



# AGA VIRTUAL FINANCIAL FORUM

*MAY 2021*



Responsibility

Reliability

Resiliency



# Disclaimer

This presentation contains summarized information concerning MGE Energy, Inc. ("MGE Energy") and its subsidiaries (principally Madison Gas and Electric Company ("MGE")) and MGE Energy's consolidated business, operations, financial performance and trends. No representation is made that the information in this presentation is complete. For additional information on MGE Energy and its subsidiaries, see MGE Energy's Annual Report on Form 10-K for the year ended December 31, 2020 (the "2020 Form 10-K"), as updated by its Quarterly Report on Form 10-Q for the quarter ended March 31, 2021 (the "March 31, 2021 Form 10-Q") filed with the Securities and Exchange Commission (the "SEC"), as well as MGE Energy's other filings with the SEC from time to time. The 2020 Form 10-K, the March 31, 2021 10-Q and other SEC filings are or will be available at the SEC's web site at <http://www.sec.gov> and on MGE Energy's web site at <http://www.mgeenergy.com>. Information contained on MGE Energy's web site (including any such information referred to herein) shall not be deemed incorporated into, or to be a part of, this presentation.

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# Cautionary Note Regarding Forward-looking Information

All statements in this presentation, other than historical facts, are forward-looking statements (including but not limited to forecasted capital expenditures, expected in-service dates and carbon dioxide projections) that involve risks and uncertainties that are subject to change at any time. Such statements are based upon management's assumptions, expectations and estimates at the time they are made. Specifically, the forecasted capital expenditures are based upon management's assumptions with respect to future events, including the timing and amount of expenditures associated with compliance with environmental compliance initiatives, legislative and regulatory initiatives, customer demand and support for electrification and renewable energy resources, energy conservation initiatives, load growth, the timing of any required regulatory approvals and the adequacy of rate recovery. Additionally, the expected in-service dates are forward looking and therefore subject to significant business, economic, operational and regulatory uncertainties and contingencies, many of which are beyond the control of the company and are based upon assumptions with respect to future decisions, which are subject to change. Various factors could cause actual results, capital expenditures, in-service dates or carbon reduction to be significantly different than those contemplated, estimated or projected in forward-looking statements - especially as they relate to economic conditions, future load growth, revenues, expenses, capital expenditures, financial resources, regulatory matters, and the scope and expense associated with future environmental regulation. Those factors include the assumptions and factors referred to in the statements themselves as well as risk factors described in our 2020 Form 10-K, March 31, 2021 10-Q and other reports filed with the SEC. We caution investors that these forward-looking statements are subject to known and unknown risks and uncertainties that may cause actual results to differ materially from those projected, expressed, or implied. MGE Energy undertakes no obligation to update or revise any forward-looking statements to reflect events or circumstances occurring after the date the date as of which any forward-looking statement is made, except as required by law.

# Company Highlights

## Diversified Customer Base and Revenue Profile

### ***Resilient Revenue Stream and Customer Base***

- Electric service to ~157,000 customers with locations in the cities of Fitchburg, Madison, Middleton, Monona, and adjacent areas
  - 87% residential; 13% commercial or industrial
  - Accounts for 73.2% of revenue
- Natural gas to ~166,000 customers across 48 townships
  - 90% residential; 10% commercial or industrial
  - Accounts for 26.8% of revenue

## Strong Financial Profile

### ***Stable Earnings Growth with Strong Balance Sheet***

- Predominantly regulated earnings
- Strong liquidity and cash position
- Conservative financial policies that are designed to achieve strong credit quality
- MGE's Credit Ratings <sup>(2)</sup>
  - S&P: AA- (Stable)
  - Moody's: Aa2 Secured (Stable)  
A1 Unsecured (Stable)

## Regulated, Highly Visible Growth

### ***5-Year Regulated PPE<sup>(1)</sup> CAGR of 7.3%***

- Total forecasted regulated capex of approx. \$590 M from 2021 through 2023<sup>(3)</sup>
- Premium service territory with constructive regulation
- Forward-looking test years
- Renewable Energy Rider
  - Ability to work cooperatively with businesses to tailor a renewable energy solution

## Substantial Sustainability Investment

### ***Seeking Net-Zero Carbon by 2050<sup>(3)</sup>***

- Plan for decarbonizing generation by transitioning to clean energy, such as wind and solar
  - Announced projects designed to grow renewables capacity by over 960% from 2015<sup>(3)</sup>
- Helping customers use energy efficiently
- Electrifying transportation

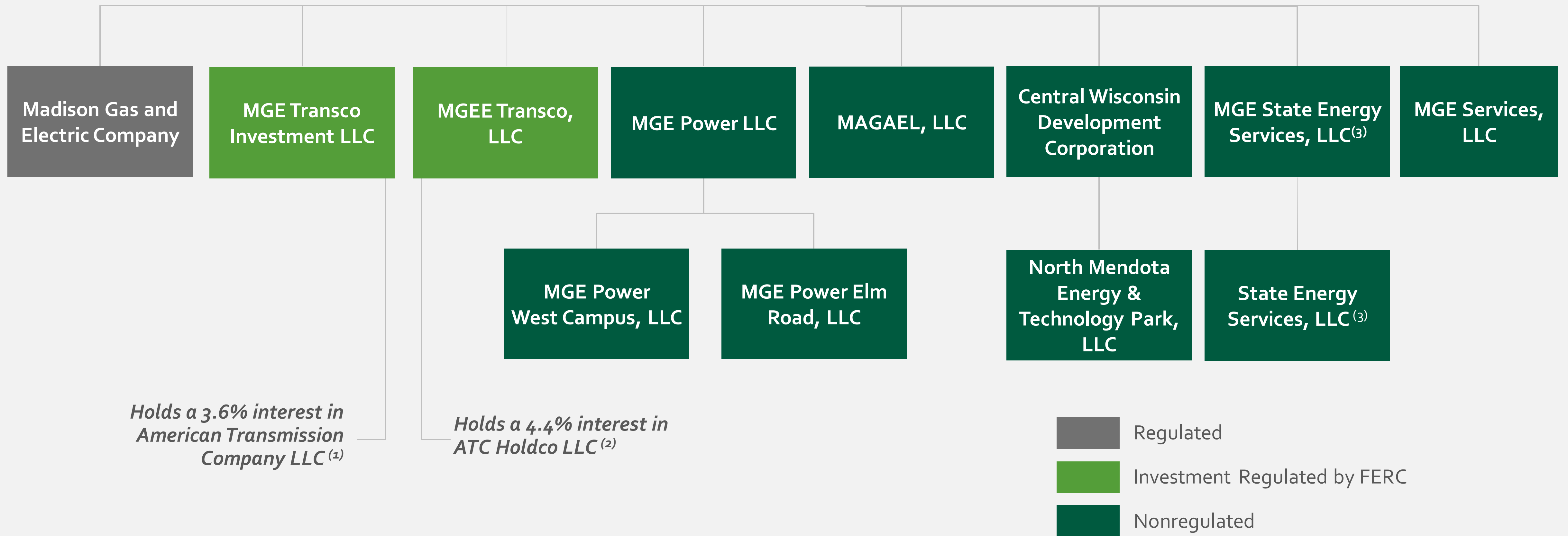


(1.) Property, plant, and equipment, net

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# Corporate Structure



(1.) Owns and operates electric transmission lines in Wisconsin

(2.) Transmission development company. Separate from American Transmission Company, LLC

(3.) Presently inactive



# Attractive Service Territory

## Major customers include:

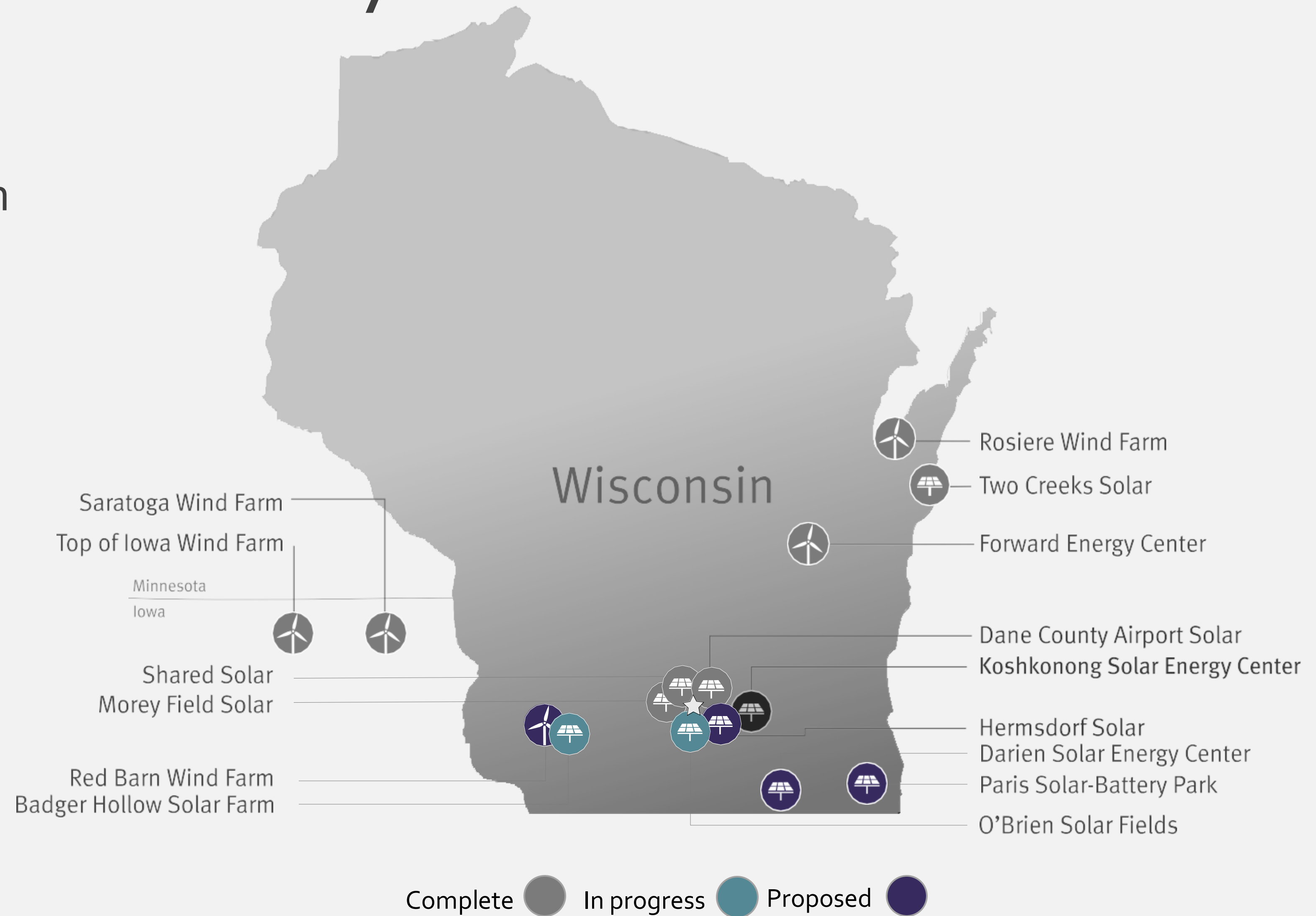
- University of Wisconsin-Madison



- Hospitals and medical facilities

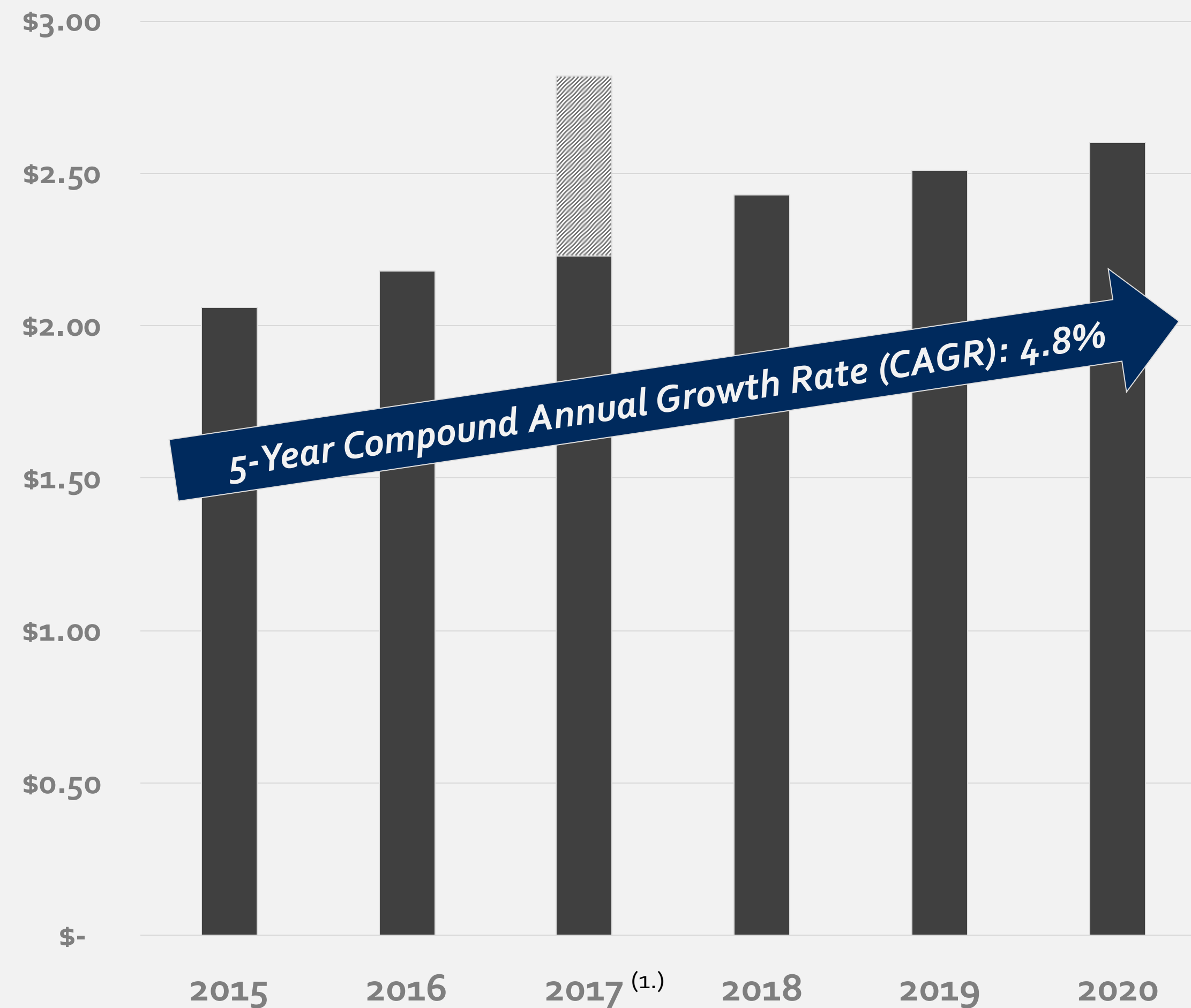


- State of Wisconsin government

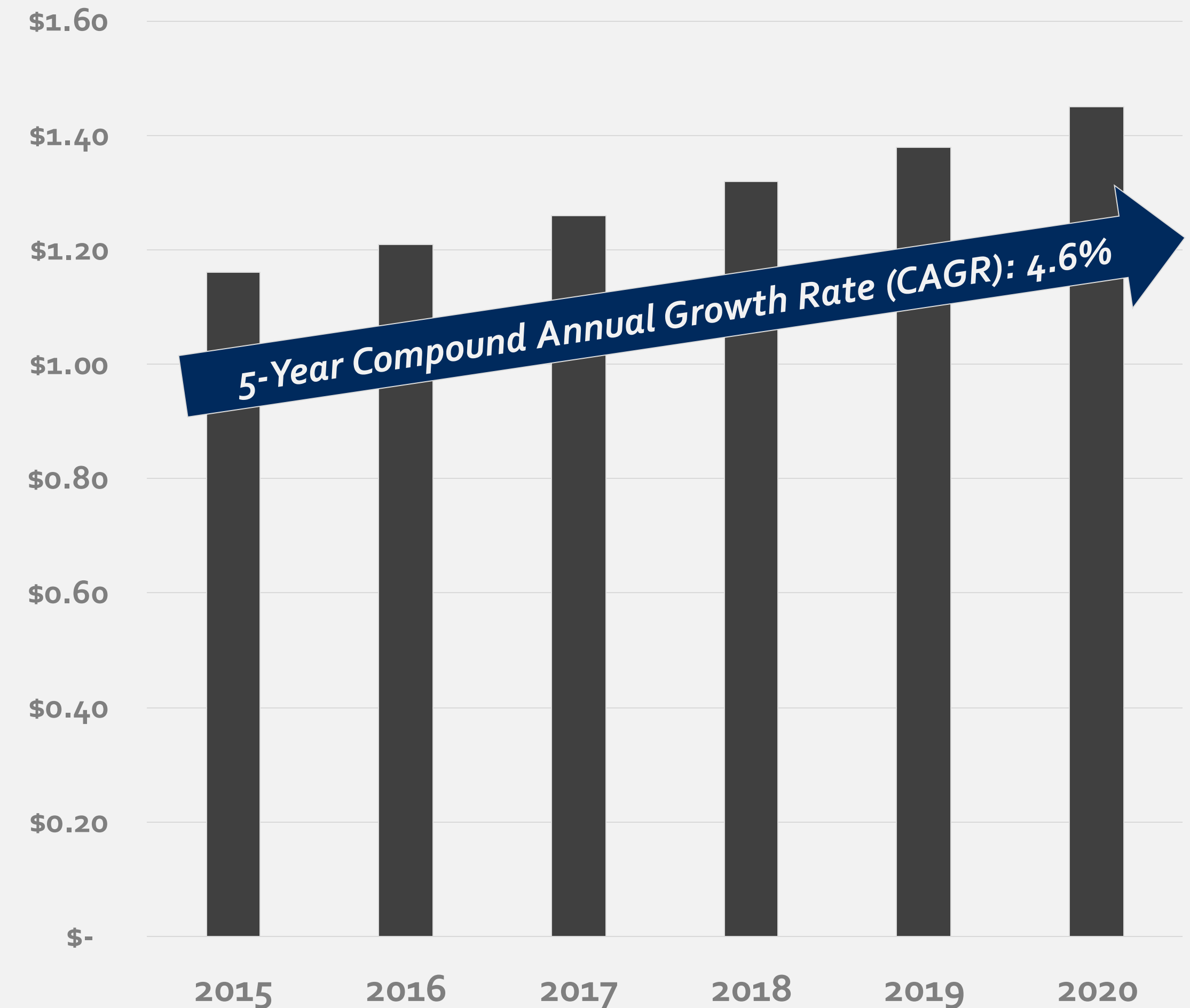


# Earnings and Dividends per Share Growth

## Earnings Per Share



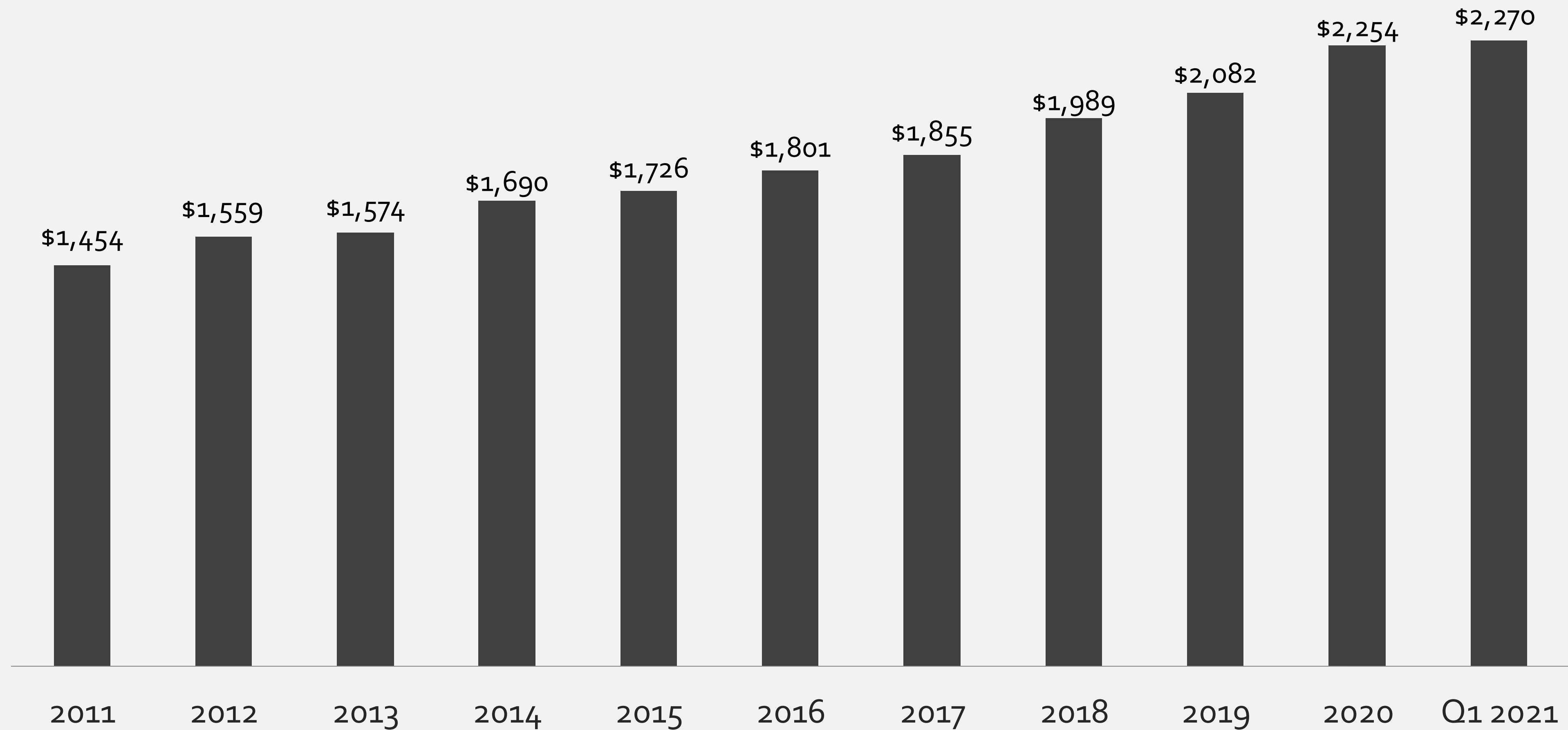
## Dividends Paid Per Share



(1.) 2017 Non-Regulated earnings per share includes one-time tax benefit of \$20.4 million, or \$0.59 per share, related to tax reform

# Stable Asset Growth

Asset Growth (\$ Millions)



■ Assets



# Focused ESG strategy

## Foundational objectives under Energy 2030 Framework

## ENERGY 2030

- Transition MGE to a more environmentally sustainable energy supply;
- Provide customers with options they want today and in the future;
- Help customers use energy efficiently and control future costs for all customers;
- Provide a dynamic electric grid that can integrate all energy technologies to serve customers;
- Ensure that new and changing technology serves all customers equitably;
- Deepen our engagement with the community.

### Goals:

- Reduction in CO<sub>2</sub> emissions – 40% from 2005 levels by 2030, **projected to be at least 65% by 2030**
- 25% renewable energy by 2025 and 30% by 2030

# Focused ESG Strategy

## Net-Zero Carbon Electricity by 2050

Strategies for deep decarbonization

- Grow our use of renewable energy
- Further engage customers in energy efficiency
- Electrify transportation and other end uses

Net-Zero  
CARBON ELECTRICITY BY 2050



# Retirement of Legacy Fossil Fuel Power Plant

MGE, along with its co-owners, WP&L (operator and majority owner) and WPSC, announced plans to retire the approximately 1,100-MW coal-fired Columbia Energy Center.

- MGE currently owns 19% of the facility (216 MW), which accounts for nearly 30% of MGE's net summer rated capacity.

Unit 1 intended to be retired by the end of 2023

Unit 2 intended to be retired by the end of 2024

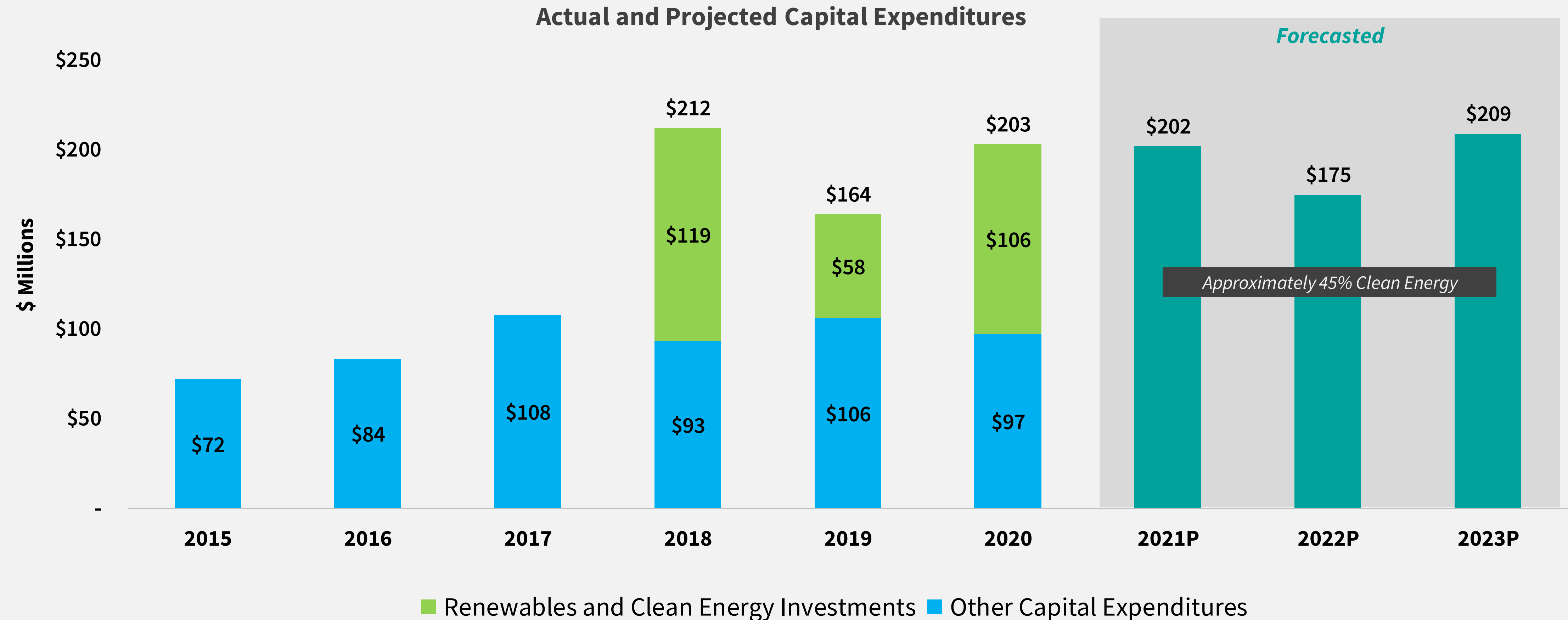
- Final timing and retirement dates subject to PSCW and regional regulatory reviews, including approval of replacement energy and capacity resources

*MGE continues to evaluate **additional investments in cost-effective, clean energy projects** to maintain its top-ranked electric reliability and to achieve its carbon reduction goals.*



# Consistent Capital Expenditure Growth

Focused on clean energy and progress toward net-zero carbon



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(2.) Forecasted and Actual Capital Expenditures as of December 31, 2020, does not include AFUDC.

# Transition to Clean Energy Generation

Since 2015 when MGE announced its *Energy 2030 Framework*, MGE's clean energy projects will grow our renewables capacity by 960%, by investing an estimated \$565 million in wind, solar and battery storage.

Investment	Capital Expenditures	Nameplate Capacity	In Service Year
Forward Wind	\$22M	18MW	2018
Saratoga Wind	\$108M	66MW	2019
Two Creeks Solar	\$65M	50MW	2020
Morey Airport Solar	\$8M	5MW	2020
Dane County Airport Solar	\$15M	9MW	2020
Badger Hollow I Solar	\$65M	50MW	2021 (est.)
O'Brien Solar	\$32M	20MW	2021 (est.)
Hermsdorf Solar*	\$15M	8MW	2021 (est.)
Badger Hollow II Solar	\$65M	50MW	2022 (est.)
Red Barn Wind Farm*	\$17M	9.2MW	2022 (est.)
Paris Solar-Battery*	\$43M	31MW	2023 (est.)
Darien Solar-Battery*	\$45M	32.5MW	2023 (est.)
Koshkonong Solar-Battery*	\$65M	46.5 MW	2024 (est.)
<b>Total:</b>	<b>\$565M</b>	<b>395.2MW</b>	



\*Pending PSCW Approval

Note: Investments listed above include projects that are either completed and in service, have approved Certificates of Authority (CA), or as noted by an asterisk, a CA has been filed and is pending before the Public Service Commission of Wisconsin.



# ESG & Sustainability Summary

## Leadership

- Environmental and Sustainability Policy
- Sustainability Executive Team
- Operations-wide Environmental Management System
- Investing approx. \$565M in clean energy
- Smart Grid Infrastructure
- Electrification of Transportation



## Safety

- Safety Steering Team – examines safety topics and prioritizes continuous improvement opportunities
- Corporate Safety Commitment – safety vision statement, "We Power Safety"
- Board oversight of safety program

## Corporate Giving

MGE is committed to helping improve the quality of life for all those we serve, through:

- MGE Foundation, philanthropic arm that supports local organizations in preserving the health and vitality of our community
- MGE corporate giving
- Employee volunteerism and service

## Workforce

- Career development and training programs to increase job proficiency and to improve decision-making skills
- Tuition reimbursement and college internship program
- Corporate Wellness Program
- Inclusive, respectful work environment where individuals can achieve their full potential



Read More: [MGE's Corporate Responsibility and Sustainability Report](#) and EEI [Quantitative & Qualitative](#) Templates



# Constructive Regulatory Environment

Both S&P and Moody's view the Wisconsin regulatory environment as highly credit supportive with timely operating and capital cost recovery, and view MGE's relationship with the Public Service Commission as constructive.

- **Regulatory approvals of utility-scale renewable investments and other innovative programs**
  - Saratoga Wind, Forward Energy Center wind farm, Two Creeks Solar
  - Badger Hollow I Solar, Badger Hollow II Solar (construction in progress)
  - Approval of Renewable Energy Rider and Shared Solar programs
- **Supportive regulatory framework including:**
  - Forward-looking test years
  - Approval of various expense deferrals<sup>(1)</sup>
  - Fuel Rules and Gas Cost Recovery Mechanism
  - Current return on 50% of CWIP and 100% CWIP or AFUDC on major construction projects

(1.) Examples of various expenses deferrals include, but are not limited to, deferrals related to pension, transmission, and Elm Road Generating Station costs.

# 2021 PSCW Approved Rate Settlement

Approved PSCW Rate Settlement (\$ooo's, where applicable)	Test Year 2020	Test Year 2021
Authorized Electric Rate Base	\$860,538	\$1,019,177
Authorized Gas Rate Base	\$250,743	\$282,360
CSE Authorized	56.06%	55.84%
Authorized ROE	9.8%	9.8%

## **Electric** – 0% increase

- Increased rate base in 2021 Rate Settlement due to capital investments in renewable generation (Two Creeks Solar and Badger Hollow 1 Solar) and the customer information system
- Settlement included lower forecasted sales for 2021, to reflect changes to customer usage due to COVID-19
- Electric rate base increases were offset by the following:
  - ✓ lower fuel / purchased power cost;
  - ✓ one-time \$18.2 million return to customers of the portion of excess def taxes related to the 2017 Tax Act not governed by normalization rules;

## **Gas** – 4% increase

- Increased rate base in 2021 Rate Settlement due to continued distribution infrastructure improvements and technology investments, including the customer information system

# 2022 and 2023 Rate Filing Update

*Filed application with PSCW requesting:*

## 2022 Test Year

- 5.9% increase in electric base rates with proposal to partially offset with 2020 fuel credit
  - ✓ Driven by increased rate base investments, including full-year of BH I and new customer information system;
  - ✓ Also driving the electric rate increase is the completion of the one-time return to customers of the electric excess deferred taxes related to the 2017 Tax Act, given back in 2020
- 3.0% increase in gas rates
  - ✓ Driven by increased rate base investments, including full-year of new customer information system and continued distribution infrastructure improvements designed to enhance reliability and safety

Proposal Details:	Test Year 2022 (\$000's, where applicable)
Average Electric Rate Base	\$1,048,440
Average Gas Rate Base	\$300,797
Proposed CSE	55.63%
Proposed ROE	9.80%

## 2023 Test Year

- Electric limited reopener requested for potential changes to MGE's fleet of generation assets and resources and any potential changes in the federal tax code
- Gas step increase of 1.65%, including an increase in average rate base for natural gas to \$317.6 million
- Proposal to maintain 2022 capital structure and ROE for electric limited reopener and gas step increase for 2023



# Technology Investments

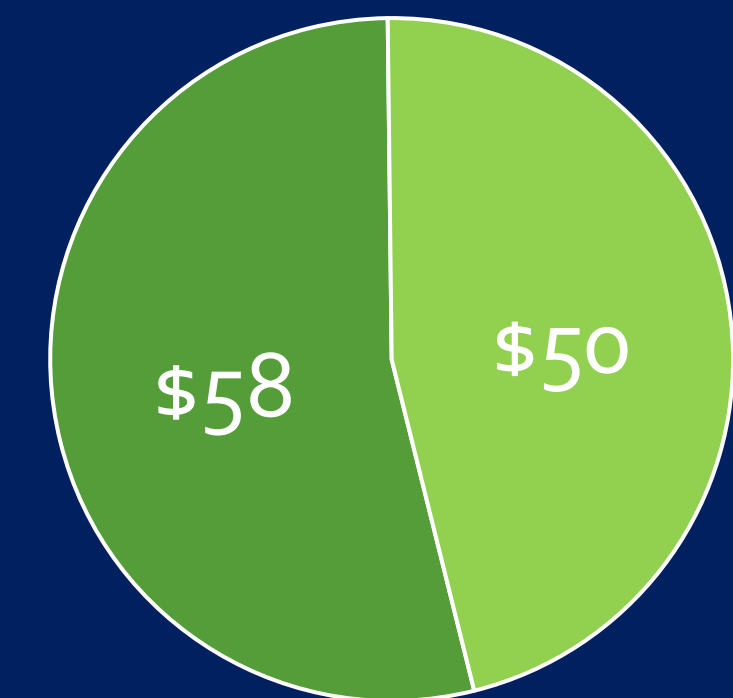
- In 2017, MGE committed to undertake a multiyear project aimed at transforming our foundational customer engagement capabilities to enable flexibility and capability in delivering new products and services as outlined in our Energy 2030 Framework.

**MGE has forecasted \$50M of capital investment over the next three years (2021-23).**

- These objectives are expected to be accomplished through the implementation of a **new customer information and billing system, engagement and marketing tools, along with other solutions** that meet the goals of the initiative, which include:
  - *Gaining efficiencies*
  - *Improving customer-facing technologies, and*
  - *Offering new products & services*
- This five-year project is designed to transform MGE into a **digitally integrated utility**.



CAPITAL SPENDING (\$M)  
(as of December 31, 2020)



■ Actual Spending (2020 and prior)  
■ Forecasted Spending (2021 through 2023)

# Commitment to Dividends & Shareholder Value

- **Recent dividend increase was approximately 5%**
  - Increased dividend in July for the 45th consecutive year
  - Paid dividends for over 110 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**

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### ***5-Year Regulated PPE<sup>(1)</sup> CAGR of 7.3%***

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# Appendix

# MGE's Strong Credit Ratings <sup>(1)</sup>

S&P (UTILITY RATINGS)	
Corporate credit	<b>AA-</b>
Business risk	<b>Excellent</b>
Commercial paper	<b>A-1+</b>
Outlook	<b>Stable</b>
<ul style="list-style-type: none"> <li>• Effective management of regulatory risk</li> <li>• Supportive regulatory environment</li> <li>• Focus on regulated vertically integrated electric and natural gas distribution operations</li> <li>• Conservative financial policies that ensure strong credit quality</li> </ul>	

Source: S&P, November 2020

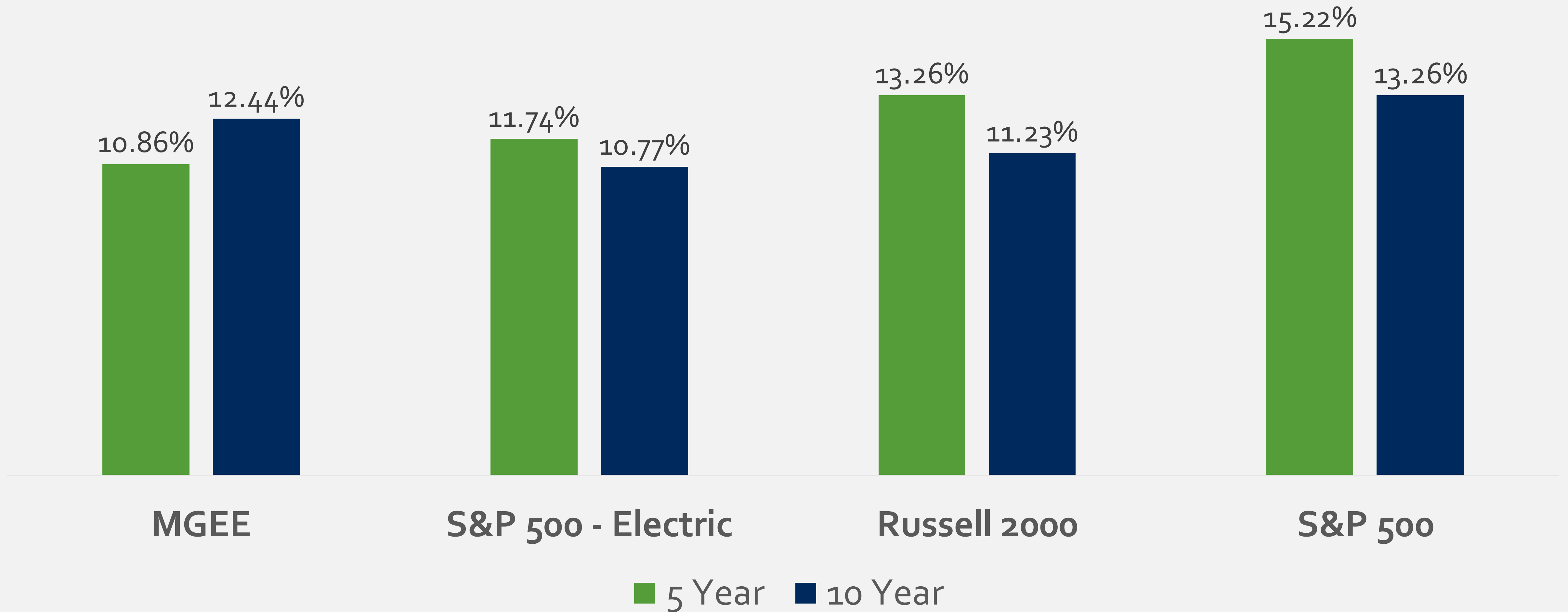
MOODY'S (UTILITY RATINGS)	
Secured	<b>Aa2</b>
Unsecured	<b>A1</b>
Commercial paper	<b>P-1</b>
Outlook	<b>Stable</b>
<ul style="list-style-type: none"> <li>• Rating reflects a credit supportive regulatory environment</li> <li>• Healthy financial metrics (CFO pre-WC / Debt)</li> <li>• Stable rating outlook assumes future prudently incurred investments will be recovered</li> <li>• Funding will replicate authorized capital structure</li> </ul>	

Source: Moody's, October 2020

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# Total Shareholder Return

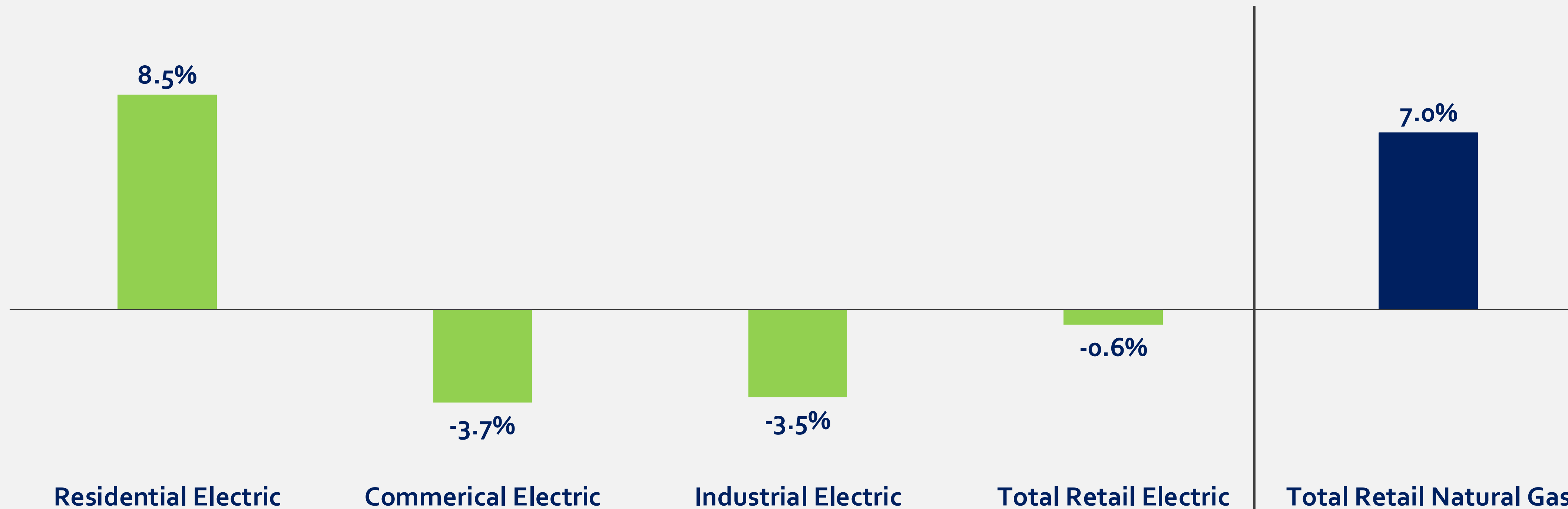
As of December 31, 2020





# MGE – Electric and Gas Sales

Three Months Ended March 31st

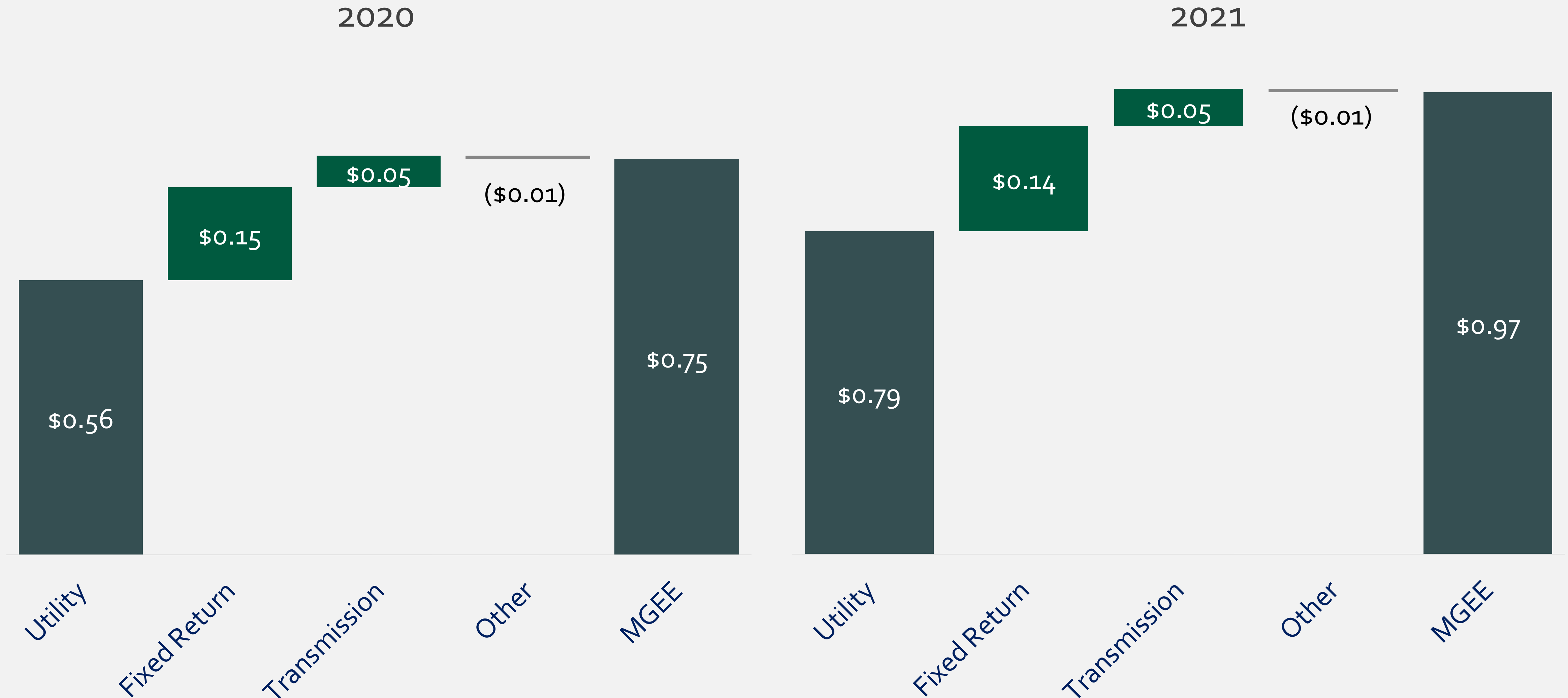


	2021	2020	%
Heating Degree Days (Normal 3,531)	3,593	3,225	11.4%

- Increased residential sales offset by a decrease in Commercial and Industrial sales.
- Gas sales increased resulting from colder weather experienced in February 2021

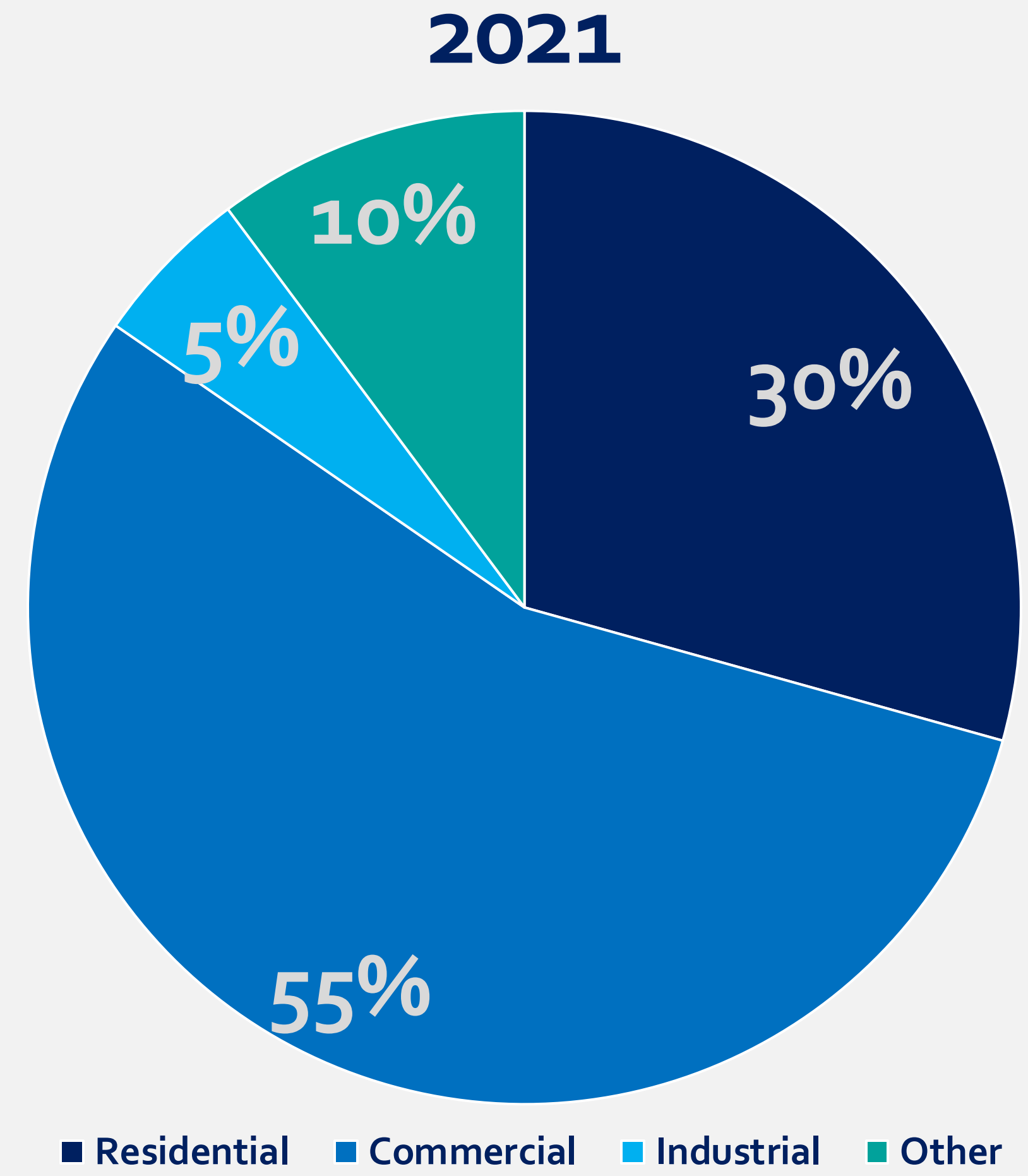
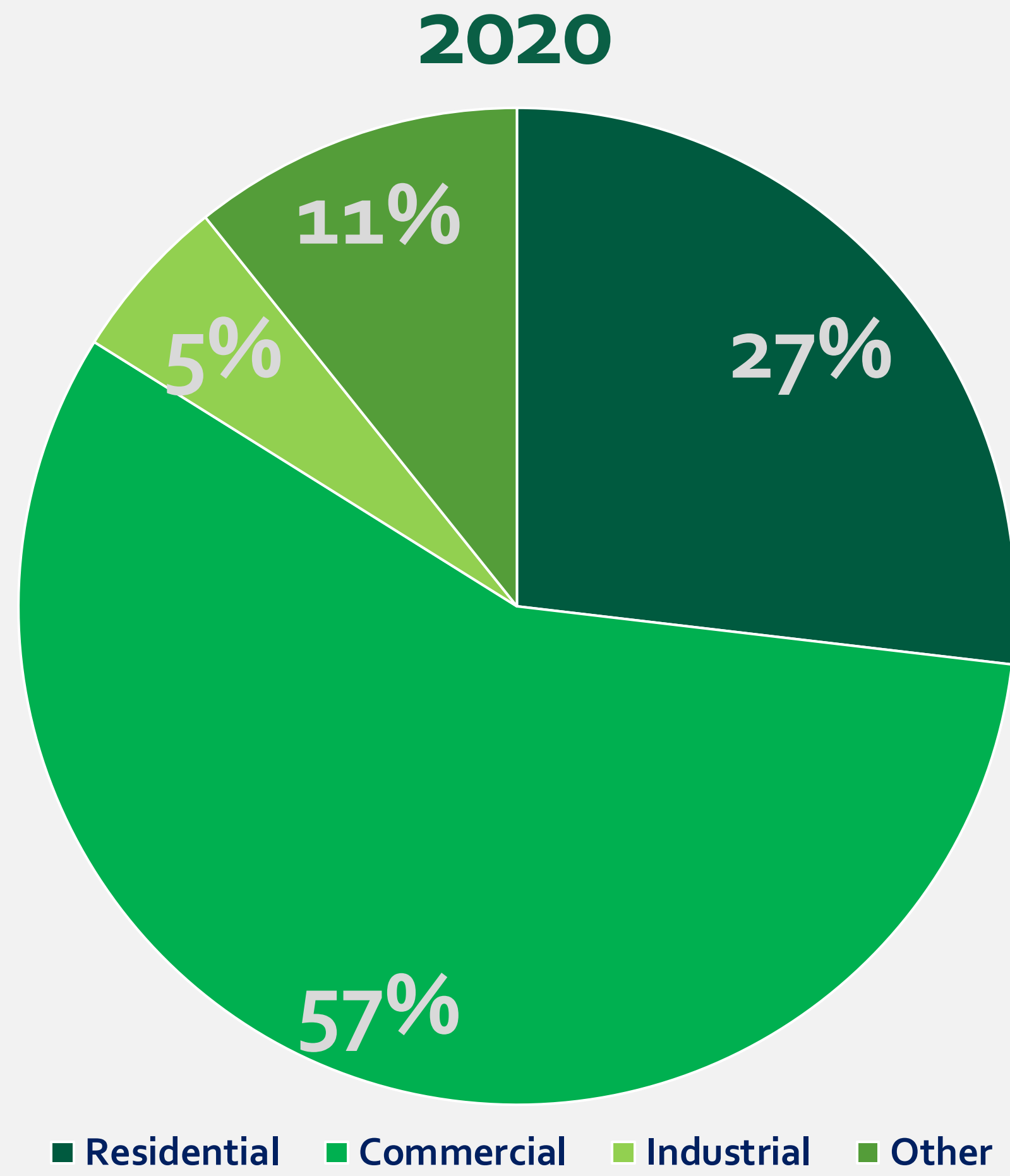
# Earnings per Share Segments

Three Months Ended March 31st



# Electric Retail Sales Mix

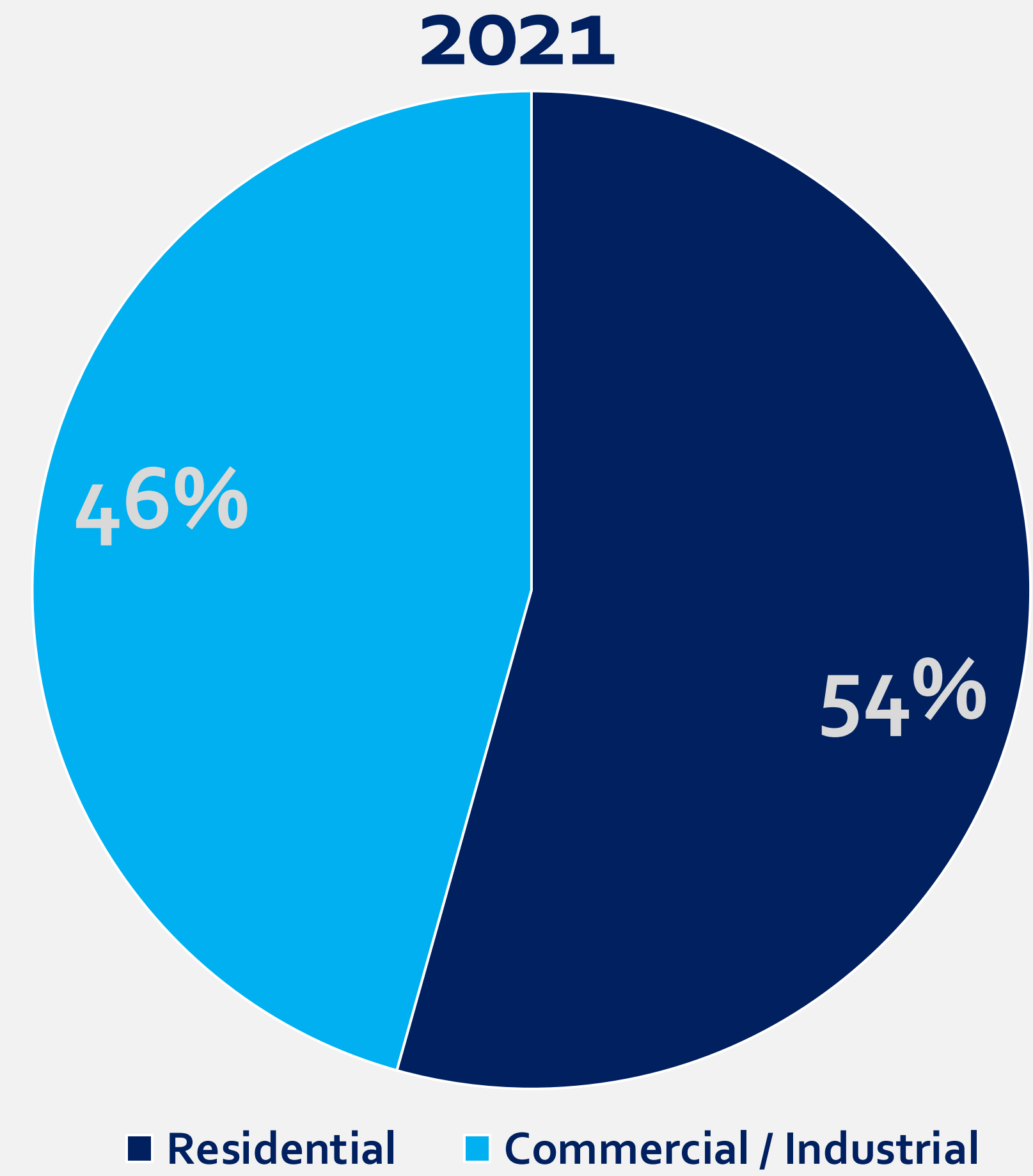
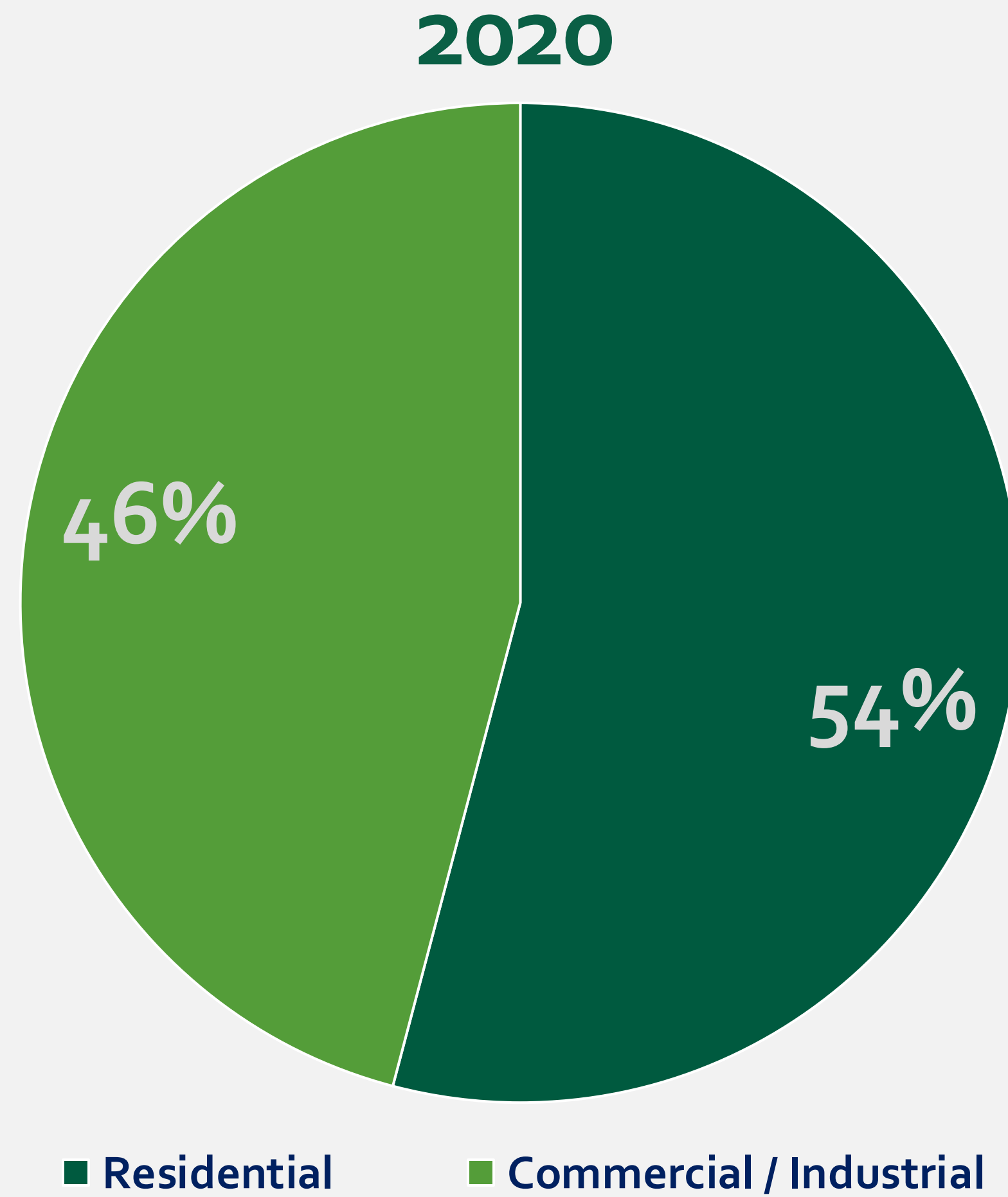
Three Months Ended March 31st






# Gas Retail Sales Mix

Three Months Ended March 31st





**For more information:  
Visit [mgeenergy.com](https://mgeenergy.com)**

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