

# EEI FINANCIAL FORUM



November 2018  
San Francisco, CA



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Such statements are based upon management's expectations at the time they are made. Various factors could cause actual results to be significantly different than those contemplated, estimated or projected in forward-looking statements. Those factors include the assumptions and factors referred to in the statements themselves as well as risk factors described in the company's latest annual report on Form 10-K, subsequently filed quarterly reports on Form 10-Q and other reports filed with the Securities and Exchange Commission. The company assumes no responsibility to update any forward-looking statements for events occurring after the date hereof.

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# Highlights

## Commitment to Dividends

- Increased 43 consecutive years
- Paid for over 100 consecutive years

## Sustainability Strategy

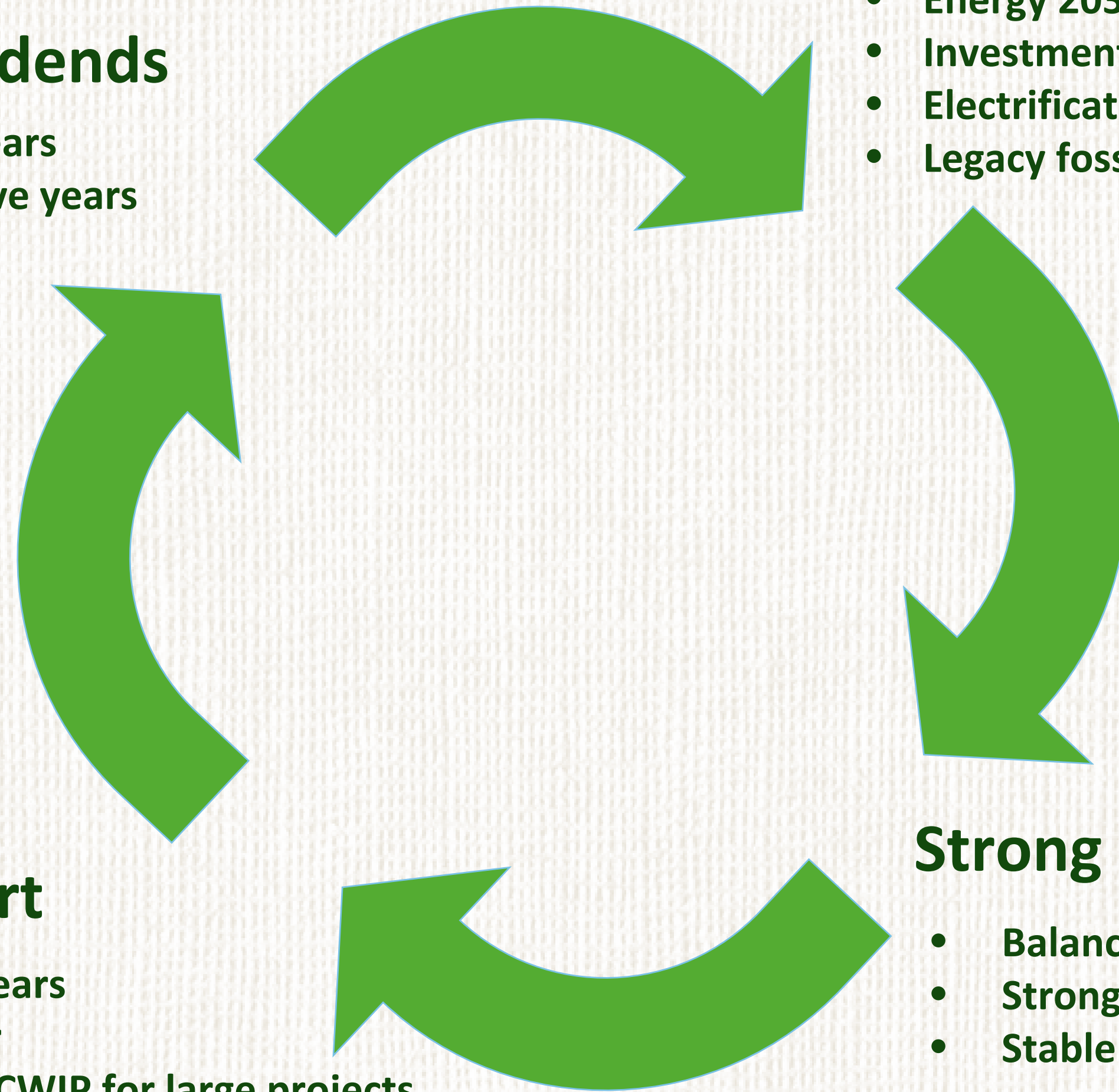
- Energy 2030
- Investments in renewables such as wind and solar
- Electrification of transportation
- Legacy fossil generation accelerated depreciation

## Regulatory Support

- Forward - looking test years
- Renewable Energy Rider
- 100% current return on CWIP for large projects

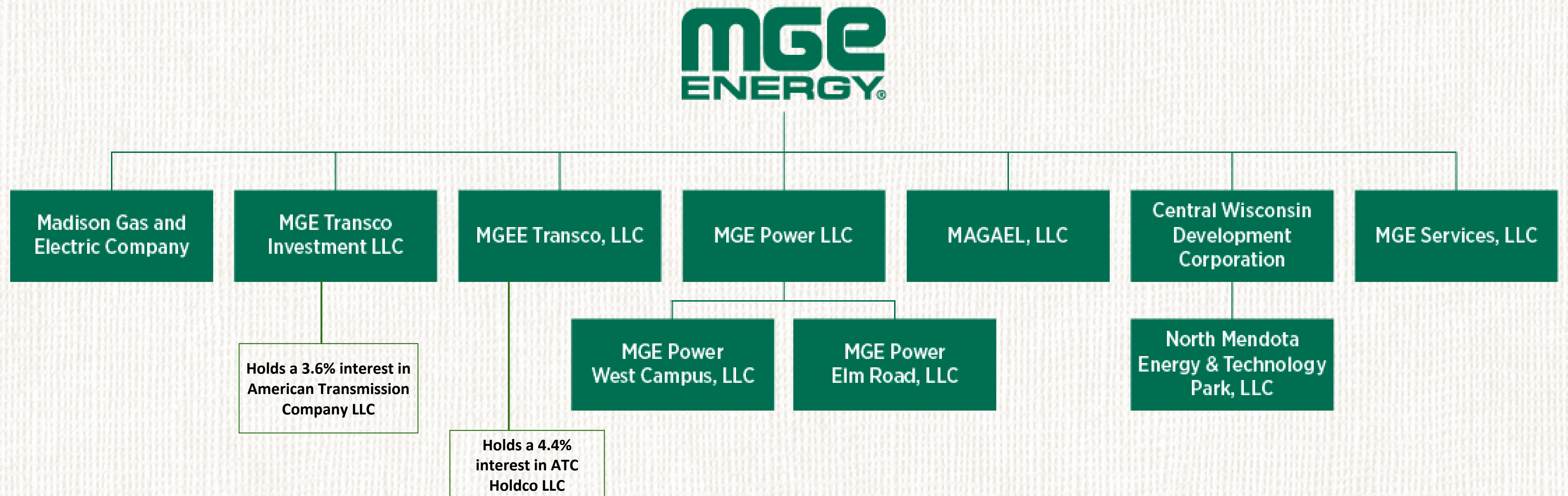
## Strong Financial Results

- Balance Sheet – growth in assets
- Strong liquidity and cash position
- Stable earnings growth





# Corporate Structure





# Service Territory



## *Economic Outlook:*

### **Madison**

- One of four U.S. “tech hubs” – *Atlantic Council, 2017*
- 12th nationally for economic strength – *Policom, 2017*
- Low unemployment: 2.3% – *Bureau of Labor Statistics, August 2018*

### **Dane County**

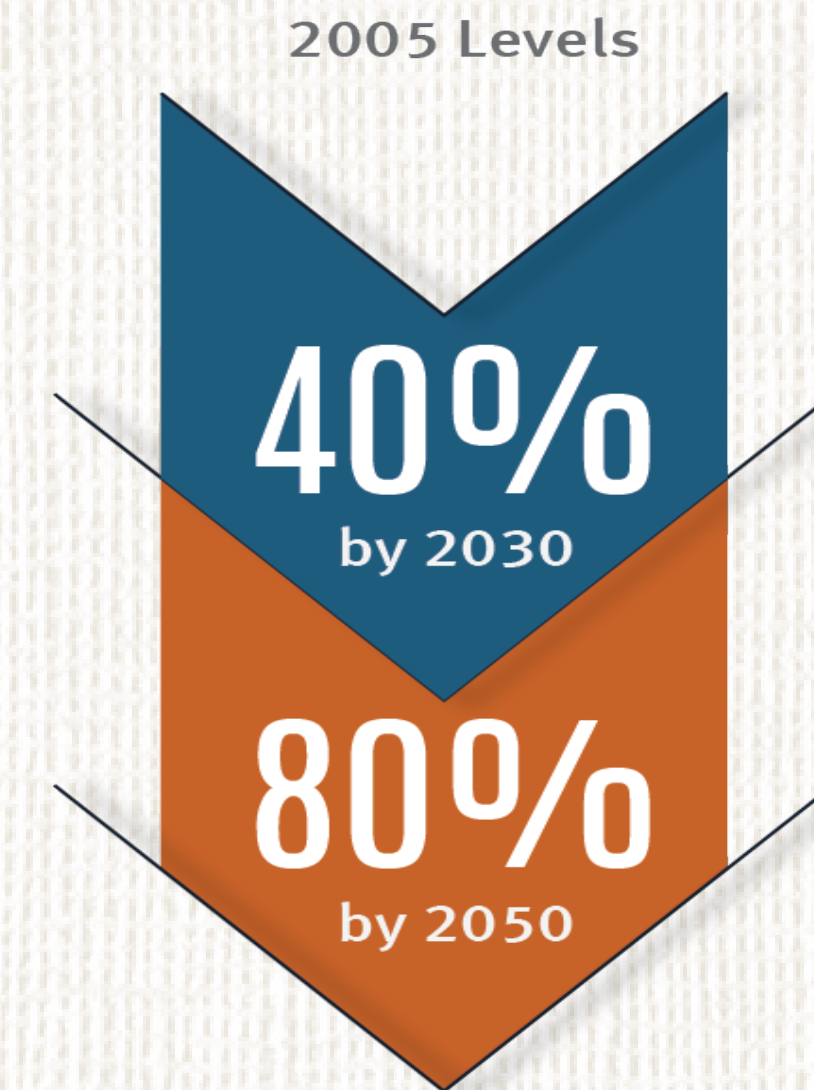
- Population growth through 2035 expected to be the highest of any county in Wisconsin
- Low Unemployment 1.9% (WI 2.6%; US 3.6%) – *WI Dept. of Workforce Development, September 2018*



# Environment and Sustainability

## Energy 2030 Framework

- Greater use of renewable resources
  - ✓ 25% by 2025 / 30% by 2030
- Reduced carbon emissions
  - ✓ 40% by 2030 / 80% by 2050
- Increased emphasis on energy efficiency / conservation
- New products and services for our customers



## Other Environmental Initiatives

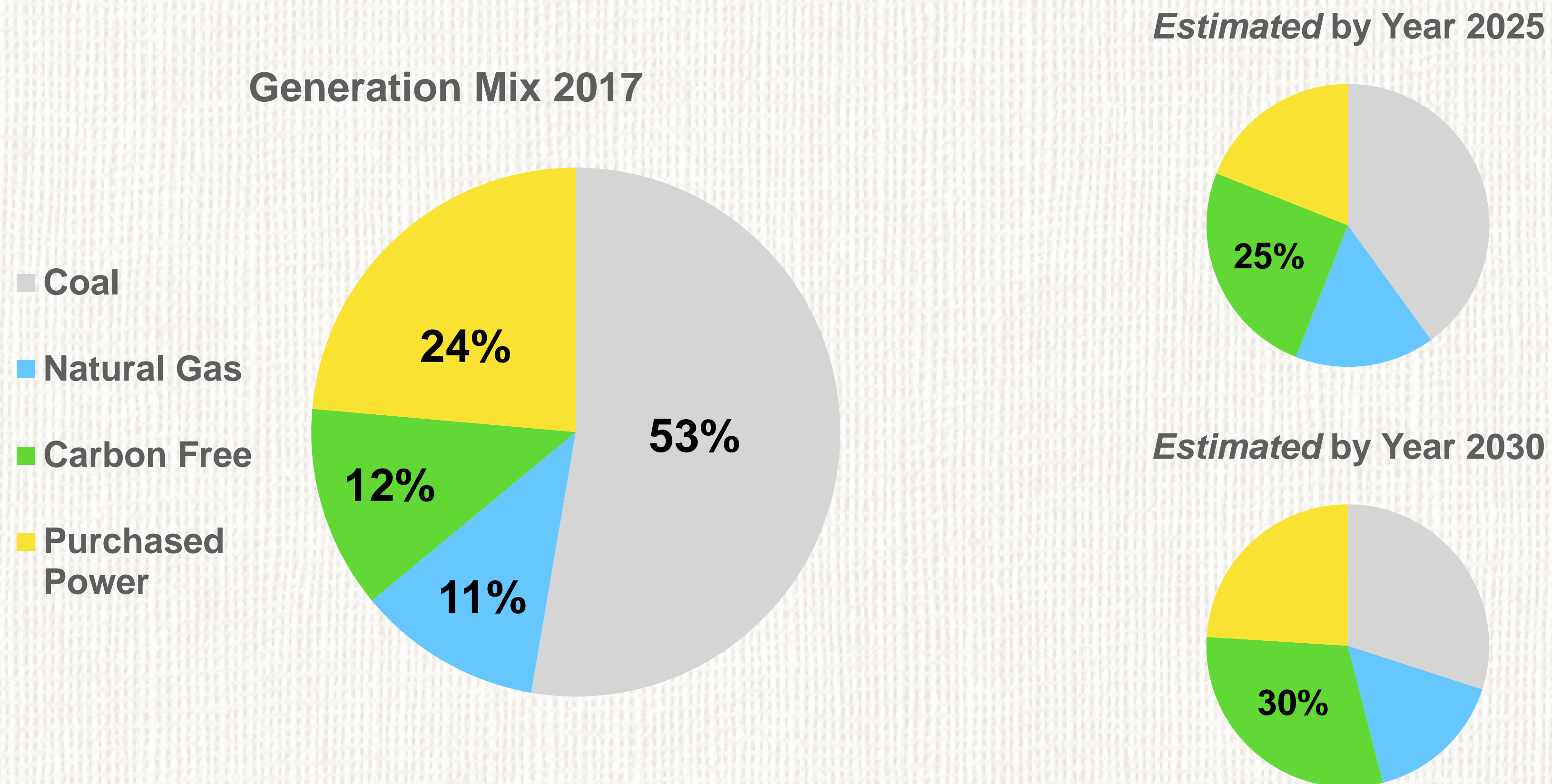
- Recognized as a Green Master for fourth consecutive year by Wisconsin Sustainable Business Council
- Only utility in the state awarded the highest participating level in Green Tier, an environmental program through the WI DNR
- Decreased regulated air emission rates between 60 and 97 percent since 2005



# Change in Generation Resources

**25%** retail sales powered with renewable resources by **2025**

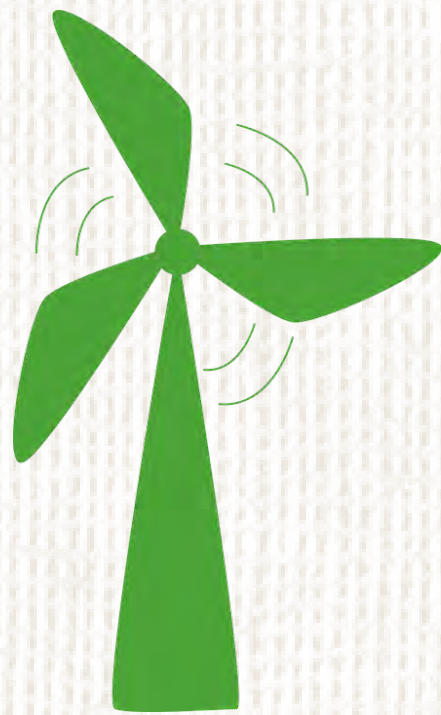
**30%** retail sales powered with renewable resources by **2030**





# Growth in Rate Base

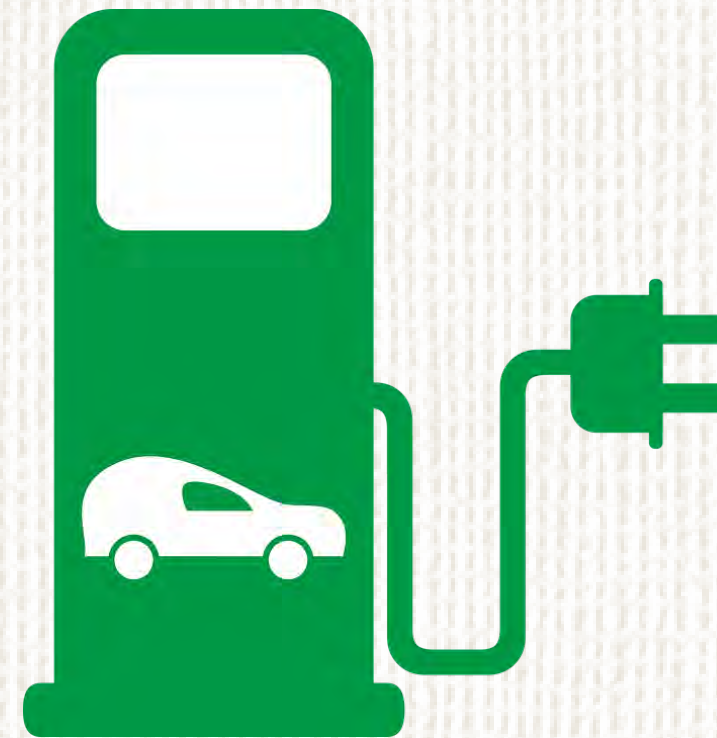
## Renewable Investments:



Wind



Solar



Electric Vehicles



Energy Technology

## Standard Utility Investments:



Digital Integrated Utility



Electric and Gas Distribution



# Wind Investments



## **Saratoga Wind Farm**

- MGE received PSCW approval to construct, own and operate a wind farm
- Located near Saratoga, Iowa
- 66 MW consisting of 33 turbines
- Estimated capital cost of \$108 million
- Project construction is expected to be completed in early 2019

## **Forward Wind Energy Center**

- MGE, WPS, and WPL utilities acquired Forward Wind Energy Center from Invenergy in April 2018
- Acquisition provides access to renewable energy for additional fifteen years
- MGE's Share was \$23 million for 16.5 MW



# Solar Investments

## Shared Solar

- 500-kilowatt (kW) solar array on the City of Middleton's Operations Center
- Planned expansion to 3.5 MW
- Began generating January 2017

## Renewable Energy Rider

- Obtained Public Service Commission of WI (PSCW) approval to work with commercial customers to develop dedicated off-premises renewables for their benefit
- Provides MGE a framework to create customized tariffs whose economics are based on the dedicated renewable solution
- Demonstrates that Wisconsin Commissioners recognize our customers are requesting renewable generating options

## Utility Scale Solar

- Collaborating with WEC Energy Group to build two large solar projects in Wisconsin
- Filed application with the PSCW for approval





# Proposed Solar Generation

## Dane County and MGE Partner on Solar Project

- Located at the Dane County Regional Airport
- MGE will own the solar array and sell the energy to Dane County
  - 8 MW of solar
- First project under **Renewable Energy Rider**
- Project requires approval from the Federal Aviation Administration & PSCW
- If approved, construction is expected to begin in 2019





# Proposed Solar Generation

MGE and WPS have partnered on two major solar projects

## **Badger Hollow Solar Farm**

- Located in Iowa County, Wisconsin
- MGE would own 50 MW (WPS 100 MW)
- Project being developed by Invenergy

## **Two Creeks Solar Project**

- Located in Two Creeks, Wisconsin
  - MGE would own 50 MW (WPS 100 MW)
  - Project being developed by NextEra Energy Resources
- Commercial operation targeted for 2020
  - MGE customers will save approximately \$57 million
  - MGE total cost is approximately \$130 million





# Electric Vehicle Investments

## Public Charging Network

- One of Midwest's largest networks. Powered on 100% renewable energy produced by wind farms in Wisconsin and Iowa

## Workplace Charging

- MGE works with local employers to help them implement workplace charging programs as they install charging stations for their employees

## Home Charging

- Charge@Home pilot program enrolls participants in a study to learn more about charging sessions and how technology can best work for our customers

## EV discounts

- Drive Electric, a partnership between MGE, Wisconsin Clean Cities and Nissan, has helped sell electric vehicles in the greater Madison area by promoting deep discounts and tax incentives on the all-electric Nissan LEAF®





# Electric Vehicle Investments

## Madison Metro Electric Buses

- Collaborating with City of Madison's Metro Transit department to electrify 50% of its bus fleet in MGE's service territory by 2035
- MGE pledged assistance with technical expertise for charging infrastructure and local matching funds in City's successful grant application for electric buses
- Buses are expected to be delivered by Proterra to Madison Metro in 2019
- Partnership advances shared goals to reduce emissions

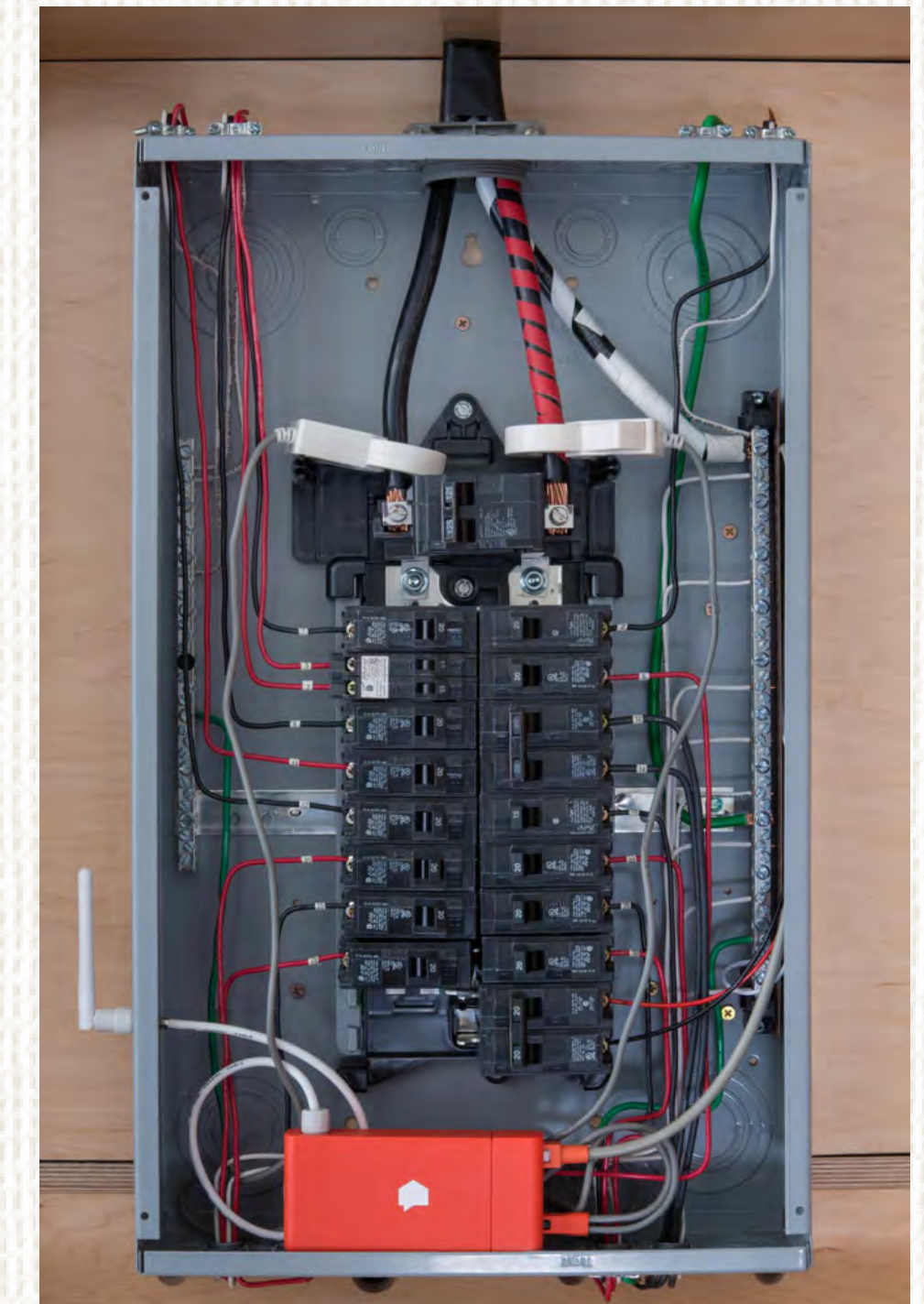
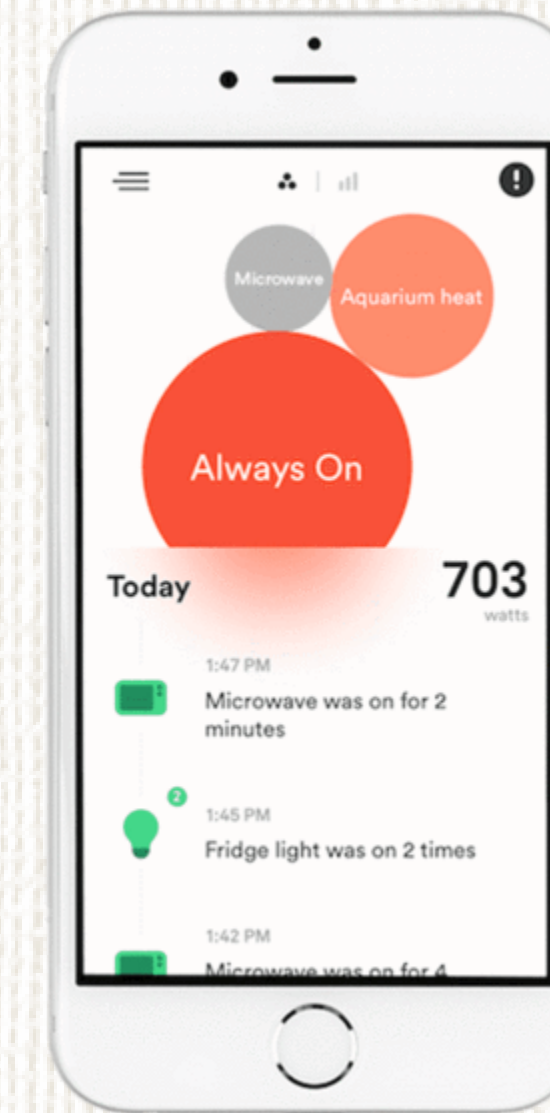




# Energy Technologies

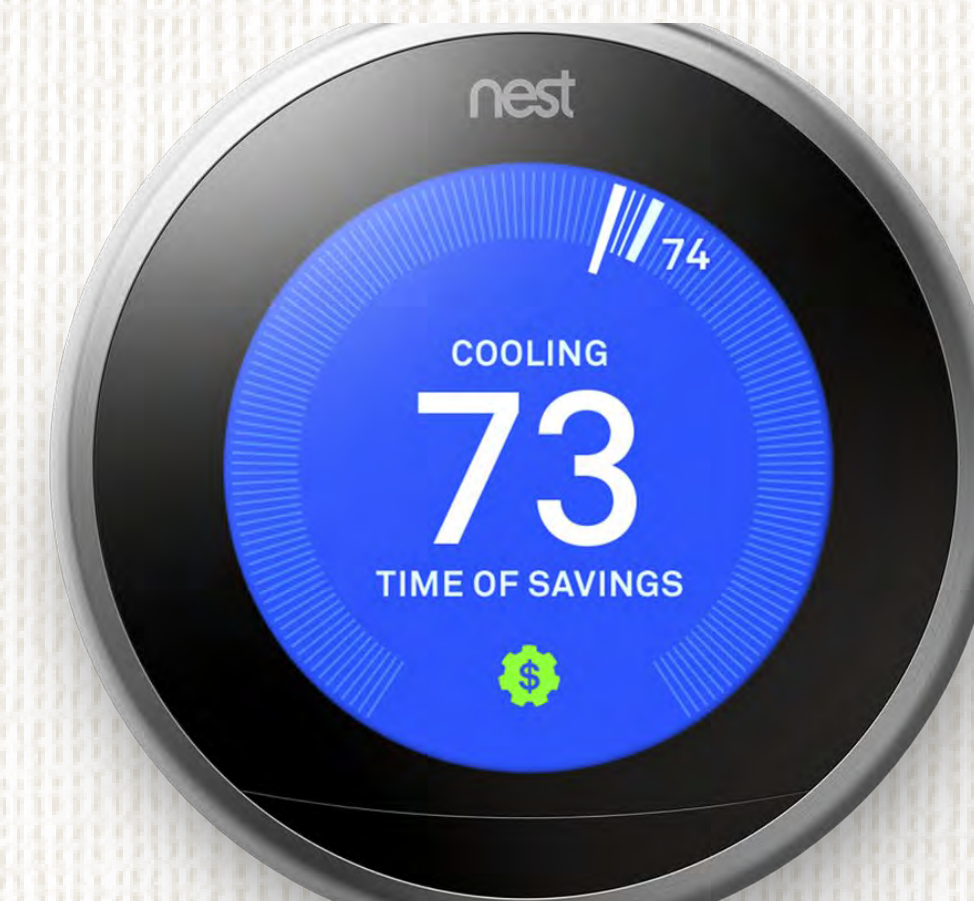
## Partnership with Sense Labs, the maker of the Sense home energy monitor

- The **Sense** attaches to your home's electric panel to "listen" to devices in your home as they consume electricity
- Customer control over energy use is a key objective under Energy 2030
- MGE will be recruiting customers for the program



## Smart Thermostat Program

- Partnership with **Nest** and residential electric customers to test a new method of controlling high energy usage during summer months





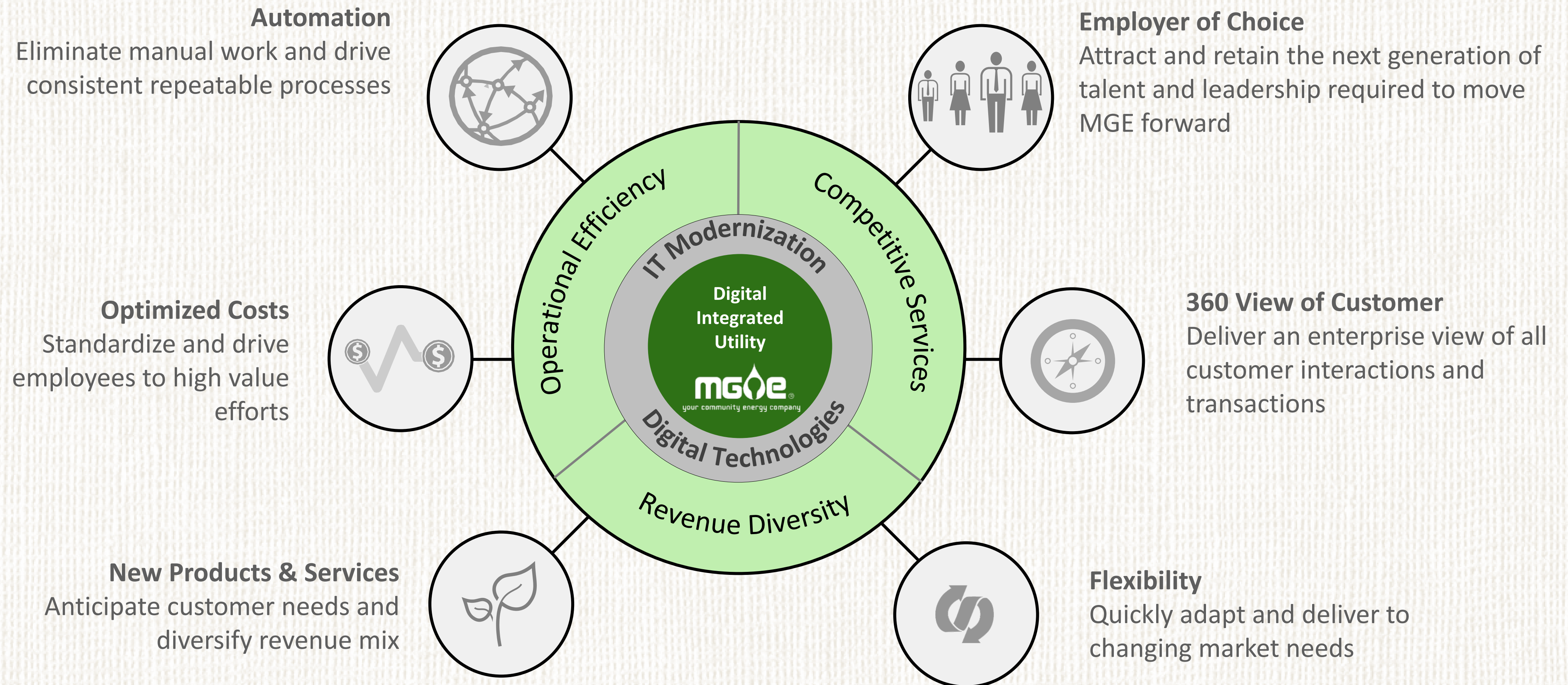
# Technology Investments – Enterprise Forward

- In 2017, MGE committed to undertake a multi-year project aimed at transforming our foundational customer engagement capabilities and enabling it to be flexible in delivering new products and services as outlined in our energy 2030 framework.
- These objectives are expected to be accomplished through the implementation of a new **customer information system, enterprise resource planning platform, along with other solutions** that meet the goals of the initiative:
  - Gain efficiencies,
  - Improve customer facing technologies, and
  - New products & services.
- This 5 year project will transform MGE into a **Digital Integrated Utility**.





# Digital Integrated Utility





# Transmission Investments



## ATC

- Approximately **6.3%** of MGE Energy's earnings come from its **\$61 million** transmission investment in ATC
- ATC forecasted CapEx of **\$2.8 to \$3.4 billion** over the next 10 years, this excludes potential transmission investments outside its traditional footprint
- ATC average rate base at year end 2017: **\$3.5 billion**
- Transmission projects throughout the U.S., including Alaska

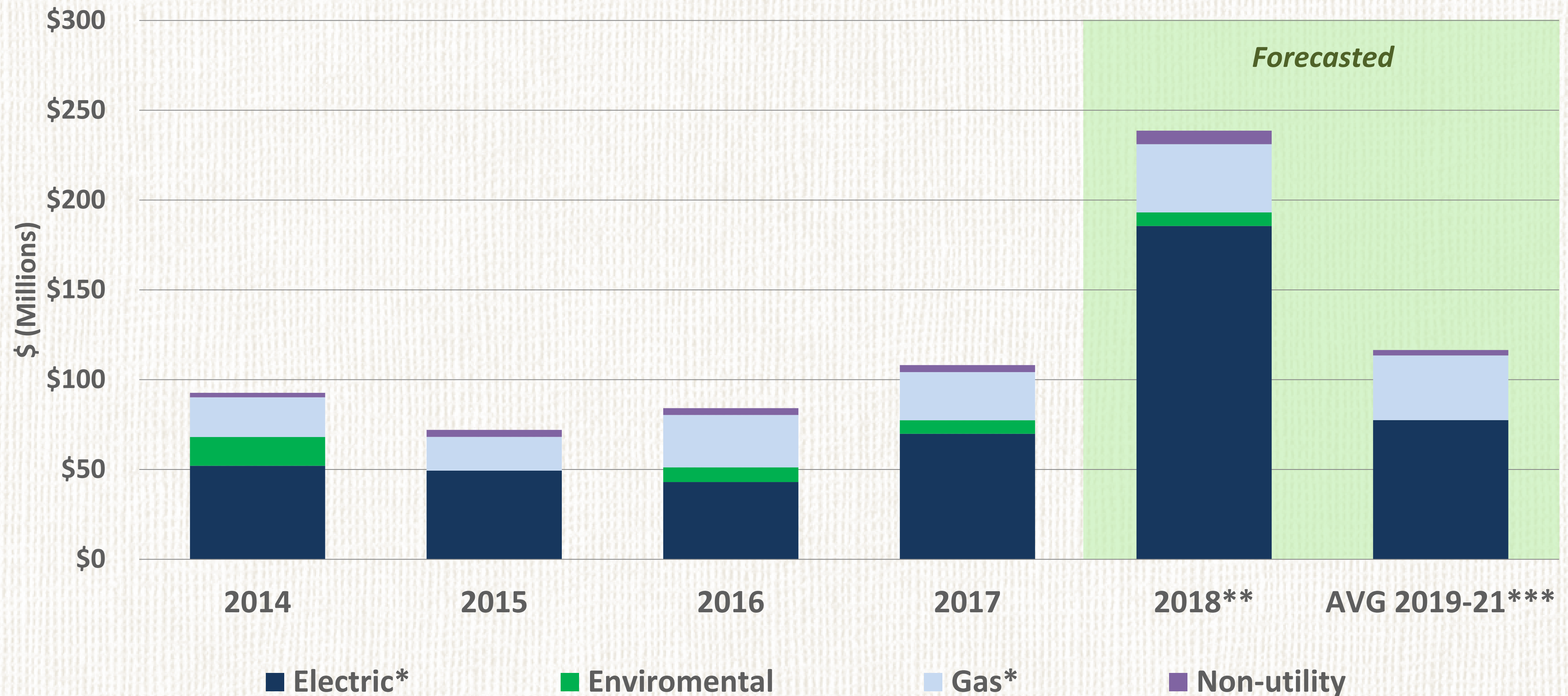
## DATC

- Ownership split 50/50 between Duke and ATC
- Owns transmission rights to California's Path 15
- Zephyr Power Transmission Project
- Proposed San Luis Transmission Project



# Utility Capital Expenditures

## Segment Capital Expenditures



\* Electric and Gas capex includes common, which has the IT infrastructure expenditures included.

\*\* 2018 includes the \$108M Saratoga Wind project, but excludes the recent acquisition of the Forward Energy wind site.

\*\*\* 2019-21 excludes the recently announced utility scale solar projects that are currently being reviewed by the PSCW.



# Governance and Board Structure

## Governance

- Adoption of clawback policy for incentive compensation
- Adoption of new, enhanced stock ownership guidelines for officers and directors
- Adoption of anti-pledging policy for officers and directors
- Added director resignation policy to Bylaws

## Board Structure

- Headed by a Lead Independent Director
- The Lead Director chairs Corporate Governance Committee and Executive Sessions
- Seven out of 10 directors are independent under Nasdaq rules
- Diversity – 33% of our board members are women
- Average tenure of our independent directors is 11 years



# Constructive Regulatory Relationship

- **Very supportive state regulatory framework**
  - Forward looking test years
  - Equity in capital structure is supportive of bond rating
  - Cash return on 50% CWIP
  - Fuel rules / GCRM
  - Deferrals of certain expenses
  - Renewable Energy Rider for solar projects
- **Key Regulatory Initiatives**
  - Decision regarding construction of Saratoga Wind Project
  - Decision regarding purchase of an interest in Forward Wind Energy Center
  - Decision regarding ratemaking treatment of the effect of the Tax Cut and Jobs Act of 2017



# Constructive Regulatory Relationship

- The PSCW approved a Settlement Agreement to adjust electric and gas rates for 2019 and 2020. The Settlement Agreement will:
  - Provide a decrease in electric rates by 1.94% in 2019, and maintain this rate level for 2020
  - Increase gas rates by 1.06% in 2019 and 1.46% in 2020
  - Enable significant investment in renewables and technology
  - Provide company tax savings and benefits from Tax Reform to customers
  - Mitigate rate increases driven by robust capital expenditures
  - ROE of 9.8% based on capital structure of 56.6% common equity in 2019 and 56.1% in 2020
- Recent approval of renewable capital projects that provide customer rate benefits will be neutral to retail rates
  - Saratoga Wind Farm (approx. \$108M)
  - Forward Wind Energy Center purchase (approx. \$23M)



# Tax Reform Impact

- **Key Takeaways**
  - Benefits of lower costs passed on to customers
  - Higher rate base resulting from lower tax rate
  - Excess deferred taxes can be used to smooth future rates
  - Removal of bonus depreciation for most assets
    - Strategic shift to investments in IT and renewable assets provides partially offsetting tax depreciation benefits (MACRS)
- **Regulatory Decisions**
  - Current Year 2018 Income Tax Benefits (35% vs. 21%)
    - To be passed on to customers via bill credits in 2018, with subsequent true-up
  - Excess Deferred Income Tax (EDIT) Benefits
    - A portion of the protected EDIT was utilized in the 2019 and 2020 rate settlement
    - Unprotected EDIT to be utilized in future rate proceedings
- **Maintains strong FFO-to-Debt percentage**



# Strong Credit Ratings

## S&P (Utility Ratings)

- Corporate credit AA-
- Business risk Excellent
- Commercial paper A-1+
- Outlook Stable
- Effective management of regulatory risk
- Strong regulatory environment
- Focus on regulated vertically integrated electric and natural gas distribution operations
- Conservative financial policies that ensure strong credit quality

*Source: S&P, December 2017*

## Moody's (Utility Ratings)

- Secured Aa2
- Unsecured A1
- Commercial paper P-1
- Outlook Stable
- Rating reflects a credit supportive regulatory environment
- Healthy financial metrics
- Stable rating outlook assumes future prudently incurred investments will be recovered
- Funding will replicate authorized capital structure

*Source: Moody's, October 2018*



# Commitment to Dividend

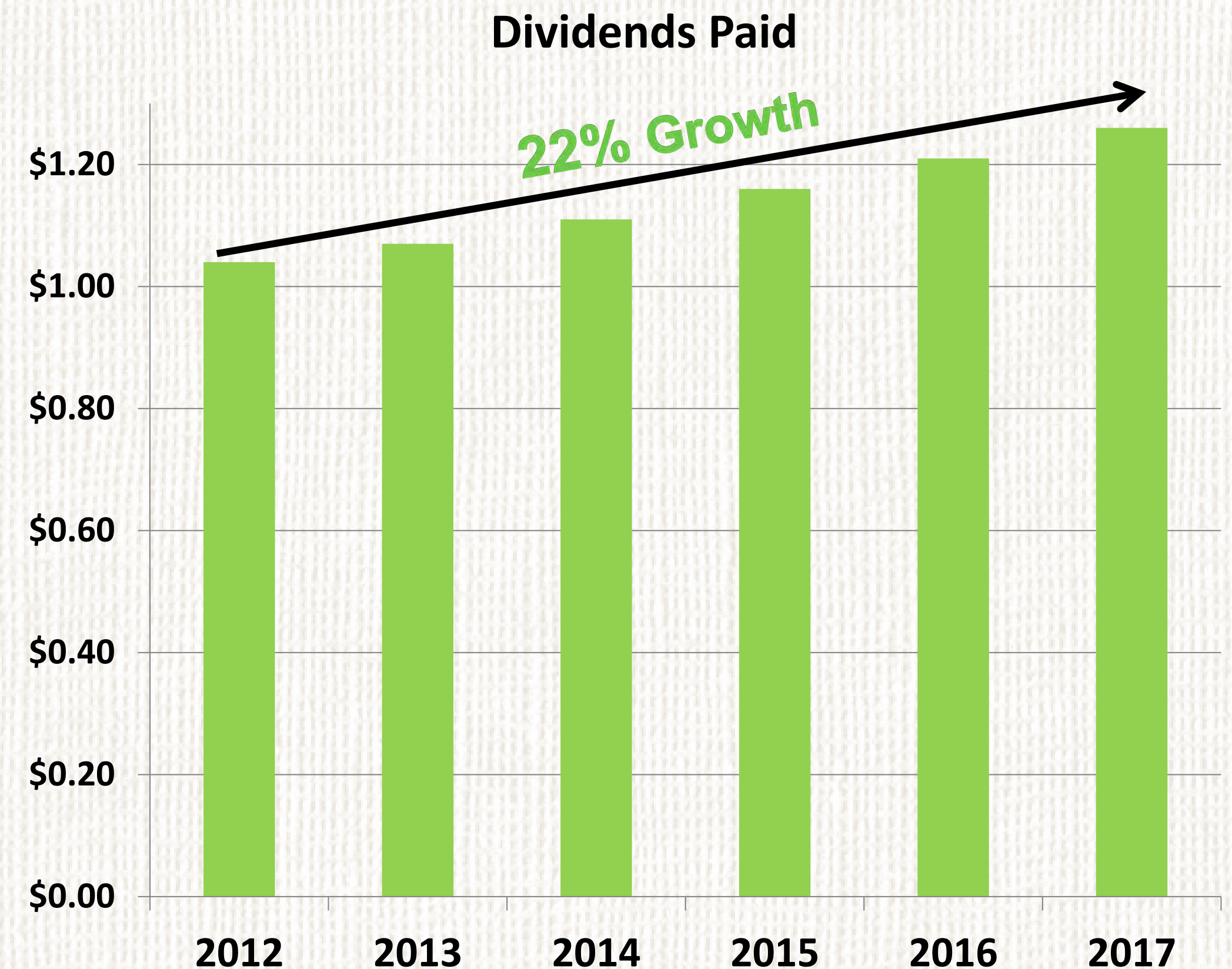
**Recent Dividend increase has been approximately 5%**

- Increased dividend 43 consecutive years
- Paid dividends for over 100 consecutive years
- Dividend payout ratio in the 50-60% range in recent years
- No dividend payout range targeted
- Dividend flexibility exists

## **Dividend Considerations**

- Capital investment growth opportunities
- Balance sheet and credit ratings
- Projected cash generation and requirements
- Dividend payout ratio / yield consistent with industry and peers

**Dividend decisions made by Board of Directors**

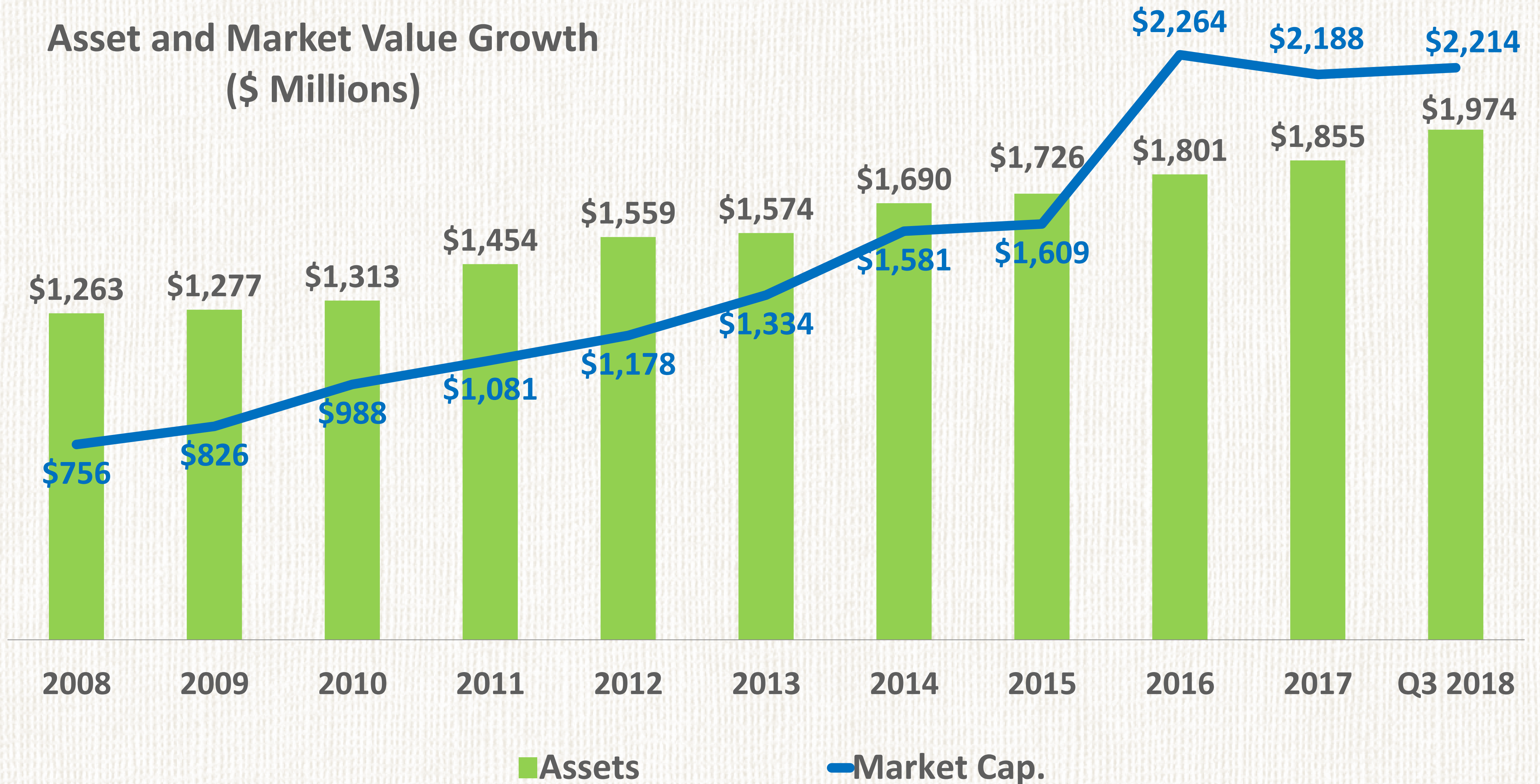




# APPENDIX

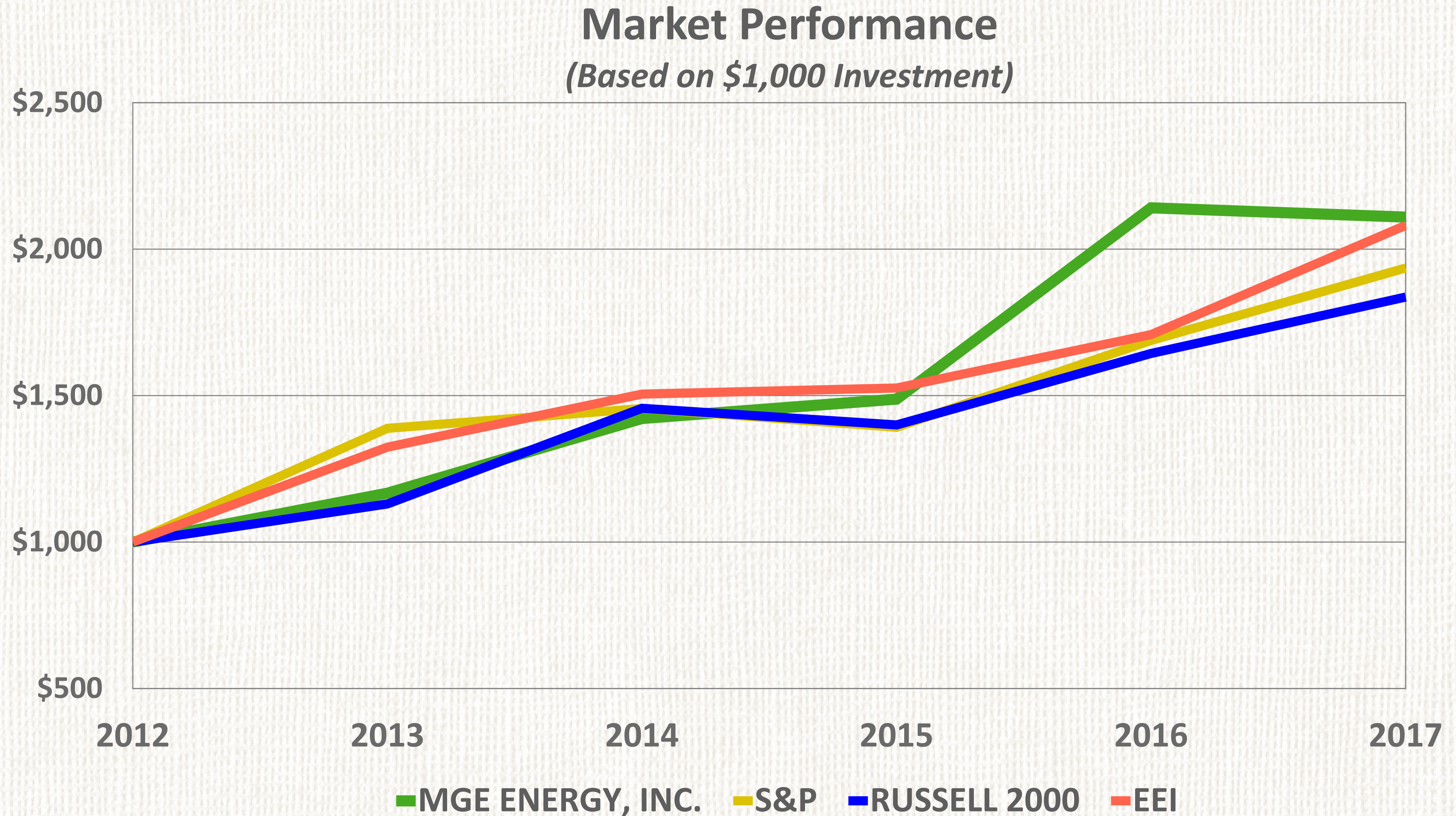


# Stable Asset Growth



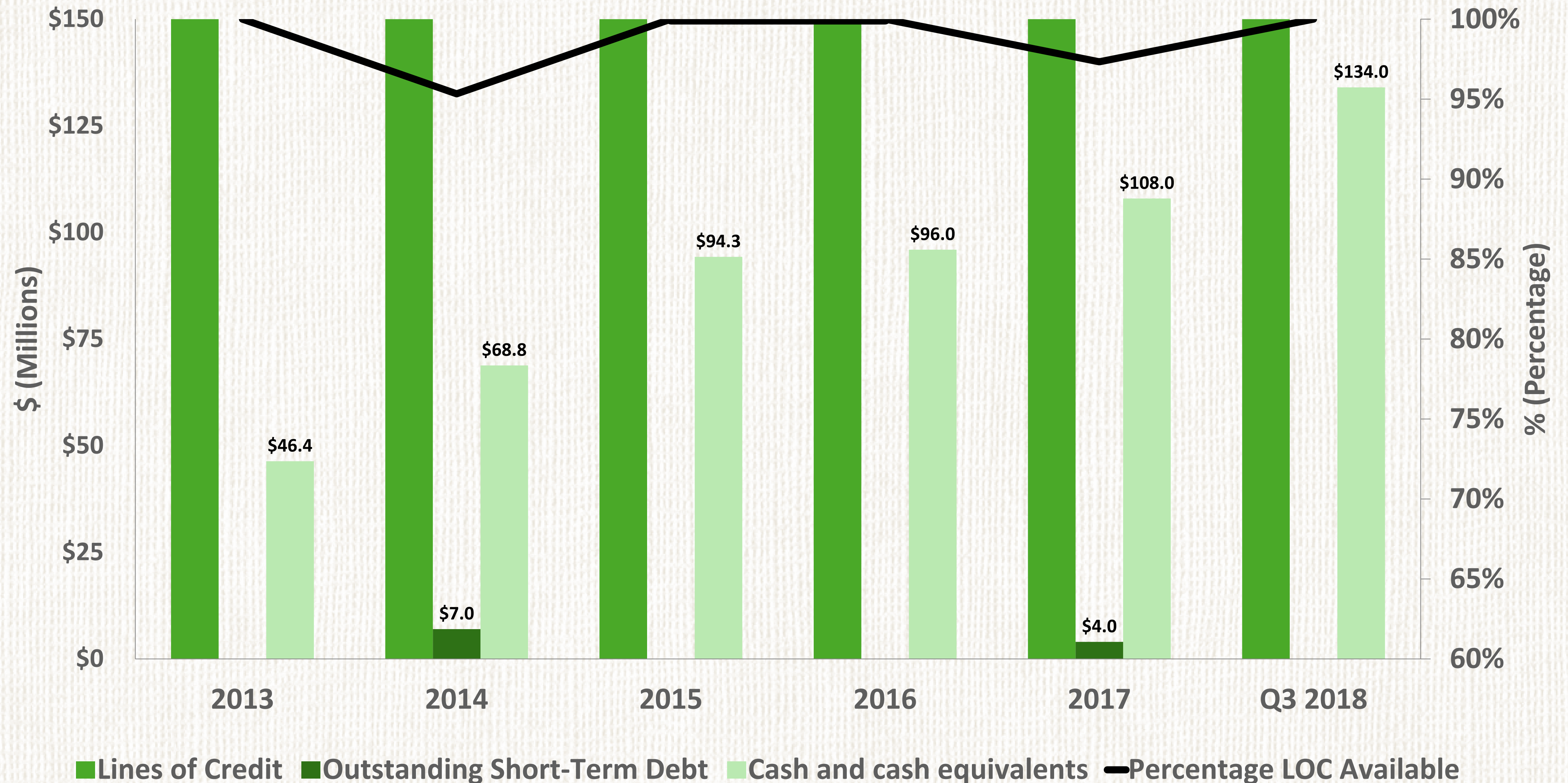


# Strong Market Returns





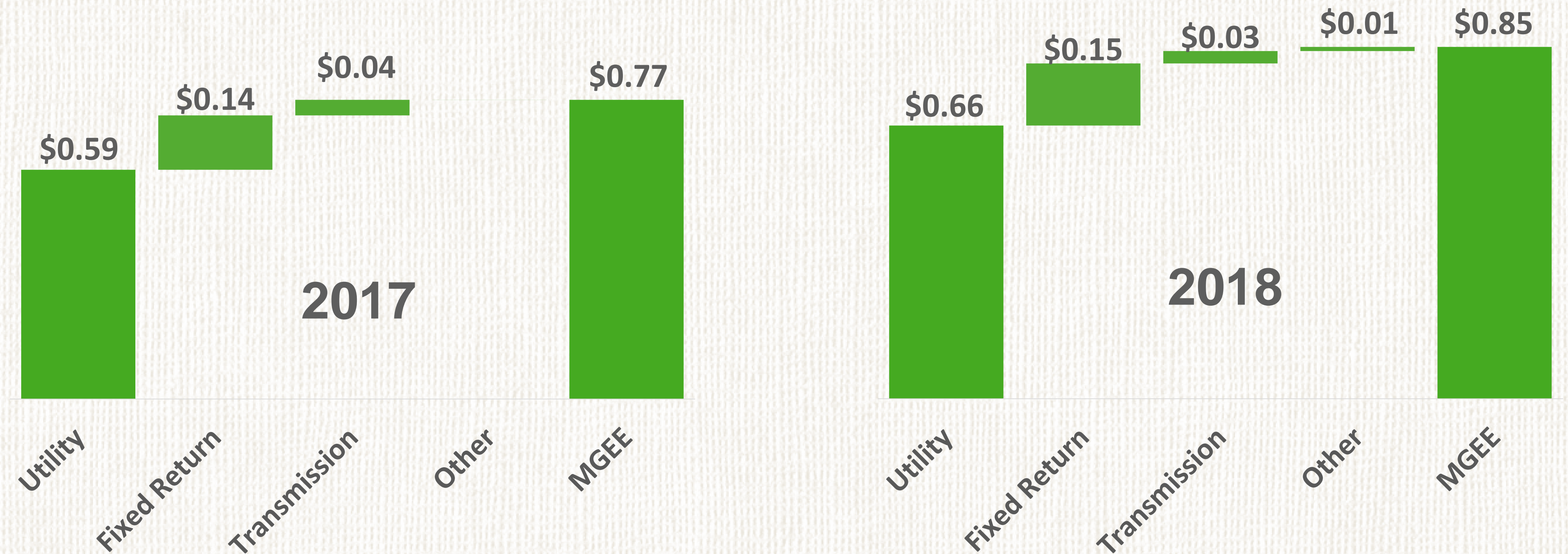
# Sources of Liquidity





# Earnings Per Share Segments

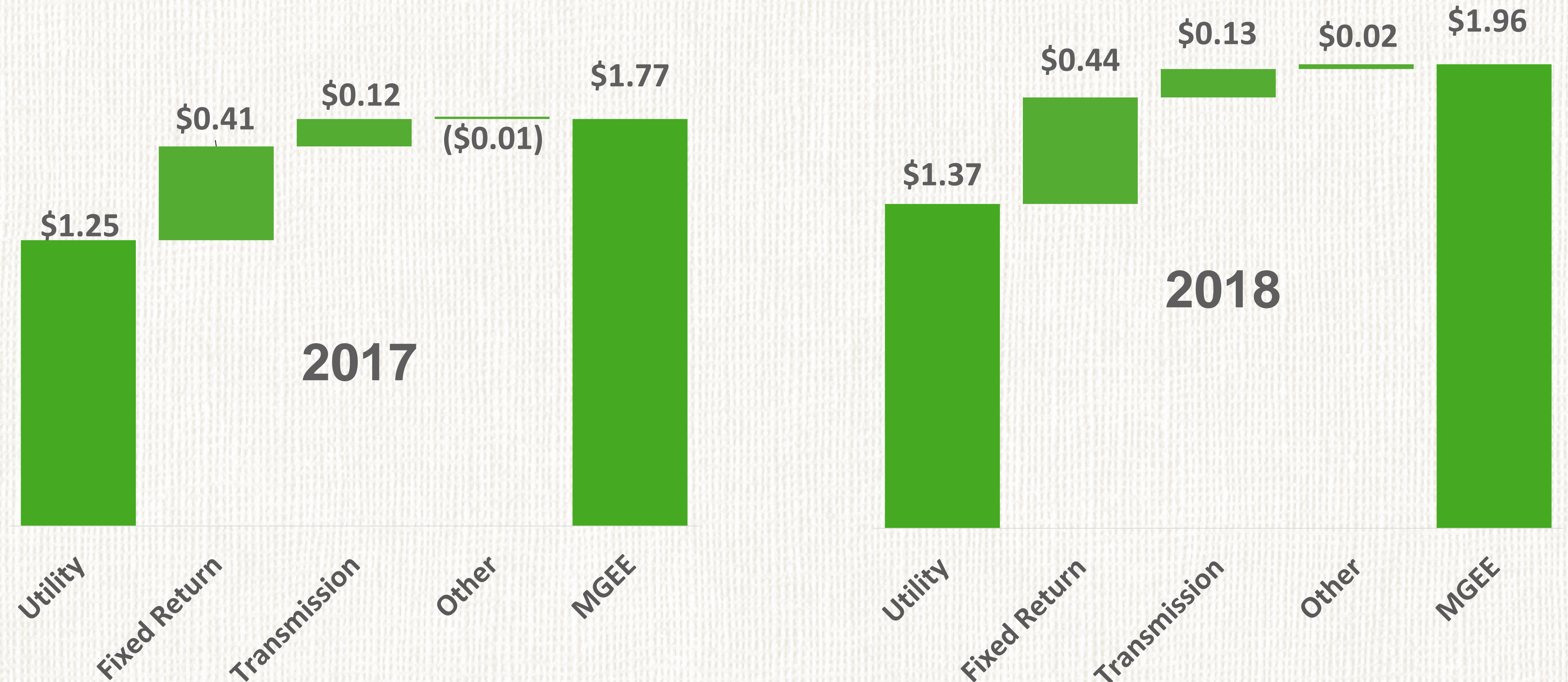
*Three Months Ended September 30<sup>th</sup>*





# Earnings Per Share Segments

*YTD Ended September 30<sup>th</sup>*





# CONTACT

KEN FRASSETTO  
kfrassetto@mge.com

608-252-4723  
PO Box 1231  
Madison WI 53701-1231

