

COMPETITION REPORT

August 2005

Nasdaq: MGEE

Newspaper listings: MGE or MGE Engy

Madison, WI

National accolades for local business climate

Madison ranks among America's Top Business Opportunity Metros, according to *Expansion Management* magazine. *The Scientist* magazine calls Madison a "hotspot" for biotechnology.

World-class research facilities, an entrepreneurial attitude and affordable cost of living have helped to more than quadruple the number of high-tech and

biotech firms in the Madison area since 1980. These firms accounted for nearly \$5 billion in revenue and/or research and development awards in 2004.

Another local community, Middleton, claimed the seventh spot on *Money* magazine's list of Best Places to Live – out of 1,300 cities nationwide.

Serving a diverse, growing economy helps produce solid results for our investors. We increased annual dividends each year for 29 straight years. And our five-year total return (1999–2004) ranks among the top 15 utilities in the nation, according to the Edison Electric Institute Index.

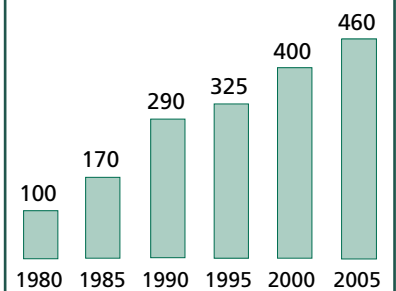


Gary J. Wolter
Chairman, President and CEO

STEADFAST • CONFIDENT

CONNECTED • FLEXIBLE

High-Tech Business Growth
Greater Madison Area
(number of firms)



VISIONARY • STRONG

PROMPT • DEDICATED

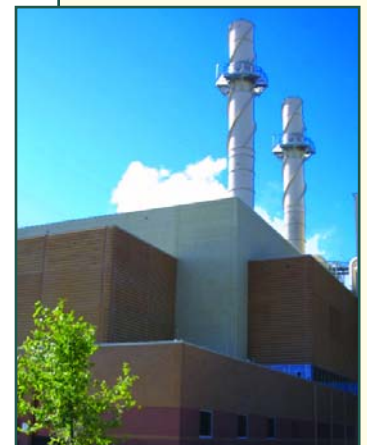
PROACTIVE • AGILE

New cogeneration plant plays vital role

MGE's new West Campus Cogeneration Facility (WCCF) played a vital role in meeting customers' electric needs as the Madison area experienced its fourth warmest June on record. MGE customers used about 19% more electricity in June compared to last year. On July 24, customers set a Sunday record of 629 megawatts (MW) of power used in one hour – 23 MW higher than the previous Sunday record set three years ago. The clean,

natural gas-fired WCCF started producing up to 150 MW of electricity in May.

MGE recently earned a Wisconsin Department of Administration Special Partnership Award for our unique approach in contracting with minority businesses during construction. We worked with key contractors to unbundle the subcontract work. This made it feasible for smaller, minority-owned companies to competitively bid on more than \$4 million in contracts.



INNOVATIVE • RELIABLE

DEPENDABLE • PRUDENT

CARING • RESPONSIBLE

INDEPENDENT • DILIGENT

MGE provides lowest natural gas costs in state

MGE's average natural gas costs were the lowest in Wisconsin for the 12-month period ending March 31, 2005. Our gas costs also ranked lowest or second-lowest in the state for the past five winters.

This is a direct result of careful planning, monitoring the market, storing gas during the summer and using a financial hedging program.

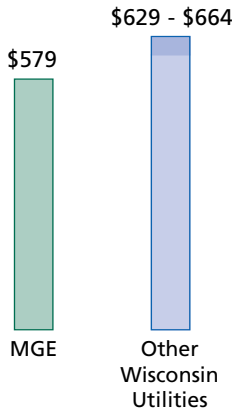
We aggressively pursue the best natural gas prices available. MGE buys about one-third of its gas supply at spring/

summer prices and places it in underground storage for use in the winter.

We use a hedging strategy for another one-third of our gas supply. Financial risk-management techniques are used to keep costs down in a higher-priced and volatile market.

MGE blends these lower-priced supplies with market purchases, which make up another one-third of our gas supply. This strategy helps reduce winter prices and protect customers from extreme price swings.

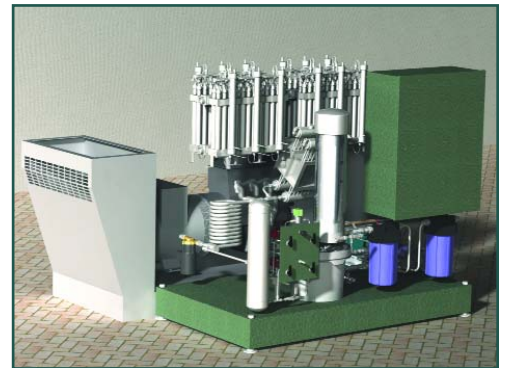
12-Month Average Natural Gas Costs (year ending March 2005)



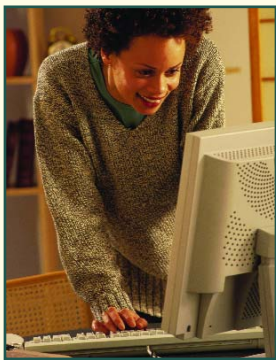
Partners explore new way to produce electricity

MGE is partnering with Madison-based Virent Energy Systems to explore a new biomass fuel. It is the world's first demonstration project to convert plant by-products into hydrogen and/or natural gas that can power electric generators.

For the next two years, Virent will deliver a small amount of electricity to MGE's power grid while continuing to develop its patented technology. Virent's system has significant potential to be used for backup power or to bring electricity into remote areas and developing countries. By early next year, Virent plans to ship additional units based on this initial system.



With MGE's support, Virent Energy Systems will use the equipment above to convert plant by-products into electricity. This is part of MGE's ongoing commitment to develop clean, renewable energy for the future.



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Contact Shareholder Services:

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