect to this Plan (or its validity, interpretation, or enforcement) or the subject matter hereof must be submitted to and settled by arbitration conducted before a single arbitrator (chosen from a list of arbitrators provided by the American Arbitration Association with each party hereto taking alternate strikes and the remaining arbitrator hearing the dispute). The arbitration will be conducted in Clark County, Nevada, in accordance with the then current rules of the American Arbitration Association or its successor. The arbitration of such issues, including the determination of any amount of damages suffered, will be final and binding upon the parties to the maximum extent permitted by law. The arbitrator in such action will not be authorized to change or modify any provision of the Plan. Judgment upon the award rendered by the arbitrator may be entered by any court having jurisdiction thereof. The arbitrator will award reasonable legal fees and expenses (including arbitration costs) to the prevailing party upon application therefor. The parties consent to the jurisdiction of the Supreme Court of the State of Nevada and of the U.S. District Court for the District of Nevada for all purposes in connection with arbitration, including the entry of judgment of any award.
- (b) Except as may be necessary to enter judgment upon the award or to the extent required by applicable law, all claims, defenses, and proceedings (including, without limiting the generality of the foregoing, the existence of the controversy and the fact that there is an arbitration proceeding) shall be treated in a confidential manner by the arbitrator, the parties and their counsel, and each of their agents and employees, and all others acting on behalf or in concert with them. Without limiting the generality of the foregoing, no one shall divulge to any third party or person not directly involved in the arbitration, the contents of the pleadings, papers, orders, hearings, trials, or awards in the arbitration, except as may be necessary to enter judgment upon an award as required by applicable law. Any court proceedings relating to the arbitration hereunder, including, without limiting the generality of the foregoing, to prevent or compel arbitration to perform, correct, vacate, or otherwise enforce an arbitration award, shall be filed under seal with the court, to the extent permitted by law.

**Table of Contents****APPENDIX A TO THE RESTRICTED STOCK/UNIT PLAN****TARGET AWARD OPPORTUNITY FOR EACH GRANTEE**

<b>Position</b>	<b>% of Year-End Base Salary</b>	<b>Range of Award Grant*</b>
Chief Executive Officer	45	22.5 to 67.5
President	30	15.0 to 45.0
Executive Vice President	25	12.5 to 37.5
Senior Vice President	20	10.0 to 30.0
Vice President	15	7.5 to 22.5
Other Participants	10	5.0 to 15.0
Non-Employee Directors		800 Restricted Stock or Stock Units

\* Awards granted pursuant to the Plan will range from 50 percent to 150 percent of the target Award opportunity for each participant, other than non-Employee Directors, established for the initial Award. The actual Award will be determined based on the three-year average Management Incentive Plan payout percentage (the MIP Payout Percentage ) for the three years immediately preceding the Award determination date. The threshold to earn an Award will be a MIP Payout Percentage of 90. The Award will increase by five percent for each one percentage point increase in the MIP Payout Percentage until such percentage equals 100, then the increase will be reduced to two and one-half percent for each percentage point increase through 120.

\* Awards granted pursuant to the Plan to Directors will be set at 800 Restricted Stock or Stock Units per year.

\* Once the Awards are established, they will be converted into Restricted Stock or Stock Units, based on the average of the closing prices of the Common Stock on the New York Stock Exchange for the first five trading days of the month in which the award is granted.

**1. Vesting Schedule of Awards****(a) Awards to Employees.**

- (i) With respect to Awards to Employees, unless otherwise set forth in an Award Agreement, a Notice or in an amendment to this Appendix A, the Shares or Units subject to an Award shall vest and be paid out in Common Stock over a three (3) year period as follows: forty percent (40%) of the Shares or Units subject to the Award shall vest on the 4<sup>th</sup> of January following the Award (the Vesting Commencement Date ) and thirty percent (30%) of the Shares or Units subject to the Award shall vest on each of the second and third anniversaries of the Vesting Commencement Date.
- (ii) During any authorized leave of absence, the vesting of the Shares or Units awarded to Employees only as provided above shall be suspended after the leave of absence exceeds a period of three (3) months. Vesting of the Shares or Units shall resume upon the Employee's termination of the leave of absence and return to service to the Company or a Related Entity. The Vesting Schedule of the Shares or Units shall be extended by the length of the suspension.
- (iii) Notwithstanding the foregoing, in the event the Employee's Continuous Service terminates as the result of Death, Retirement, or Disability, the Employee will be entitled to receive the Award for the current Plan year determined on a pro rata basis



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according to the number of months actually worked during the current year while participating in the Plan. This Section 1(a)(iii) of Appendix A is effective January 17, 2012 with retroactive and prospective effect.

- (iv) With respect to Restricted Stock Units, Awards shall be credited with notional dividends at the same time, in the same form, and in equivalent amounts as dividends that are payable from time to time on the Common Stock. Any such notional dividends shall be valued as of the date on which they are credited to the Employee and reallocated to acquire additional Units. Such additional Units shall vest in accordance with the vesting schedule set forth in the applicable Notice or Award Agreement as if such Units had been issued on the date of such Award (if any).
  
- (v) Notwithstanding the foregoing, in the event the Employee's Continuous Service terminates as the result of Death, Retirement, or Disability, 100% of the Shares or Units shall become fully vested and no longer subject to forfeiture to the Company. In the event of a Change in Control Event, each Award which is at the time outstanding under the Plan automatically shall (i) become fully vested and be released from any repurchase, forfeiture, or transfer restrictions and (ii) with respect to Restricted Stock Units, be converted in full to Shares, immediately prior to the specified effective date of the consummation of such Change in Control Event, for all of the Shares or Units at the time represented by such Award.

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- (b) Awards to Directors. Subject to the Director's Continuous Service, Awards shall vest in accordance with either of the following schedules:
- (i) Forty percent (40%) of the Shares or Units subject to an Award shall vest on the 4<sup>th</sup> of January following the award (Vesting Commencement Date), and thirty percent (30%) on each of the second and third anniversaries of the Vesting Commencement Date. Vesting of the Shares or Units shall accelerate so that one hundred percent (100%) of the Shares or Units subject to the Award shall vest (i) in the event of a Change in Control Event and, with respect to Units, be converted in full to Shares, immediately prior to the specified effective date of the consummation of such Change in Control Event or (ii) upon termination of the Director's Continuous Service as a result of death, Disability, or Retirement. Notwithstanding the foregoing, Shares or Units subject to an Award granted on or after January 17, 2012, shall vest on the Award Date. With respect to Restricted Stock Units, the conversion of the Units into Shares, however, will not occur until the Director's Continuous Service terminates, or immediately prior to a Change in Control Event.
  - (ii) With respect to Restricted Stock Units, Awards shall be credited with notional dividends at the same time, in the same form, and in equivalent amounts as dividends that are payable from time to time on the Common Stock. Any such notional dividends shall be valued as of the date on which they are credited to the Director and reallocated to acquire additional Units. Such additional Units shall vest in accordance with the vesting schedule set forth in the applicable Award Agreement as if such Units had been issued on the date of such Award (if any).

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**APPENDIX B TO THE RESTRICTED STOCK/UNIT PLAN**

**ADDITIONAL GRANTS TO NON-EMPLOYEE DIRECTORS**

Commencing January 2009, non-Employee Directors will be entitled to receive annual grants of Restricted Stock Units tied to the performance of the Company. Each non-Employee Director will receive a target Award opportunity of 1,000 Units.

The Award granted will range from 50 to 150 percent of the target Award opportunity for each non-Employee Director. The Awards granted annually will be determined based on the three-year average Management Incentive Plan payout percentage (the MIP Payout Percentage ) for the three years immediately preceding the Awards determination date. The threshold to earn Awards will be a MIP Payout Percentage of 90. The Awards will increase by five percent for each one percentage point increase in the MIP Payout Percentage until such percentage equals 100, then the increase will be reduced to two and one-half percent for each percentage point increase through 120.

**Vesting Schedule of Awards**

Subject to the Director's Continuous Service, Awards shall vest in accordance with either of the following schedules:

- (a) Forty percent (40%) of the Units subject to each annual Award shall vest on the 4<sup>th</sup> of January following the award (the Vesting Commencement Date ), and thirty percent (30%) on each of the second and third anniversaries of the Vesting Commencement Date. Vesting of the Units shall accelerate so that one hundred percent (100%) of the Units subject to the Award shall vest (i) in the event of a Change in Control Event and, with respect to Units, be converted in full to Shares, immediately prior to the specified effective date of the consummation of such Change in Control Event or (ii) upon termination of the Director's Continuous Service as a result of death, Disability, or Retirement. Notwithstanding the foregoing, Shares or Units subject to an Award granted on or after January 17, 2012, shall vest on the Award Date. Conversion of the vested Units into Shares, however, will not occur until the Director's Continuous Service terminates, or immediately prior to a Change in Control Event.
- (b) With respect to the Awards, notional dividends shall be credited at the same time, in the same form, and in equivalent amounts as dividends that are payable from time to time on the Common Stock. Any such notional dividends shall be valued as of the date on which they are credited and reallocated to acquire additional Units. Such additional Units shall vest in accordance with the vesting schedule set forth above, as if such Units had been issued on the date of such Awards.

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**SOUTHWEST GAS CORPORATION**

**ANNUAL MEETING OF SHAREHOLDERS**

**Wednesday, May 4, 2016**

**at 4:00 P.M. Pacific Time**

**CILI RESTAURANT AT BALI HAI GOLF CLUB**

**5160 Las Vegas Blvd. South**

**Las Vegas, Nevada**

5241 Spring Mountain Road

Las Vegas, NV 89150-0002

**PROXY**

**This proxy will be voted in the manner directed by the shareholder(s). If no direction is made, this proxy will be voted FOR the listed nominees (Proposal 1), FOR amendment and reapproval of the Restricted Stock/Unit Plan (Proposal 2), FOR approval of the Bylaw amendment (Proposal 3), FOR Approval, on an advisory basis, of executive compensation (Proposal 4) and FOR auditor selection ratification (Proposal 5). Further, if cumulative voting rights for the election of directors (Proposal 1) are exercised at the meeting, the Proxies, unless otherwise instructed, will cumulatively vote their shares as explained in the Proxy Statement.**

The undersigned hereby revokes all previously granted proxies and appoints LeRoy C. Hanneman, Jr. and Michael J. Melarkey as proxies, each with the power to appoint his substitute, and hereby authorizes them to represent and to vote as designated by telephone, by internet or by mail, all the shares of Common Stock of the undersigned at the 2016 Annual Meeting of Shareholders of Southwest Gas Corporation, and at any adjournments thereof; and at their discretion, with authorization to vote such shares on any other matters as may properly come before the meeting or any adjournment thereof.

**Vote by Internet, Telephone or Mail**

**24 Hours a Day, 7 Days a Week**

Your phone or Internet vote authorizes the named proxies to vote your shares

in the same manner as if you marked, signed and returned your proxy card.

**INTERNET**

[www.proxypush.com/swx](http://www.proxypush.com/swx)

Use the Internet to vote your proxy until 11:59 p.m. Central Time on May 3, 2016.

**PHONE**

**1-800-883-3382**

Use a touch-tone telephone to vote your proxy until 11:59 p.m. Central Time on

**MAIL**

Mark, sign and date your proxy card and return it in the postage-paid envelope provided.

**VOTE  
IN PERSON**

Directions to attend the Annual Meeting and vote in person are included on the map on page M-1 of the Notice of 2016 Annual Meeting of Shareholders and Proxy Statement. If you own your shares in street name through a broker or

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May 3, 2016.

other nominee, you must provide proof of identification and proof that you were the owner of the shares on March 8, 2016.

**If you vote your proxy by Internet or by telephone, you do NOT need to return your Proxy Card by mail.**

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Shareowner Services<sup>SM</sup>  
 P.O. Box 64945  
 St. Paul, MN 55164-0945

Address Change? Mark box, sign, and indicate changes below: "

TO VOTE BY INTERNET OR  
 TELEPHONE, SEE REVERSE  
 SIDE OF THIS PROXY CARD.

**TO VOTE BY MAIL AS THE BOARD OF DIRECTORS RECOMMENDS ON ALL ITEMS BELOW, SIMPLY SIGN, DATE AND RETURN THIS PROXY CARD.**

**The Board of Directors Recommends a Vote FOR Proposals 1 through 5.**

1. Election of	01	Robert L. Boughner	07	Anne L. Mariucci	" Vote FOR	" Vote WITHHELD
Directors:	02	José A. Cárdenas	08	Michael J. Melarkey	all nominees	from all nominees
	03	Thomas E. Chestnut	09	A. Randall Thoman	(except as marked)	
	04	Stephen C. Comer	10	Thomas A. Thomas		
	05	LeRoy C. Hanneman, Jr.	11	Terrence L. Wright		
	06	John P. Hester				

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**To withhold authority to vote for a particular nominee, mark the Vote FOR all nominees (except as marked) box and enter the number next to the name(s) of the exceptions in the space provided. Unless authority to vote for all the foregoing nominees is withheld, this proxy will be deemed to confer authority to vote for every nominee whose name is not listed.**

2. To AMEND AND REAPPROVE the Company's Restricted Stock/Unit Plan.	" For	" Against	" Abstain
3. To APPROVE an amendment to the Company's Bylaws to reduce the upper and lower limits of the range of required directors.	" For	" Against	" Abstain
4. To APPROVE, on an advisory basis, the Company's executive compensation.	" For	" Against	" Abstain
5. To RATIFY the selection of PricewaterhouseCoopers LLP as the independent registered public accounting firm for the Company for fiscal year 2016.	" For	" Against	" Abstain

**THE PROXY WHEN PROPERLY EXECUTED WILL BE VOTED AS DIRECTED OR, IF NO DIRECTION IS GIVEN, WILL BE VOTED AS THE BOARD RECOMMENDS.**

**The Board of Directors recommends a vote FOR the nominees (Proposal 1), FOR amendment and reapproval of the Restricted Stock/Unit Plan (Proposal 2), FOR approval of the Bylaw amendment (Proposal 3), FOR approval, on an advisory basis, of executive compensation (Proposal 4) and FOR auditor selection ratification (Proposal 5).**

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Date \_\_\_\_\_

Signature(s) in Box

Please sign exactly as your name(s) appears on the Proxy. If held in joint tenancy, all persons should sign. Trustees, administrators, etc., should include title and authority. Corporations should provide full name of corporation and title of authorized officer signing the Proxy.