



Building your
community
energy company
of the future

Disclaimer



All statements in this presentation other than historical facts are forward-looking statements that involve risks and uncertainties which are subject to change at any time.

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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MGE Energy Investment Profile



Financial Strength:

Strong Asset Base
Strong Capital Structure
Strong Liquidity & Cash Flows
Cost Conscious Management

High Credit Quality:

S&P Rating	AA-	Stable
Moody's	A1	Stable

Highest Rated Combination Utility in the Nation

Regulatory Support:

Forward Looking Test Years
Fuel Recovery Mechanisms
Current Return on CWIP

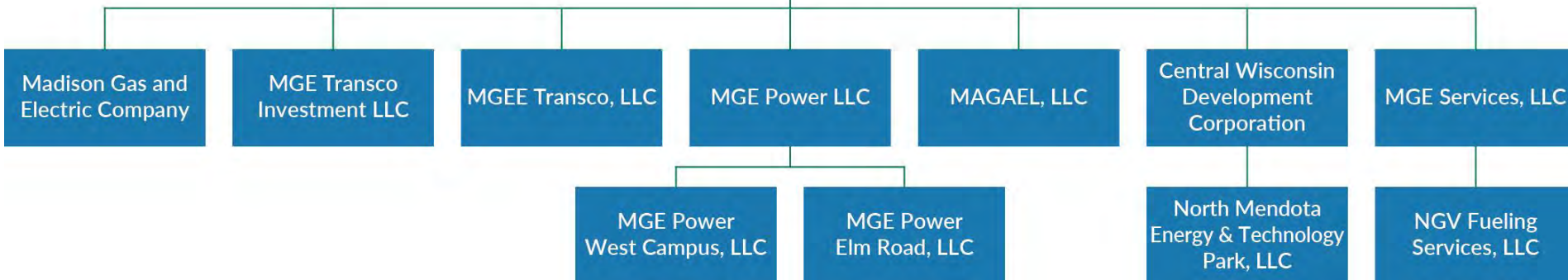
Dividend Achiever:

Strong 41 Year Dividend Growth
Financial Flexibility for Further Growth

Organizational Structure



Exchange: **NASDAQ**
Ticker: **MGEE**
Organized: **2001**



Service Territory

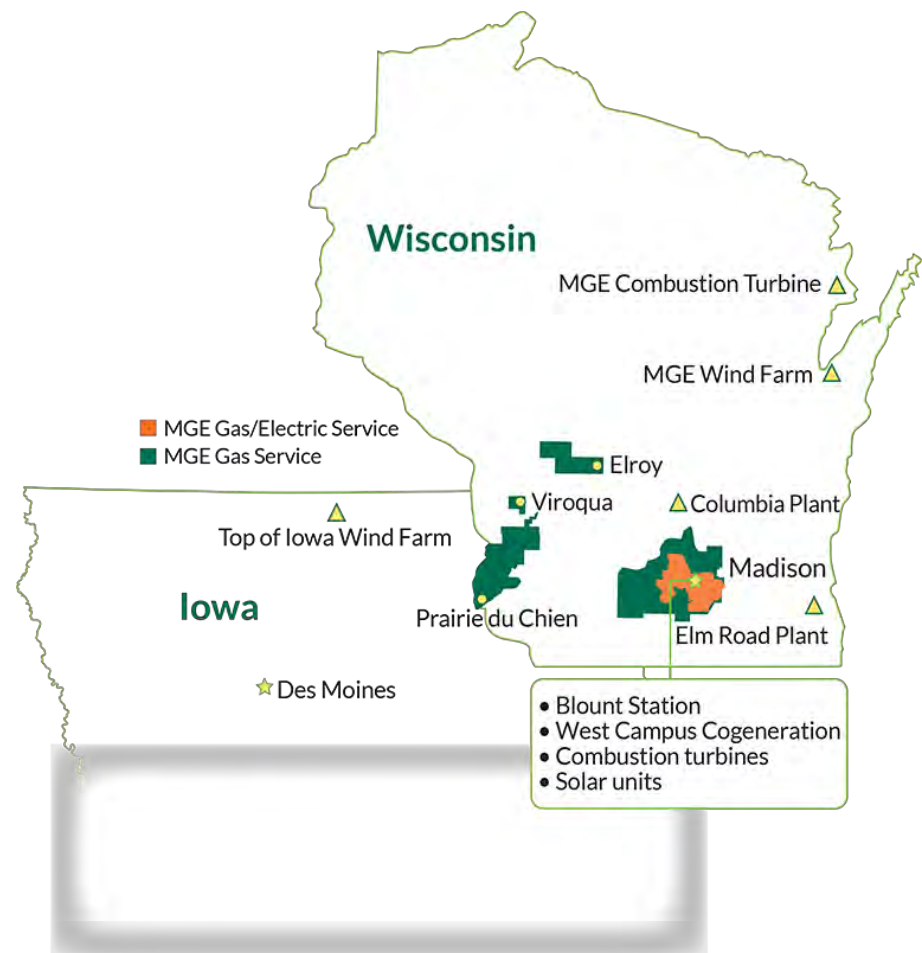
Economic Outlook:

Madison

- 3rd best place to live
Livability, 2016
- Top 20 for economic strength for last 10 years
Policom, 2016
- Low unemployment: 2.7%
Bureau of Labor statistics, December 2016

Dane County

- Population growth through 2035 expected to be the highest of any county in Wisconsin
- Low Unemployment (December 2016)
2.6% (WI 3.7%; US 4.5%)



Public Utilities Fortnightly

PUBLIC UTILITIES
FORTNIGHTLY
40
BEST ENERGY COMPANIES

Company	2015 F40 Rank	4-Year Average Profit Margin	4-Year Average Margin Rank	4-Year Average Dividend Yield	4-Year Average Dividend Yield Rank
Questar	1	17.2%	3	3.1%	50
Public Service Enterprise Group	2	13.0%	10	4.2%	18
Wisconsin Energy	3	12.2%	13	3.2%	49
Cleco	4	15.2%	6	3.0%	52
NextEra Energy	5	13.3%	9	3.2%	46
Centerpoint Energy	6	8.0%	40	3.9%	28
MGE Energy	8	12.2%	14	2.4%	60
Williams Companies	8	16.6%	4	3.2%	47
Pinnacle West	10	12.1%	15	4.3%	15
PPL	10	12.3%	12	4.7%	7

- MGEE named **8th** Best Energy Company by Public Utilities Fortnightly
- MGEE achieved **Top 10 honors for 3 consecutive years** and was in the Top 40 for 8 consecutive years
- Public Utilities Fortnightly describes MGEE as one of the **“Old Reliables”** – companies with rankings that have shown remarkable consistency over the past several years

Energy 2030 Framework



MGE has introduced Energy 2030 as a framework for its energy future. Energy 2030 advances a long-standing commitment to cleaner energy, innovative products and customer engagement.

Under the Energy 2030 framework, MGE proposes to:

- Transition toward supplying **30%** of retail energy sales with **renewable resources by 2030**.
- Milestone goal is to supply **25%** of retail energy sales with **renewable resources by 2025**.
- Work with customers to **reduce** carbon dioxide emissions **40%** by 2030.
- Increase engagement around energy efficiency and conservation to reduce our community's overall energy and peak electric use to reduce long-term costs for everyone.
- Create a more dynamic, integrated electric grid.
- Develop and test new products and services.
- Deepen our engagement with customers to chart our next steps.

The EPA's Clean Power Plan (CPP)



- EPA published its CPP rules for states to use in developing plans to control GHG emissions in October of 2015
 - EPA's plan is to reduce GHG emissions by 32% of 2005 levels by the year 2030
- The State of Wisconsin was among several states that filed petitions asking for a stay from the US Court of Appeals
 - The US Supreme Court granted the stay on February 9, 2016
 - The nature and timing of any final requirements is subject to uncertainty given the pending legal proceedings
- In its present form the CPP rule would have a material impact on MG&E
 - MG&E has taken some steps to address the CPP with its *Energy 2030* Plan

Investment Fundamentals – *Growth through Utility Investments*



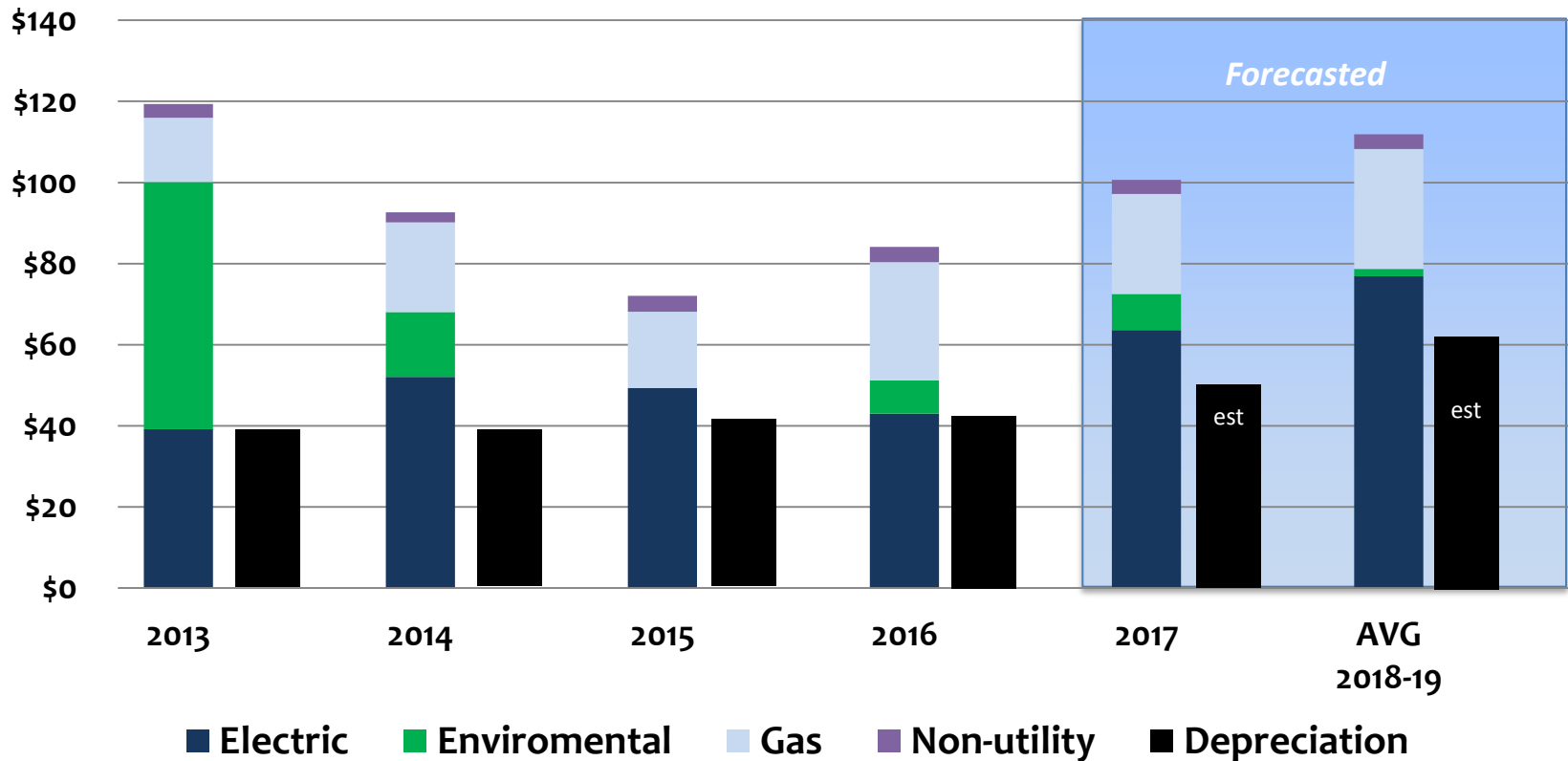
Investing in Our Utility

- Environmental Controls
 - Installing a selective catalytic reduction system (SCR) at the Columbia Energy Center
- Electric and Gas Maintenance CapEx
 - Gas Main Expansion
 - Electric Distribution and Metering
- Common CapEx
 - IT Infrastructure
- Transmission – via equity contributions to American Transmission Company (ATC)

Investment Fundamentals – *Growth through Utility Investments*

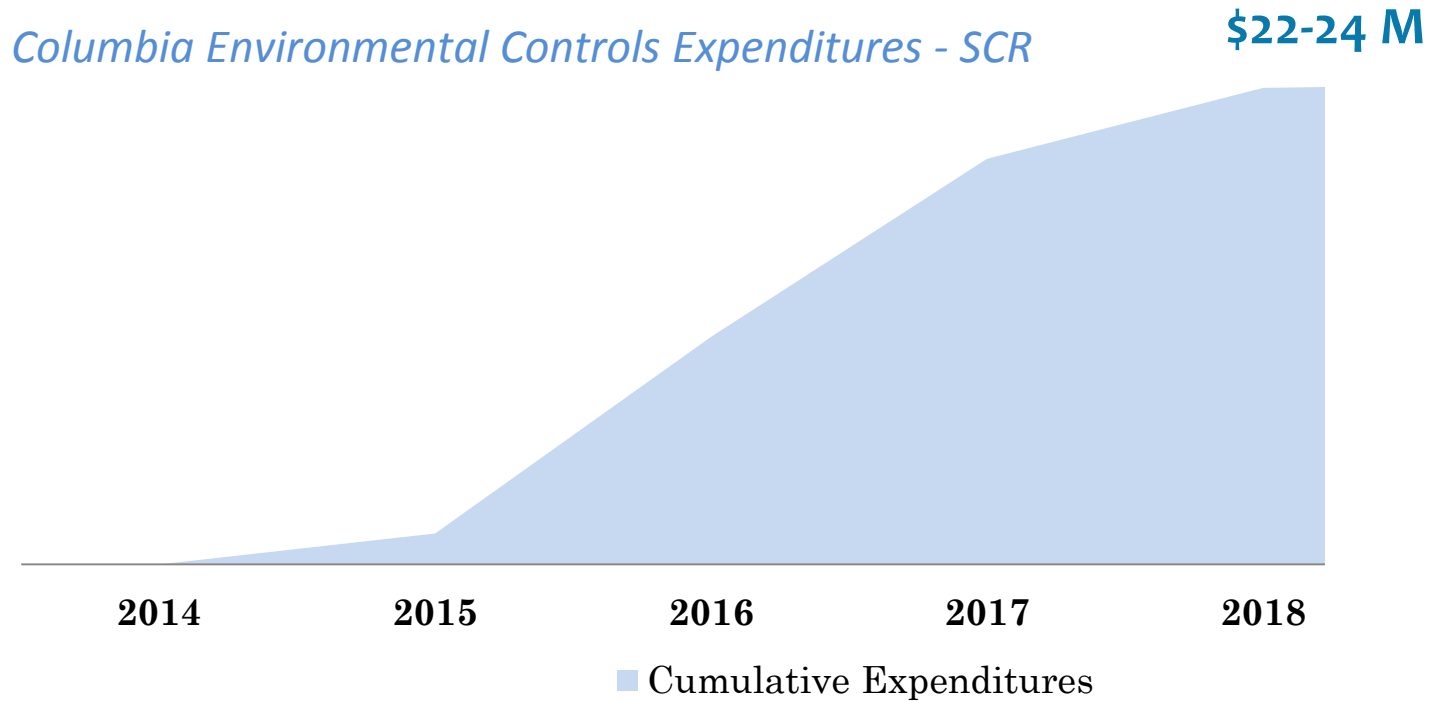


Segment Capital Expenditure versus Depreciation



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

Growth through Utility Investments - *Environmental*



- PSCW approved a Certificate of Authority to install a SCR system at the Columbia Energy Center

Growth through Utility Investments—*Gas Main Expansion*



- Customers seeking a cheaper and more reliable fuel option
- MGE extending natural gas infrastructure to meet growing demand
 - **\$3 million / year** of potential investment
 - High usage agricultural and commercial customers driving expansions to date
 - WI Commission very supportive of expansion program
- Potential customers are willing to pay a surcharge to bring natural gas service to their location
 - Surcharges avoid subsidization by existing customers



Growth through Utility Investments – *IT Infrastructure*



MGE's Energy 2030 plan will create a more dynamic, integrated electric grid that supports and integrates new technology.

MGE will invest a significant amount of capital over the next 5 years in IT Infrastructure, to enhance the electric grid and provide customers with more information on their energy usage. Some of the larger IT Projects are:

- Customer information billing system (CIS)

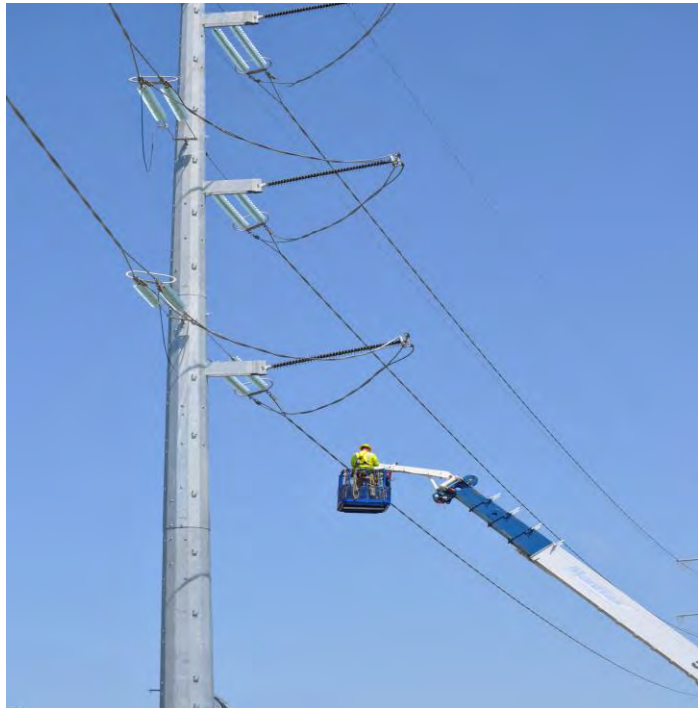
- Installation of smart meters

- Geographic Information system (GIS)

- Advanced Meter Interface (AMI)

- System Security Improvements

Growth through Transmission Investments



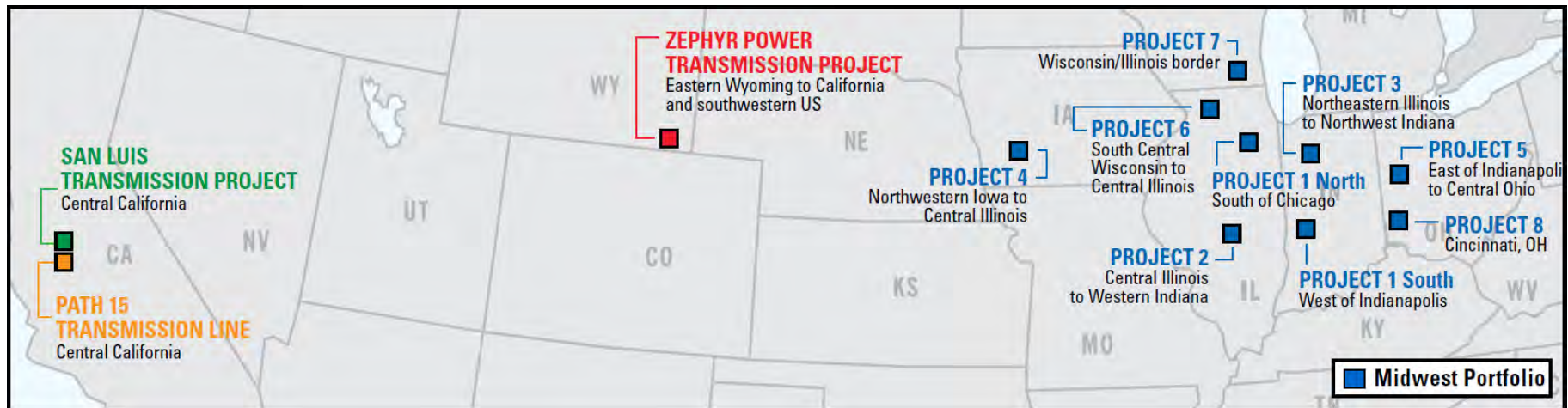
- Approximately **6.8%** of MGE Energy's earnings come from its **\$72 million** transmission investment in ATC
- ATC forecasted CapEx of **\$3.6 to \$4.4 billion** over the next 10 years, this excludes potential transmission investments outside its traditional footprint
- ATC average rate base at year end 2016: **\$3.3 billion**
- Alaskan municipal transmission opportunity

Growth through Transmission Investments



➤ DATC – Joint Venture between Duke and ATC

- Zephyr Power Transmission Project
- San Luis Transmission Project
- Other transmission projects throughout the US



Investment Fundamentals – *Dividend Governance*

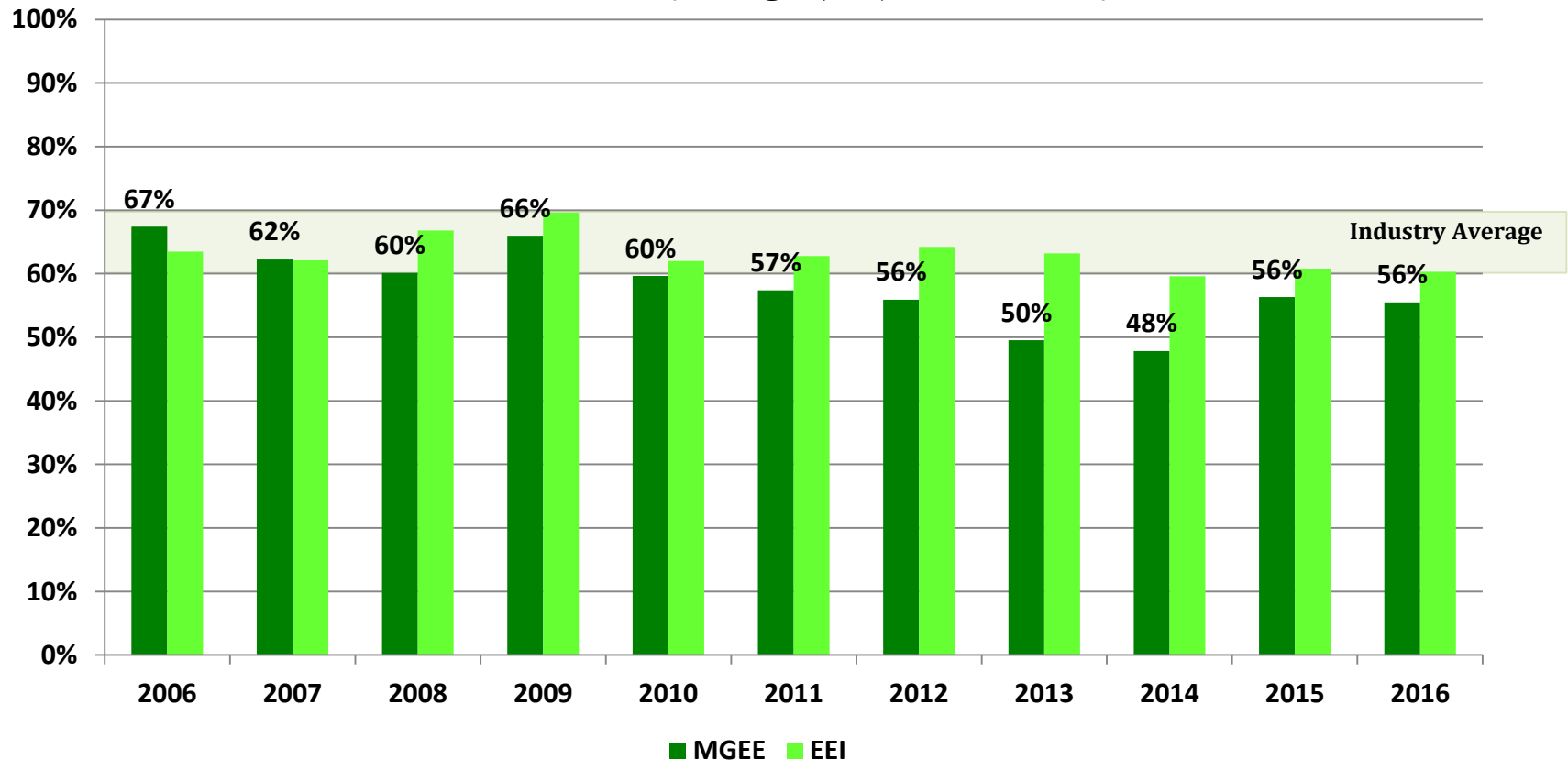


- **Dividend Growth has been around 4%**
 - Recent dividend payout ratio has been around 50-60%
 - No dividend payout range targeted
 - Flexibility with dividend
- **Dividend Considerations**
 - Capital investment growth opportunities
 - Balance sheet and credit ratings
 - Projected cash generation and requirements
 - Dividend payout ratio / yield consistent with industry and peers
- **Dividend decisions made by Board of Directors**

Investment Fundamentals – *Dividend Growth Flexibility*



MGEE versus Industry Range (EEI) Dividend Payout Ratios



Investment Opportunities – *MGE's Shared Solar Program*



- The Public Service Commission of Wisconsin (PSCW) approved MGE's application for a community solar pilot project on March 11, 2016.
- MGE's Shared Solar project is now generating electricity
 - **500-kilowatt (kW) solar array** in Middleton expected to generate 650,000 kilowatt-hours of electricity each year
 - The project is fully subscribed, interested customers invited to join the waiting list
- MGE has also partnered with the City on a **100-kW solar array** on the roof of the Middleton Police department.
 - Operation is underway
 - It will provide about 25% of electricity used by that building annually



Riverside Energy Agreement

- MGE reached an agreement with Alliant Energy for an option to acquire ownership interest in the Riverside Energy Center
 - MGE may acquire up to 50 megawatts of the 700 MW Riverside Energy Center modernization
 - Start of construction is planned for early 2017
 - Project completion expected by early 2020

Columbia Collaboration Agreement

- MGE and Alliant have negotiated a second agreement under which MGE will reduce its obligation to pay certain expenditures (other than SCR-related expenditures) at Columbia in exchange for a proportional reduction in ownership
 - In January 2017, MGE reduced its ownership from 22% to 20.4% through the partial sale of plant assets to WPL
 - By June 2020, MGE's ownership in Columbia is forecasted to be approximately 19%

Saratoga Wind Farm

- On February 21, 2017, MGE filed with the PSCW a letter with intent to seek approval to construct, own and operate a wind farm
 - Located in Saratoga, Iowa
 - 66MW consisting of 33 turbines
 - MGE anticipates filing its formal application with the PSCW in March 2017
- If approved, the project will become operational in 2018, with an estimated capital cost of \$107 million

Financial Strength – Investing in our Core Utility

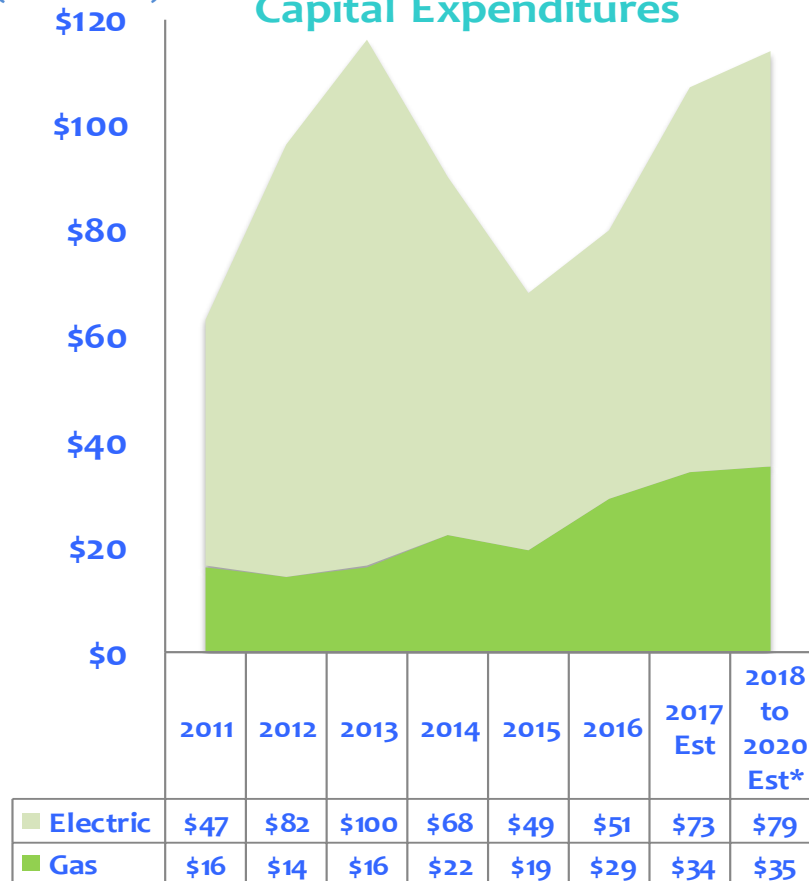


Total Utility Asset Growth



(\$ Millions)

Capital Expenditures

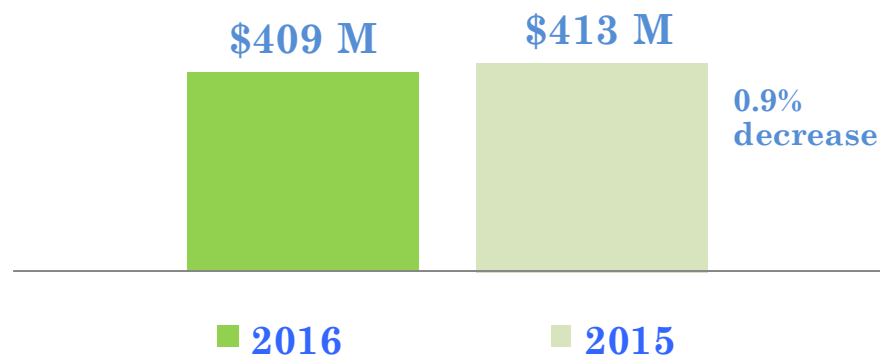


*Annual Average

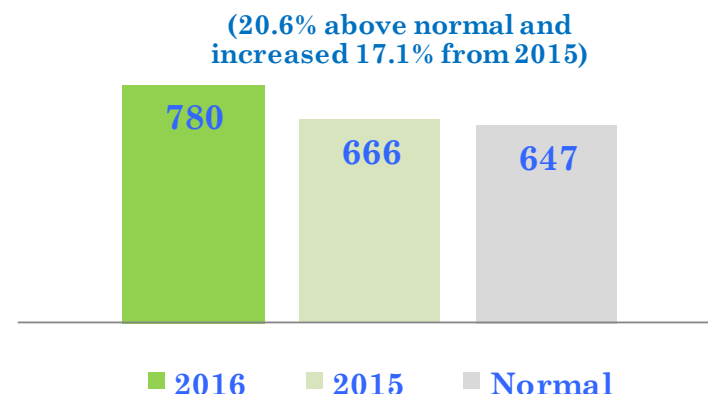
Financial Strength



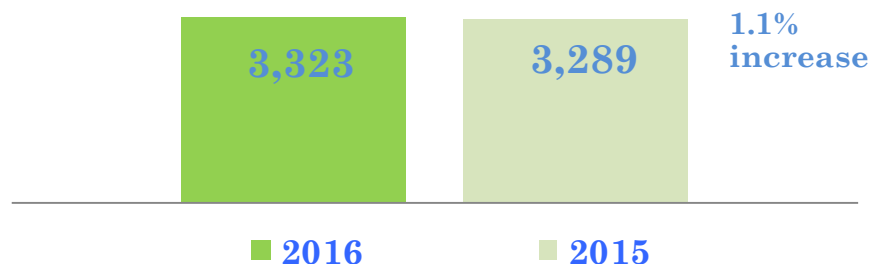
**Electric Retail Revenue
Year Ended December 31**



**Actual Cooling Degree Days
Year Ended December 31**



**Electric Retail Sales (MWh)
Year Ended December 31**



Electric retail sales increased due to:

- Favorable weather conditions, evidenced by the higher number of cooling degree days

Financial Strength



**Gas Retail Revenue
Year Ended December 31**

\$135 M

\$144 M

**6.4%
decrease**

■ **2016**

■ **2015**

**Gas Retail Deliveries
Year Ended December 31
(Therms, 000's)**

178,432

181,459

**1.7%
decrease**

■ **2016**

■ **2015**

**Actual Heating Degree Days
Year Ended December 31**

**(9.4% below normal and
increased 0.3% from 2015)**

6,417

6,395

7,083

■ **2016**

■ **2015**

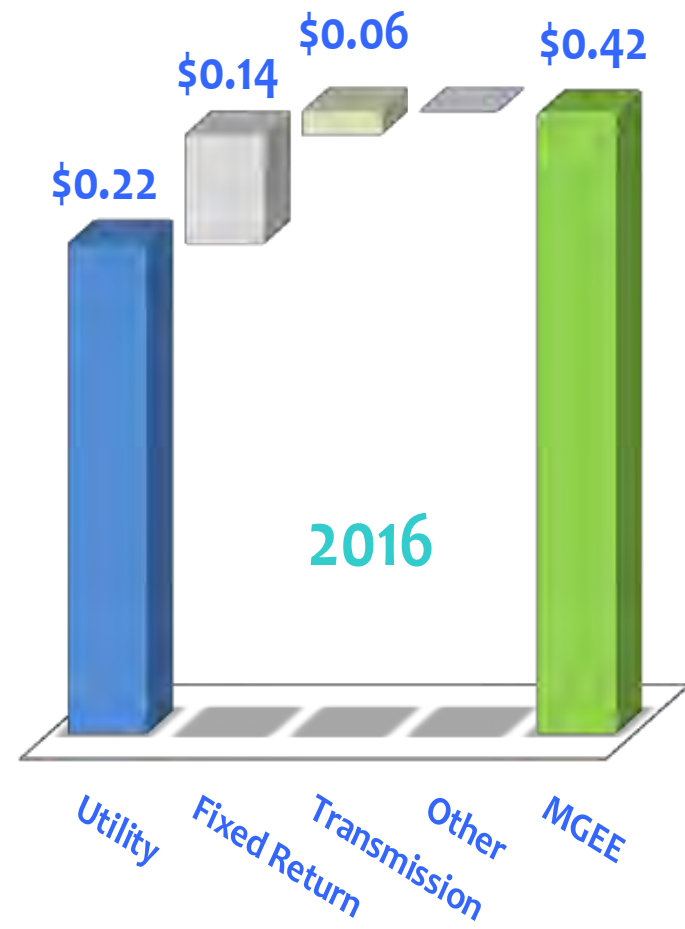
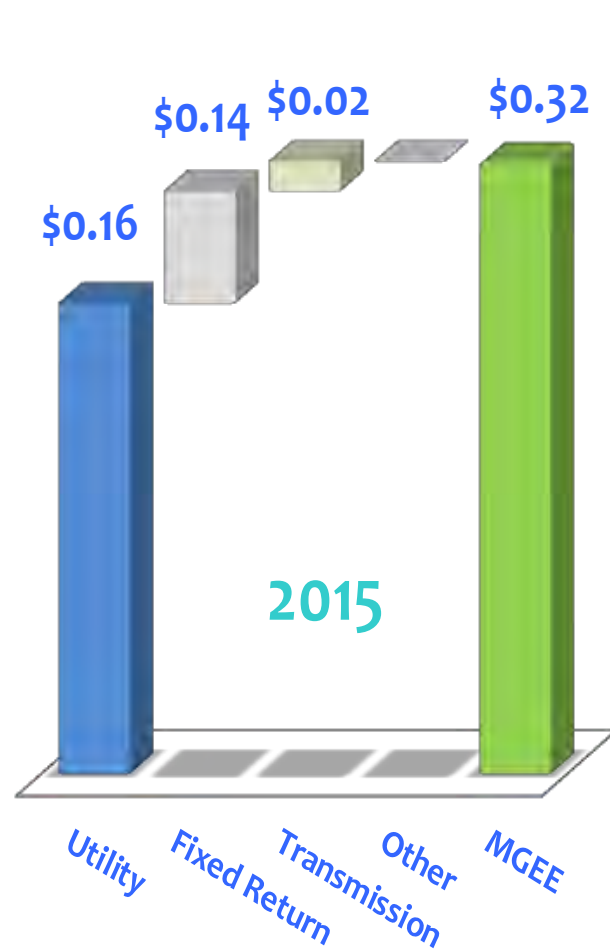
■ **Normal**

Gas revenue decreased due to:

- **Lower gas costs**

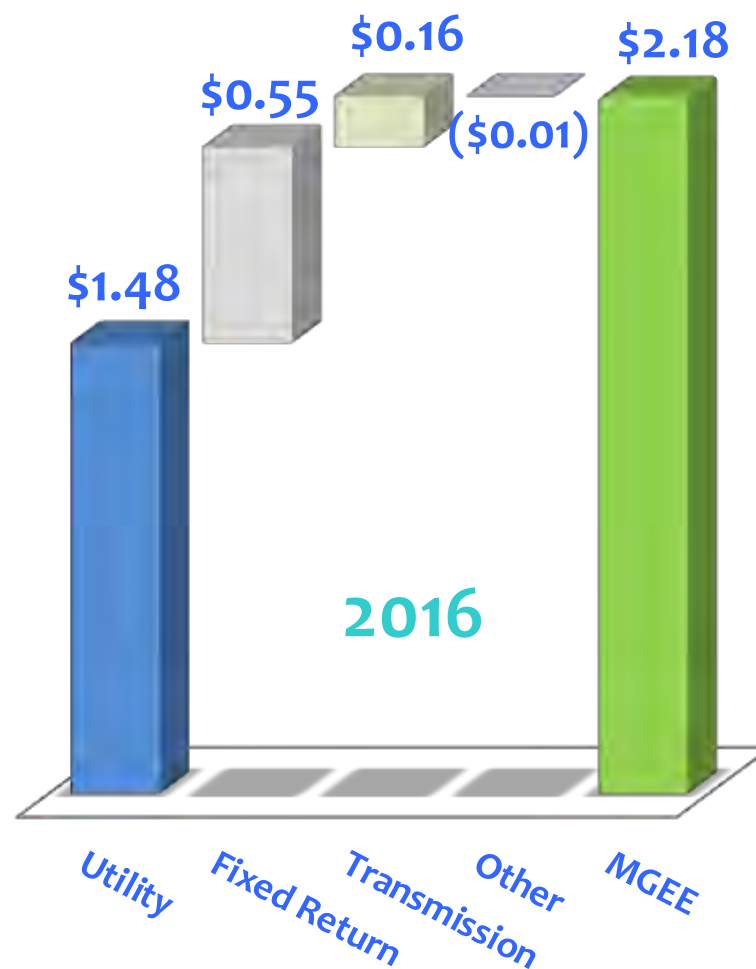
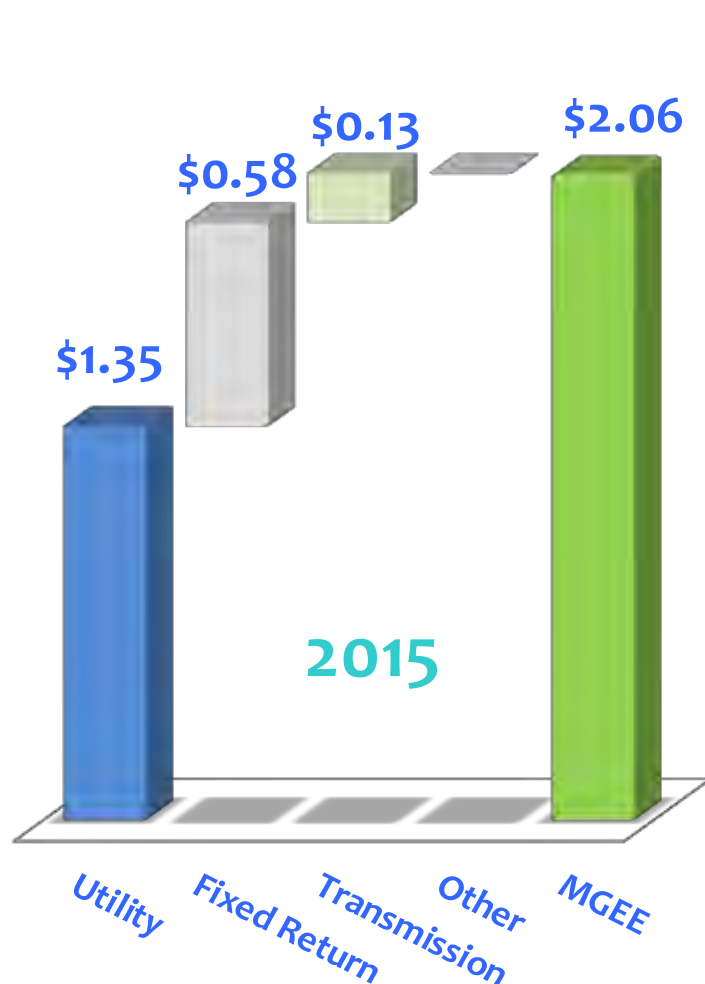
Segment Earnings Per Share

Three Months Ended December 31



Segment Earnings Per Share

Year Ended December 31

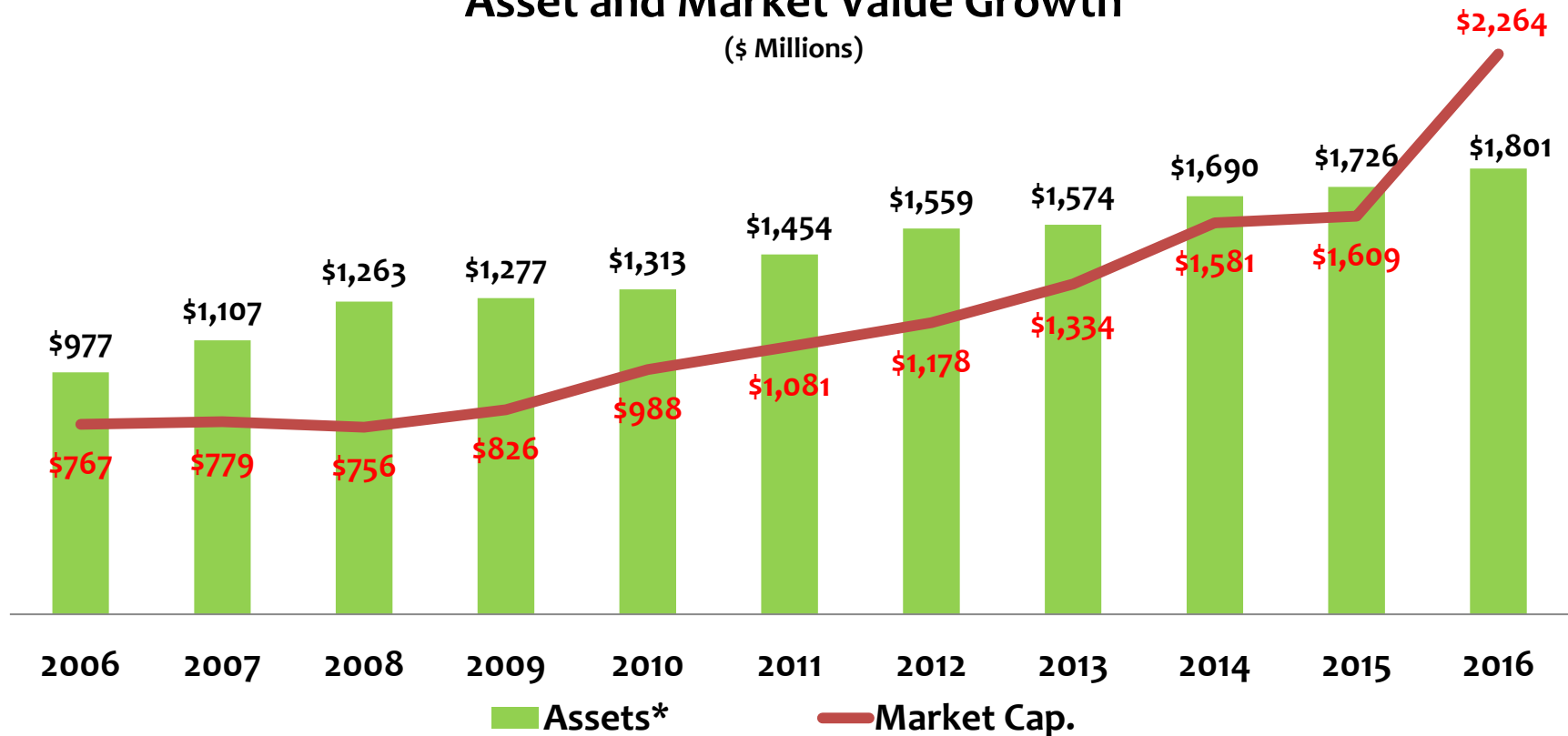


Strong Asset Base



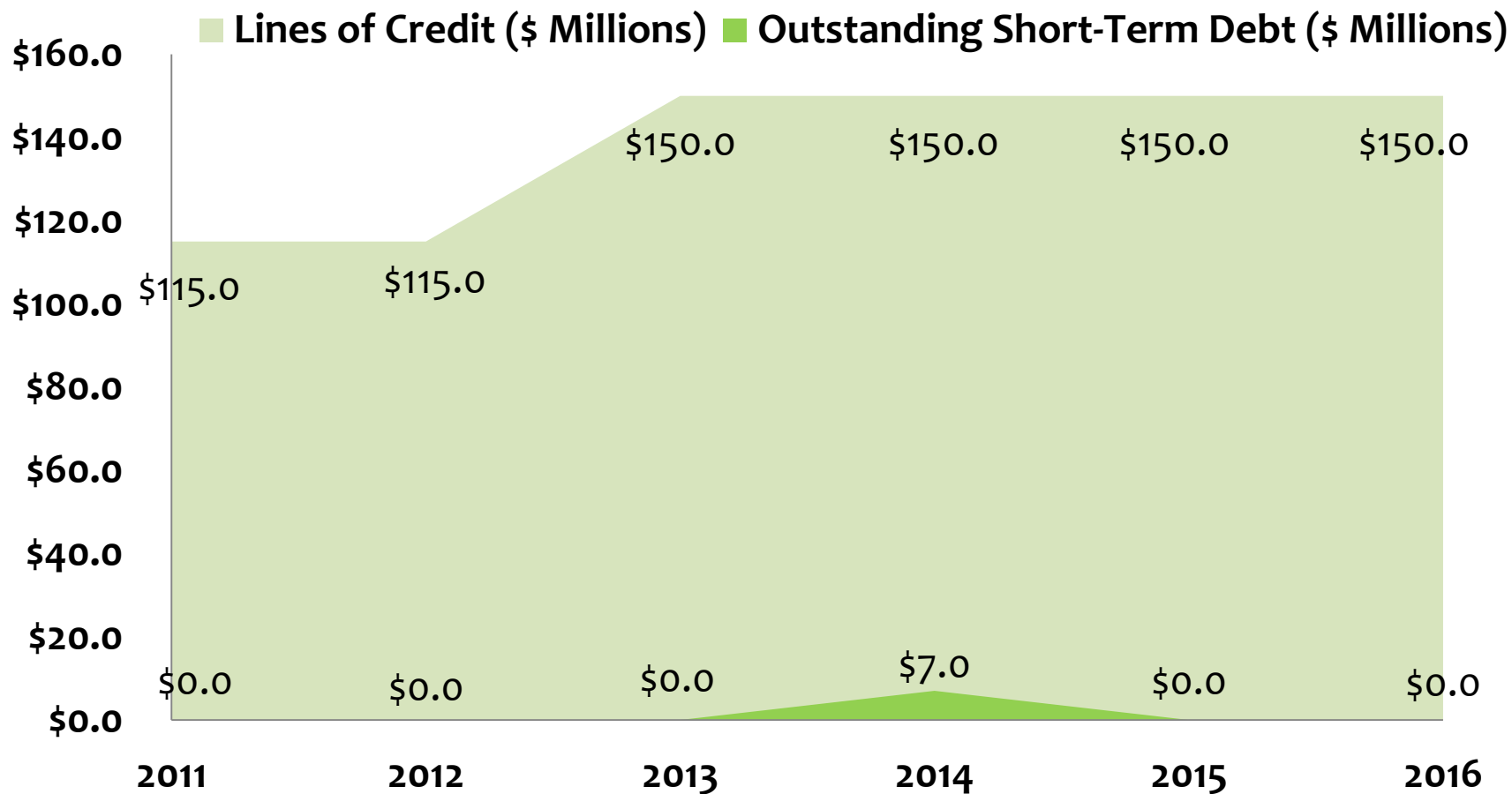
Asset and Market Value Growth

(\$ Millions)



*Assets have been adjusted with new accounting pronouncement – Debt issuance costs are now netted against long-term debt

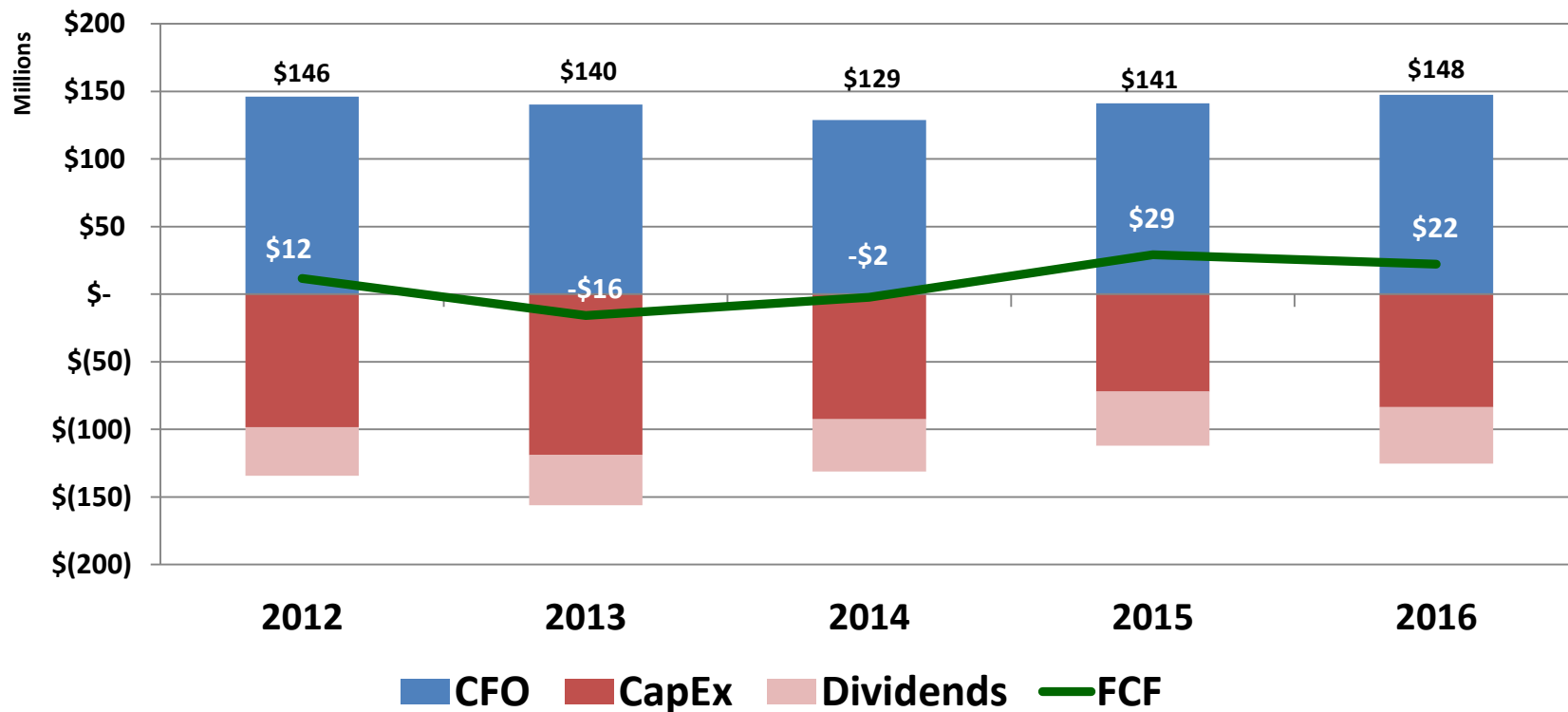
Strong Liquidity



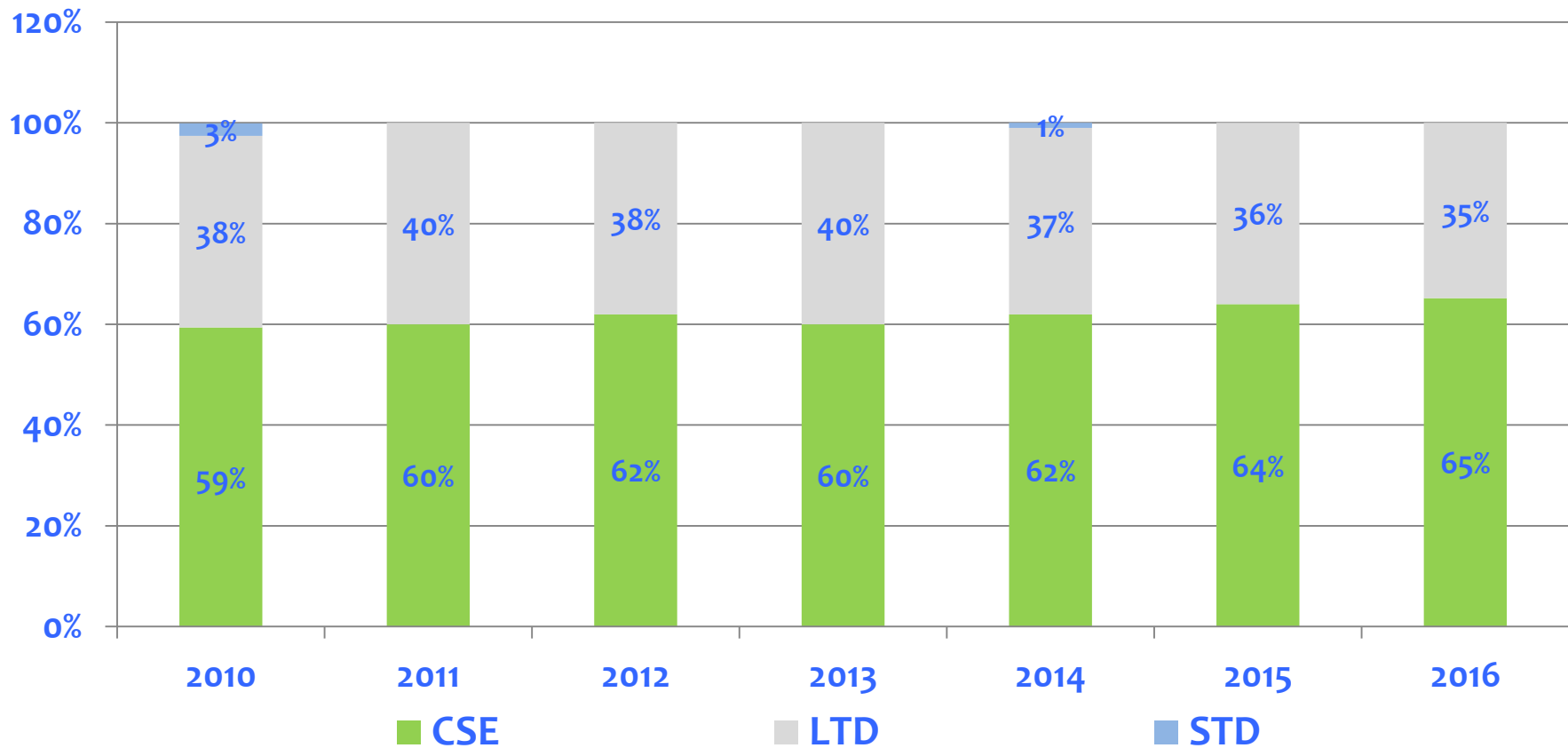
Strong Cash Flows



Cash from Operations (CFO) and Free Cash Flow (FCF)



Strong Capital Structure



Strong Credit Rating



Highest Rated Investor-Owned Electric and Gas Utility

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, October 2016

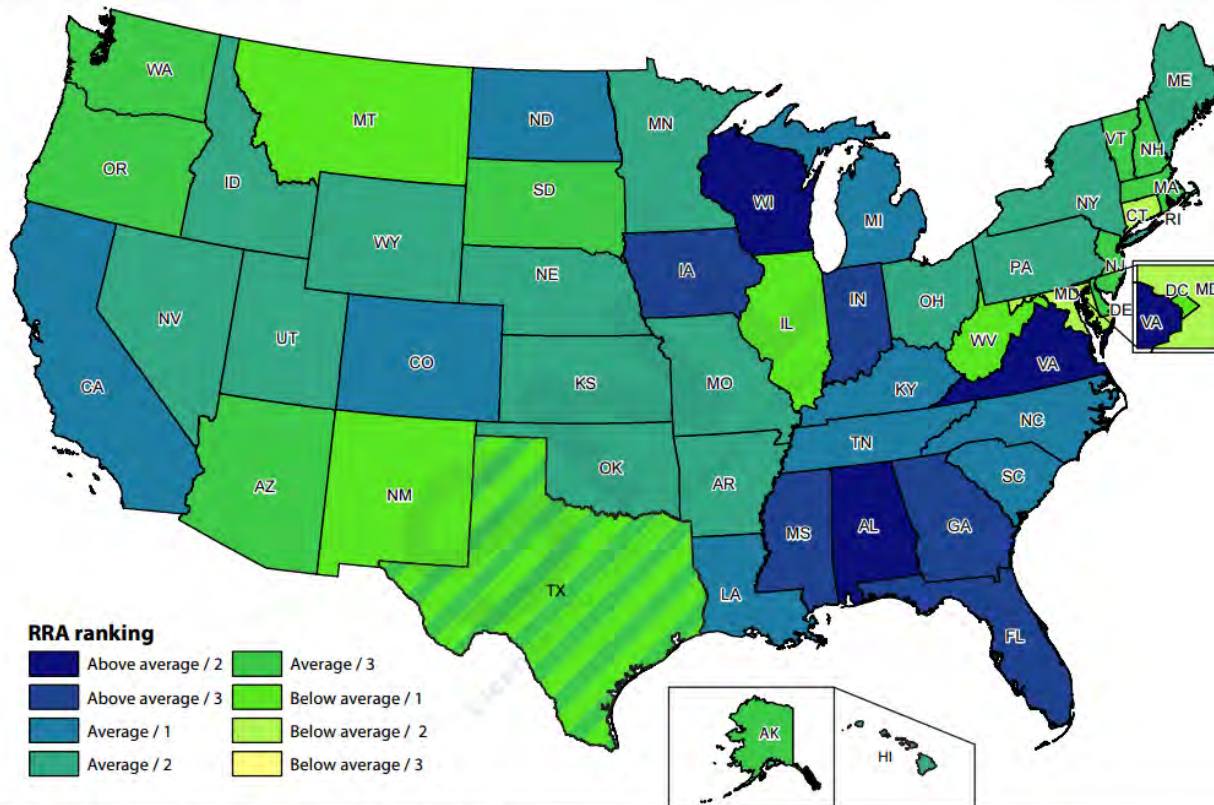
Moody's (Utility Ratings)

- Secured **Aa2**
- Unsecured **A1**
- Commercial paper **P-1**
- Outlook **Stable**
- ✓ Rating reflects supportive regulatory environment that provides revenue and cash flow
- ✓ Stable and healthy credit metrics
- ✓ Stable rating outlook assumes future prudently incurred investments will be recovered
- ✓ Funding will replicate authorized capital structure

Source: Moody's, February 2017

Investment Profile – Supportive Regulation

RRA state regulatory rankings--energy



Source: SNL Energy, an offering of S&P Global Market Intelligence
As of Oct. 18, 2016.
Texas PUC is Below Average/1 and the Texas RRC is Average/3

Wisconsin's
regulatory
ranking is
Regulatory
Research
Association's
(RRA's)
highest

Rate Proceedings



- On December 15, 2016, the PSCW authorized MGE to decrease 2017 rates for retail electric customers by 0.8% or \$3.3 million and to increase rates for retail gas customers by 1.9% or \$3.1 million
 - The decrease in retail electric rates is attributable to declining fuel and purchased power costs
 - The increase in retail gas rates covers costs associated with MGE's natural gas system infrastructure improvements
- In July 2016, the PSCW issued a final order stating that MGE shall refund the additional fuel savings during 2015 and 2016 for a total of \$15.7 million
 - The fuel credit established a mechanism to return fuel savings to electric customers as a bill credit
 - In September 2016, MGE returned \$15.5 million to customers through bill credits
- In July 2015, the PSCW extended MGE's current transmission cost accounting into 2016, and allowed cost differentials in the next rate case, as a condition of not seeking a base rate case in 2016

The logo for the Green Tier program, consisting of five horizontal green bars of varying lengths, stacked to form a stylized 'E' or a series of steps.

GREEN TIER

A DNR Program for Superior Environmental Performance

- 1st utility in Wisconsin to participate in the State of Wisconsin Department of Natural Resources' (DNR) highest level (Tier 2), Green Tier environmental leadership program
- 5th company in Wisconsin to achieve Tier 2 status
- Voluntarily committed to continuously improve environmental performance by developing management strategies and adopting new technologies and practices



- Attained the highest level of the Wisconsin Sustainable Business Council's Green Masters Program
- The only utility in Wisconsin to be recognized as a Green Master
- MGE's steps to use less energy, cut waste and become generally more sustainable in operations and supply chain placed the company in the highest level of the Green Master Program

Questions



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