

FINANCIAL REPORT

2018 SECOND QUARTER



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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 42 consecutive years
- Paid for over 100 consecutive years

Sustainability Strategy

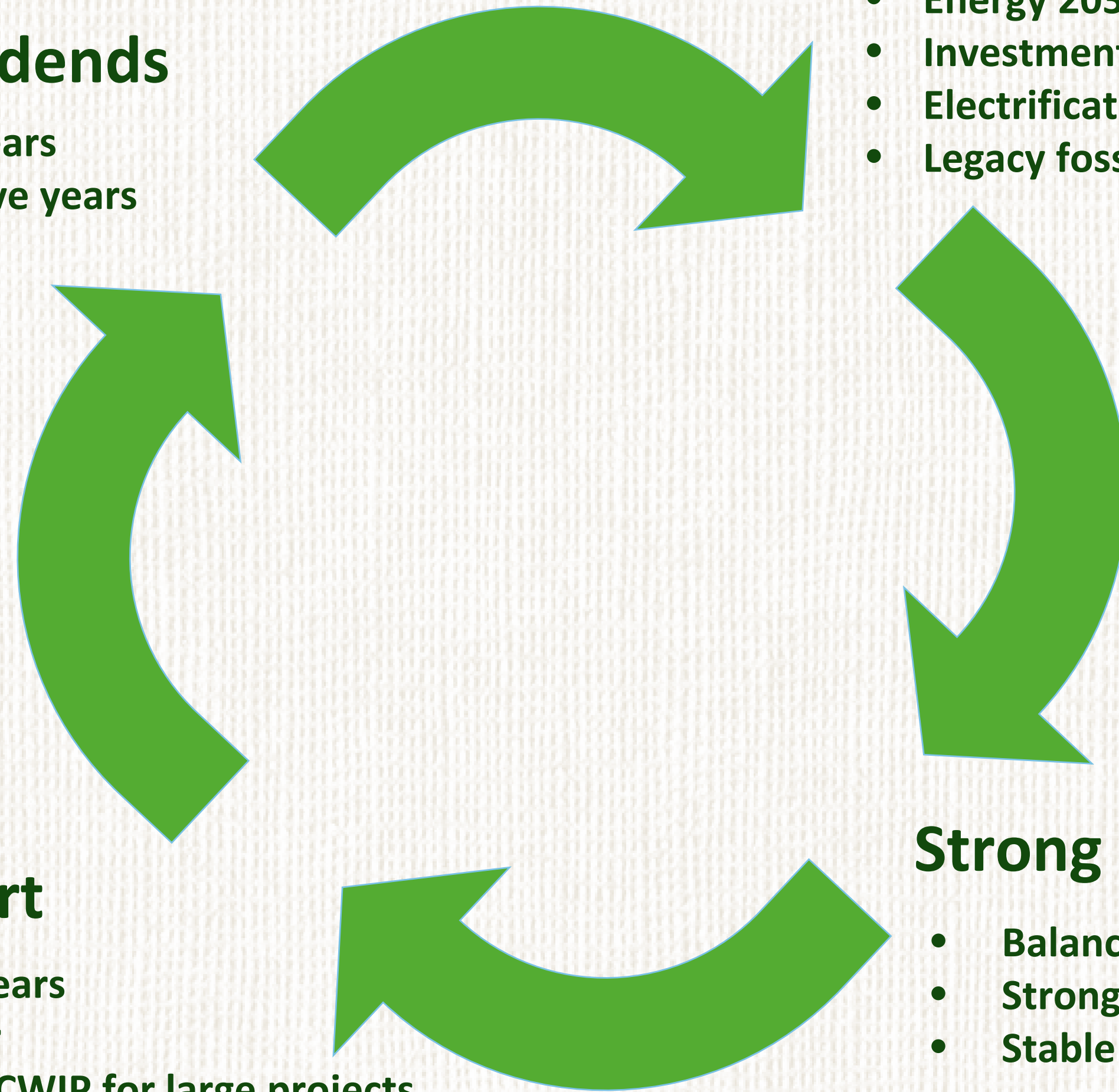
- Energy 2030
- Investments in renewables such as wind and solar
- Electrification of transportation
- Legacy fossil generation accelerated depreciation

Regulatory Support

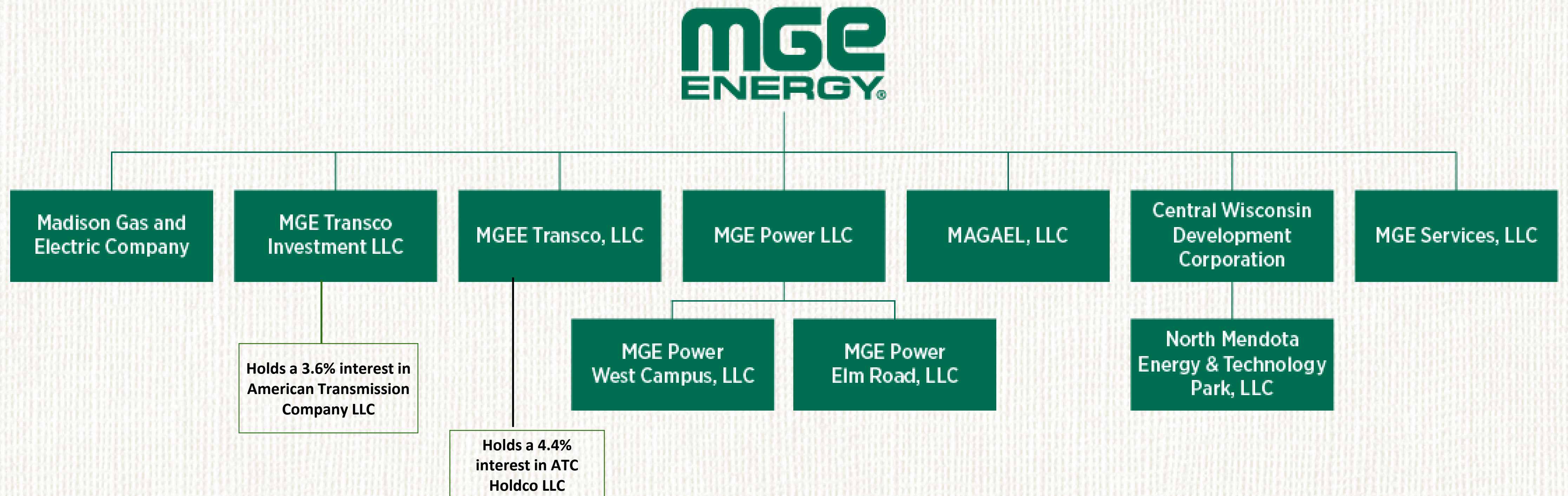
- Forward - looking test years
- Renewable Energy Rider
- 100% current return on CWIP for large projects

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: 2.8% – *Bureau of Labor Statistics, June 2018*

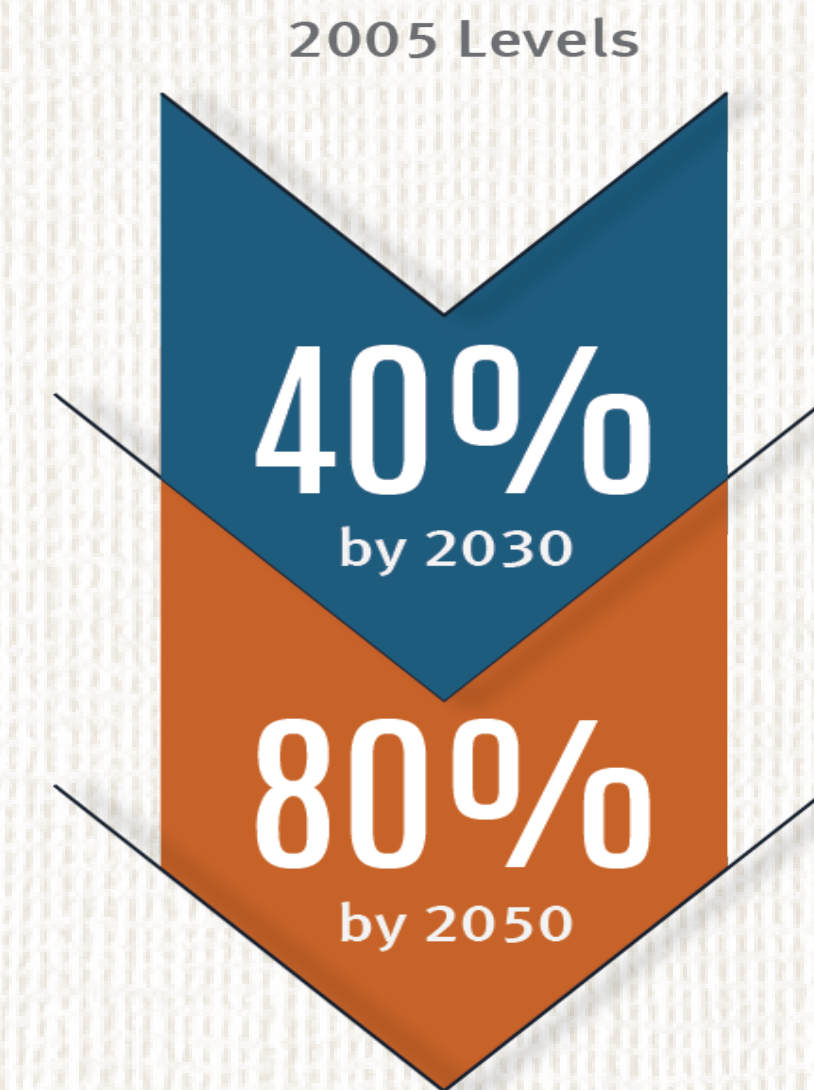
Dane County

- Population growth through 2035 expected to be the highest of any county in Wisconsin
- Low Unemployment 2.8% (WI 3.4%; US 4.2%) – *WI Dept. of Workforce Development, June 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



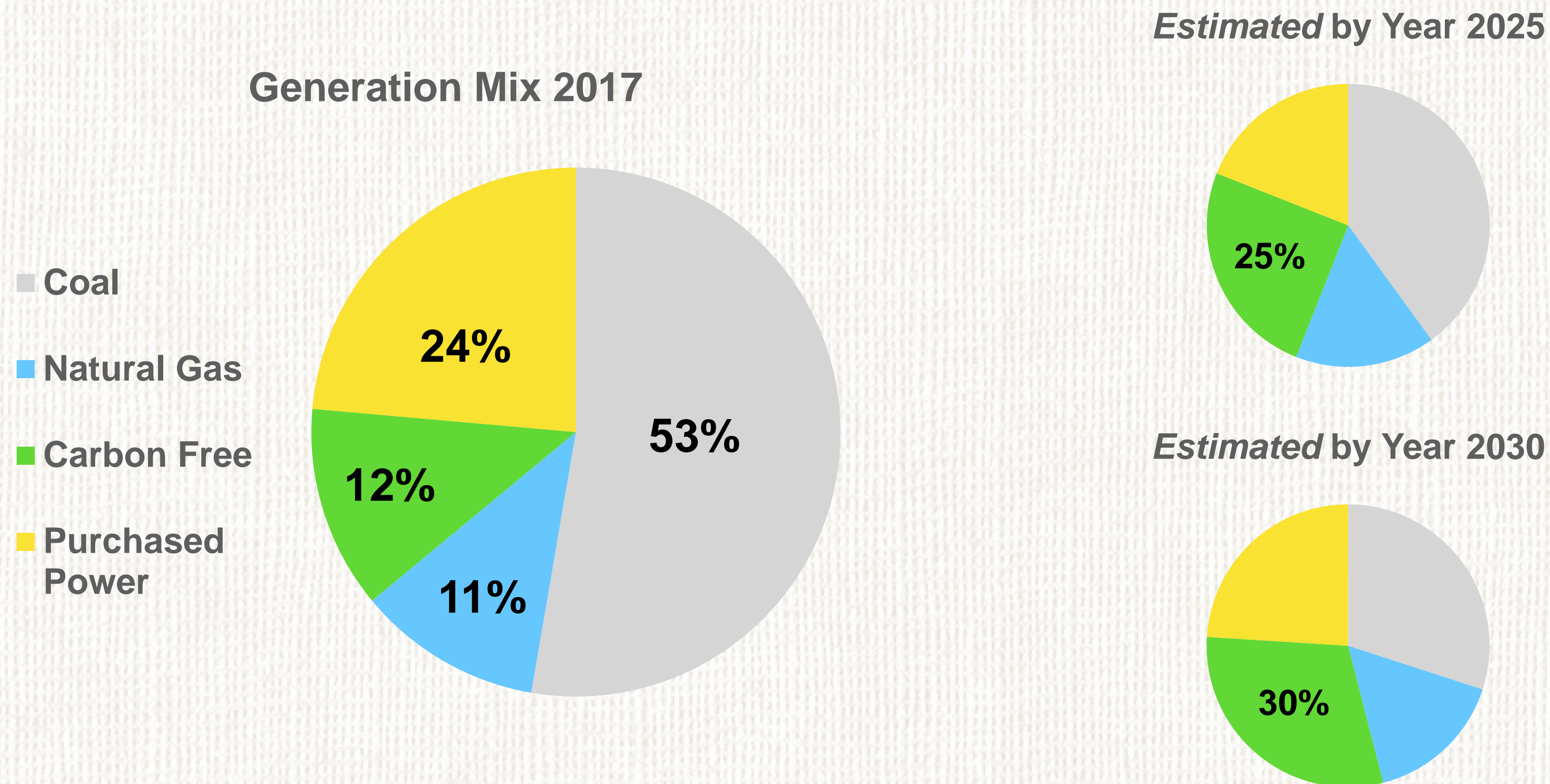
Other Environmental Initiatives

- 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

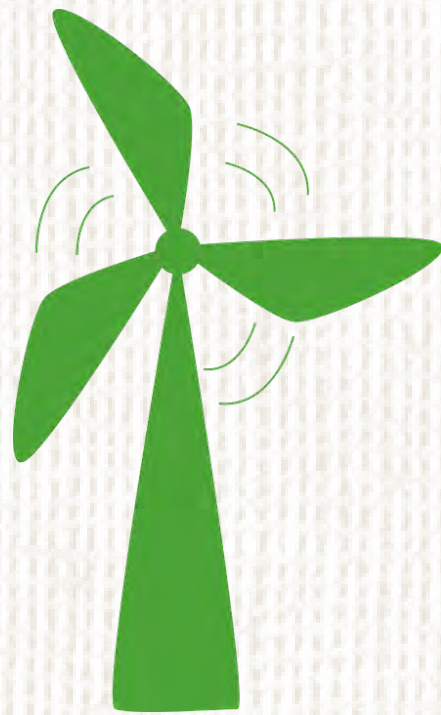
25% retail sales powered with renewable resources by **2025**

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



Growth in Rate Base

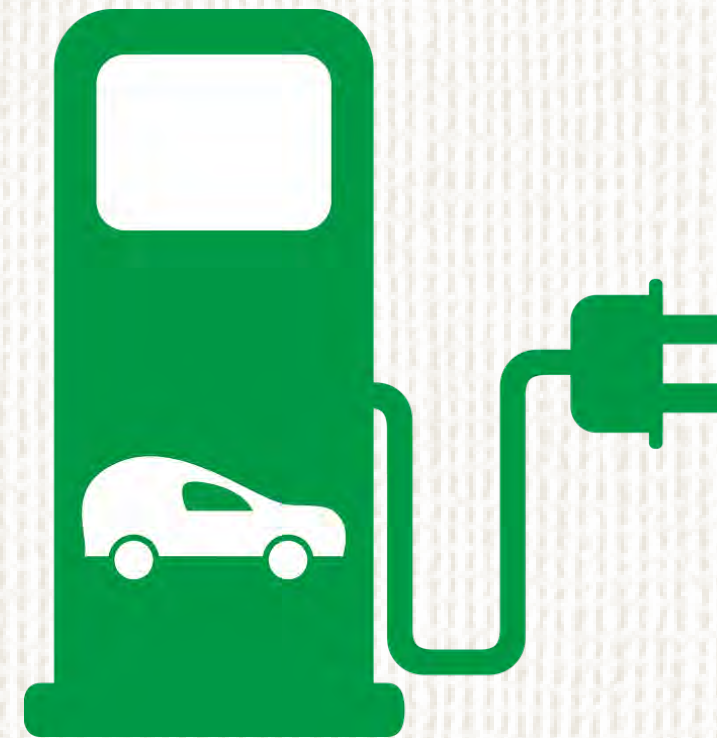
Renewable Investments:



Wind



Solar



Electric Vehicles

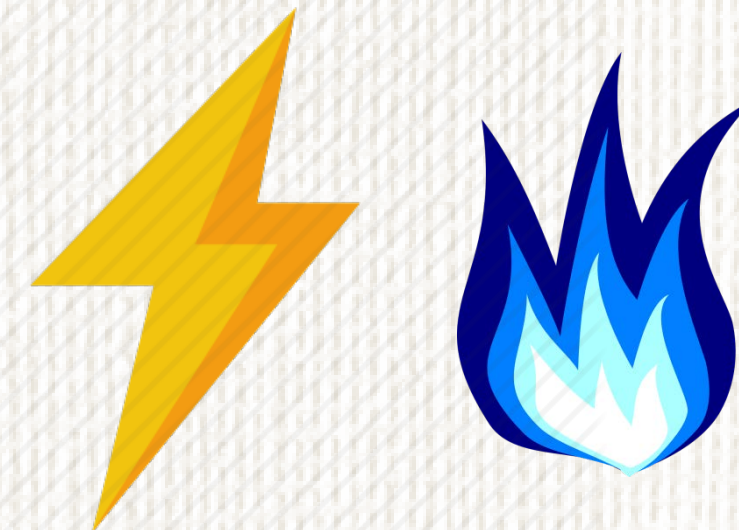


Energy Technology

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 by the end of 2018

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
- Low cost, highly visible location
- 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
- Provides Wisconsin utilities another tool to meet the needs of our customers

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

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

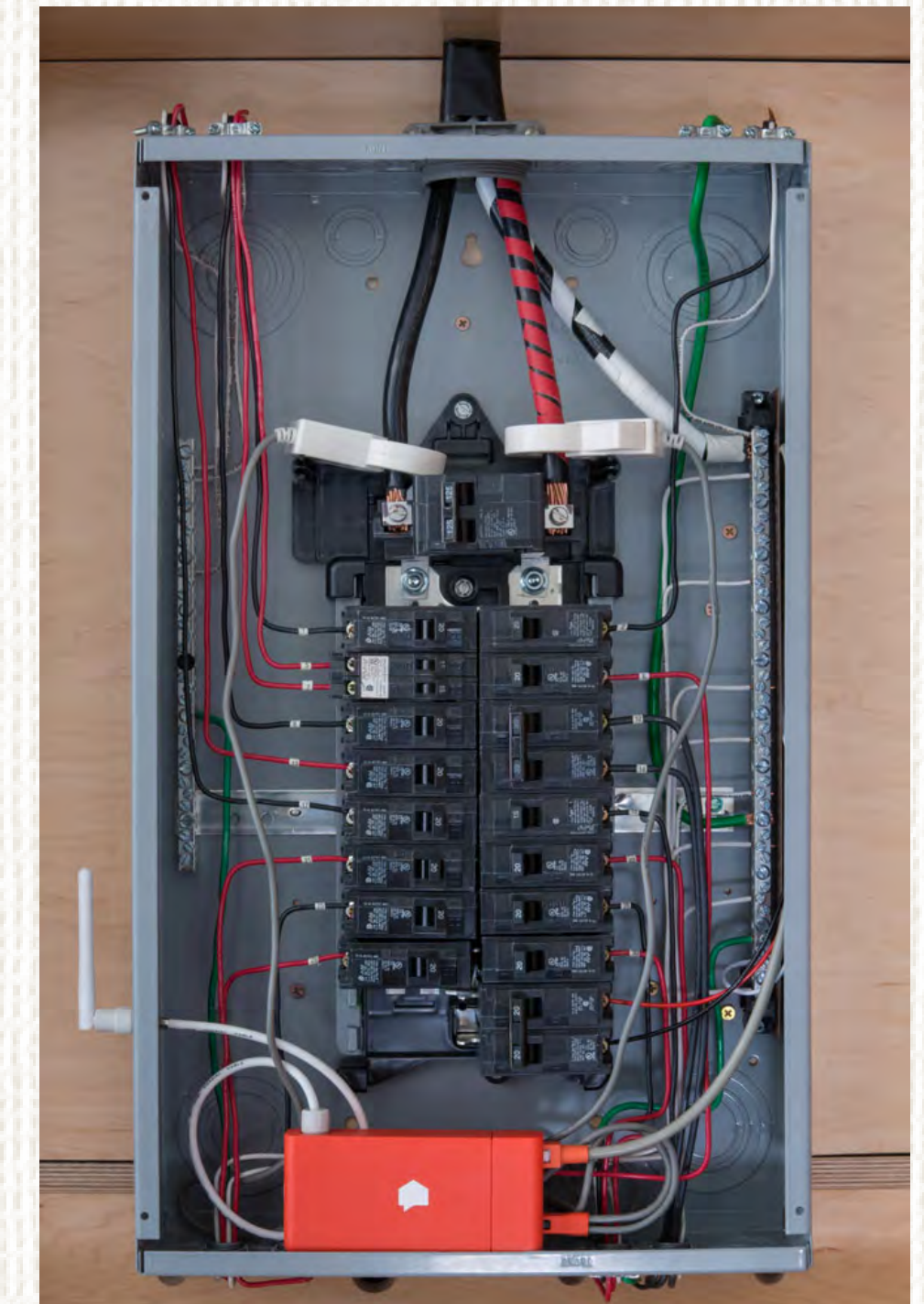
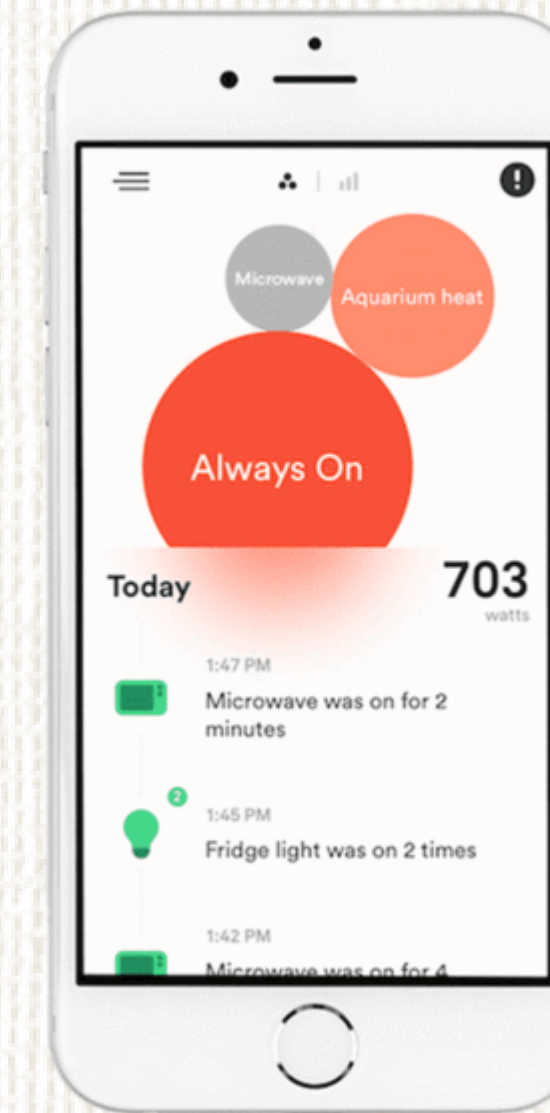
- Collaborating with City of Madison's Metro Transit department to electrify 50% of its bus fleet in MGE's service territory by 2035
- MGE pledged technical expertise for charging infrastructure and 100% of local matching funds in City's federal application for buses
- Buses are expected to be operational in 2019
- Partnership advances shared goals to reduce emissions



Energy Technologies

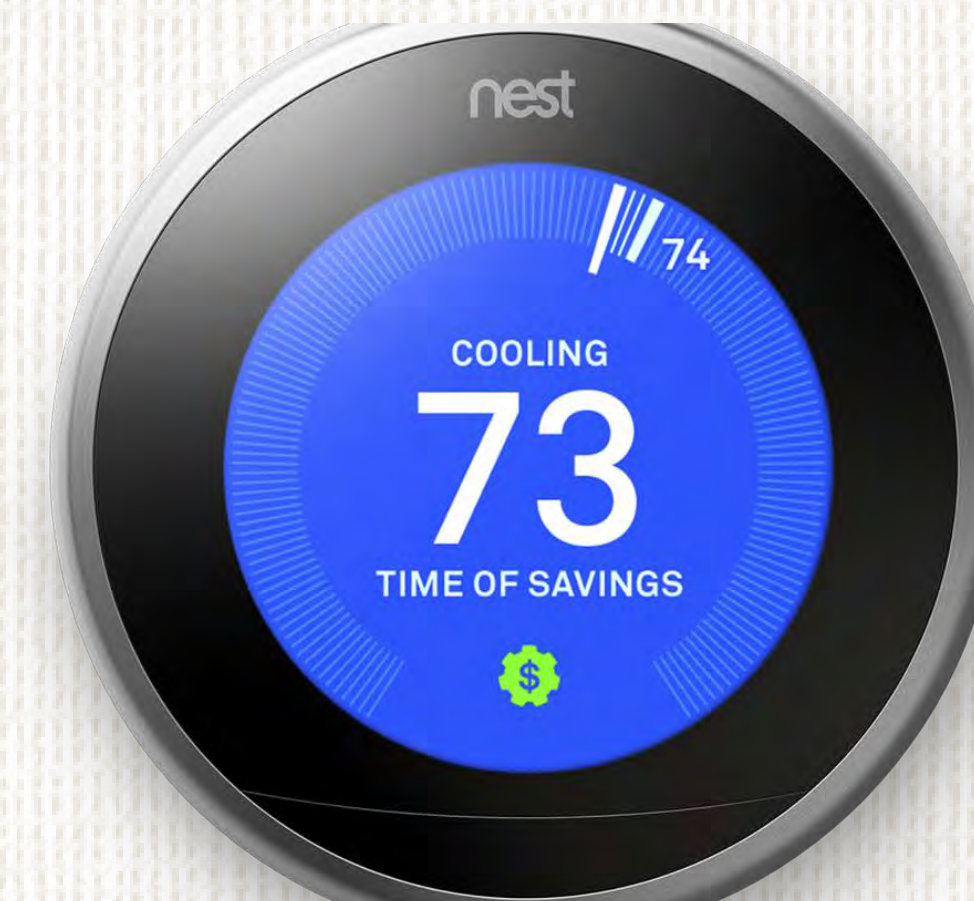
Partnership with Sense Labs, the maker of the Sense home energy monitor

- 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

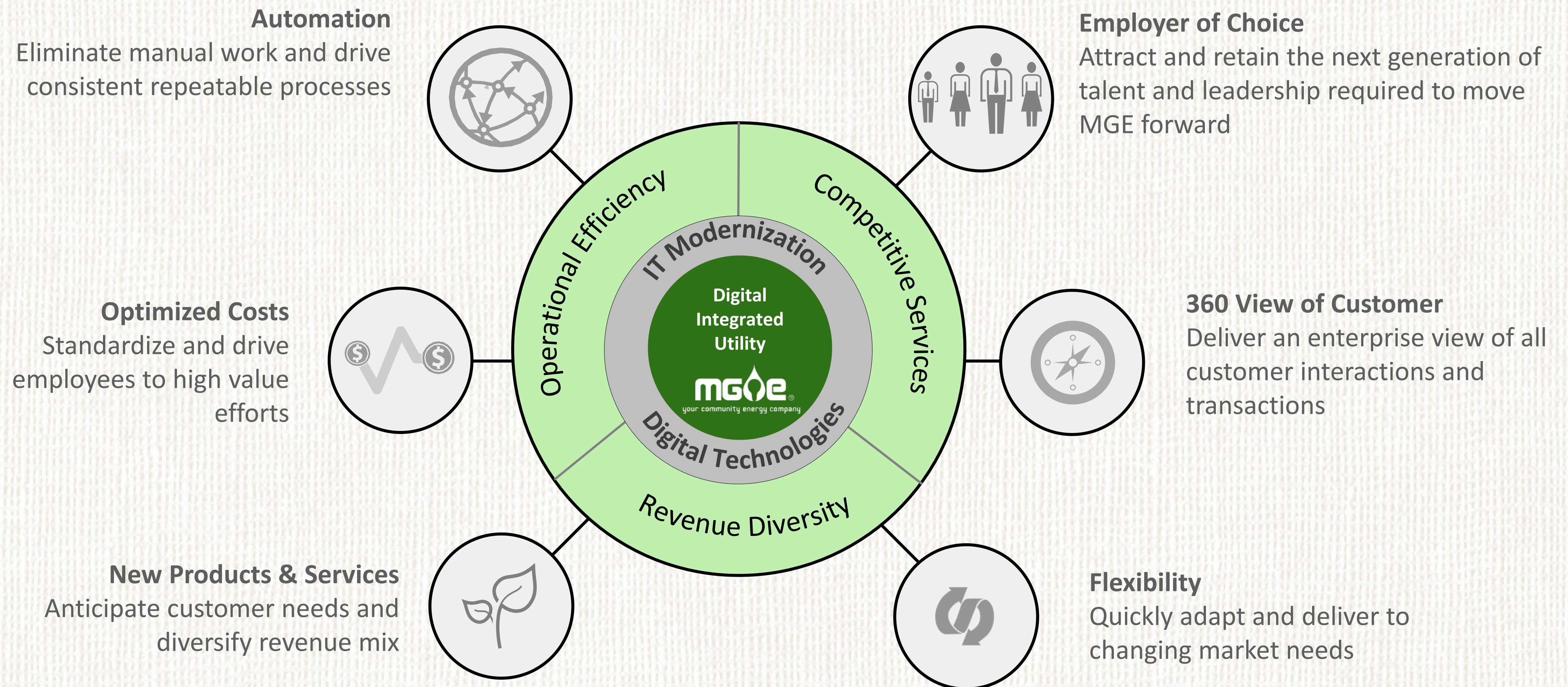


Technology Investments – Enterprise Forward

- 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

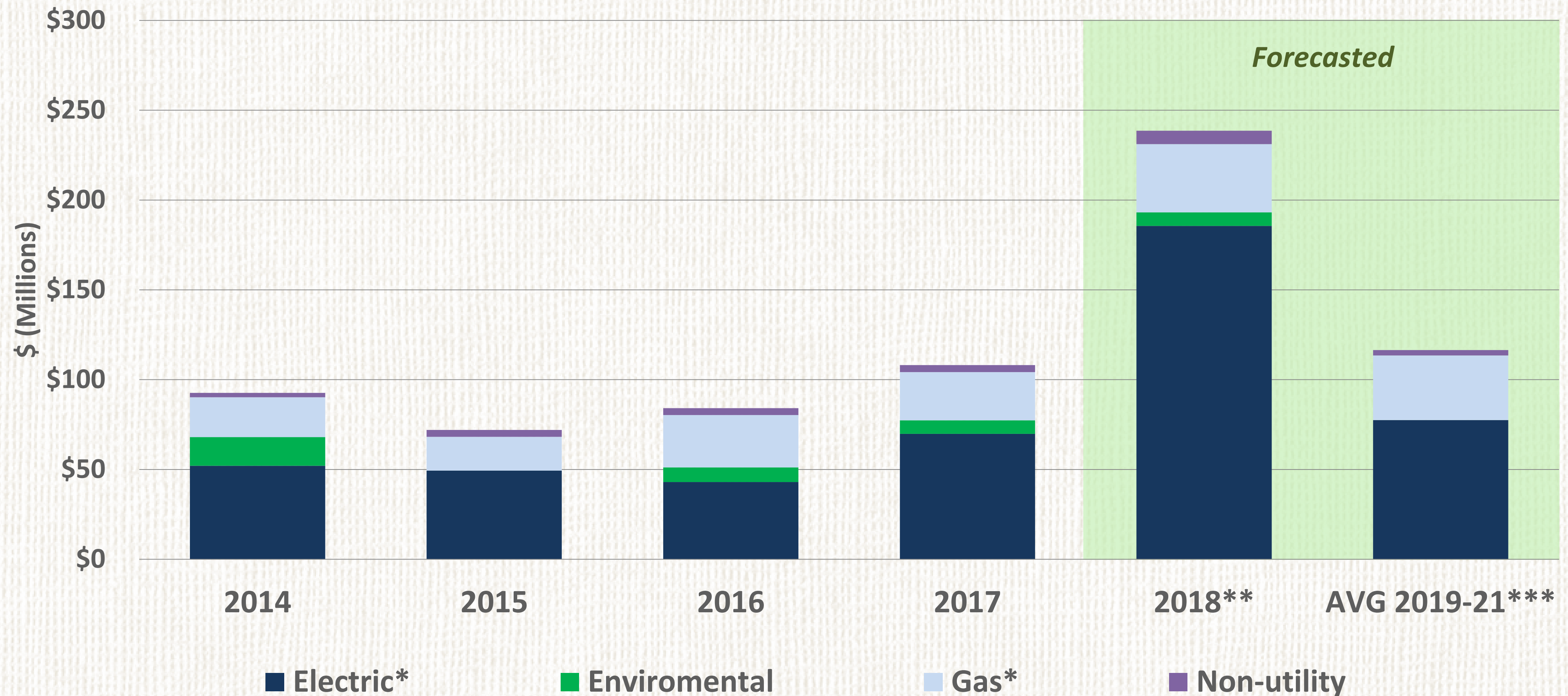
- Approximately **7.5%** of MGE Energy's earnings come from its **\$61 million** transmission investment in ATC
- ATC forecasted CapEx of **\$2.8 to \$3.6 billion** over the next 10 years, this excludes potential transmission investments outside its traditional footprint
- ATC average rate base at year 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
- Eight out of 11 directors are independent under Nasdaq rules
- Two new directors joined the board in 2018

Constructive Regulatory Relationship

- Sustained support from Wisconsin regulatory environment throughout rate case and other proceedings
- Actively working with PSCW Staff and customer groups on a potential 2019-2020 rate case settlement. Proposal 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

- **Tax Reform Impacts on Cash Flows**
 - ✓ Removal of bonus depreciation that was previously forecasted to provide immediate cash
 - ✓ No equity issuances required
- **Regulatory Actions**
 - ✓ Defer tax savings and address tax benefit impacts
 - Below are some of the options for tax benefits:
 - Mitigates rate increases while adding significant rate base investments primarily in renewable generation
 - Work with regulators to address savings in future rate proceedings
 - Accelerate depreciation on legacy fossil generation assets

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 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, January 2018

Commitment to Dividend

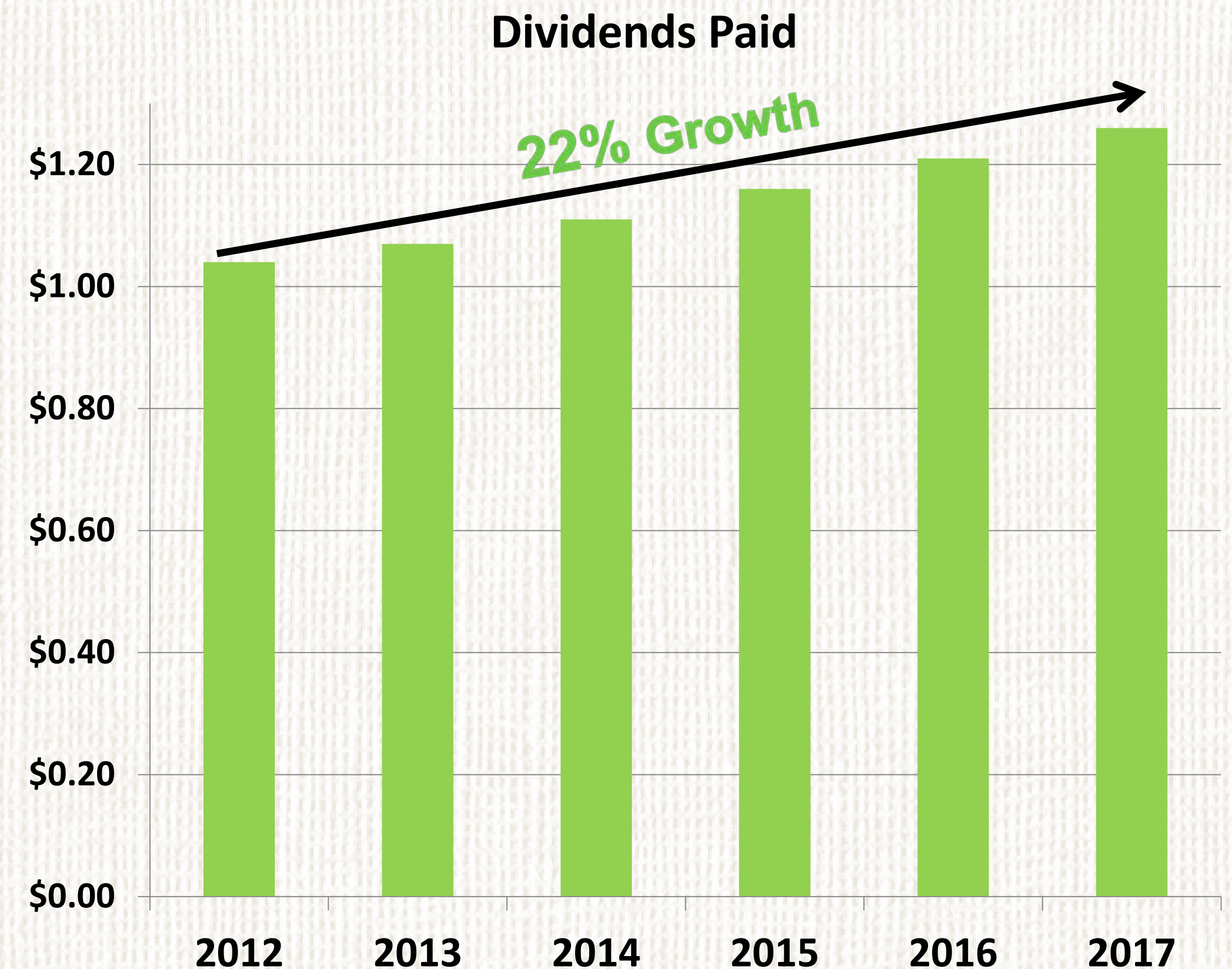
Recent Dividend increase has been approximately 5%

- Increased dividend 42 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

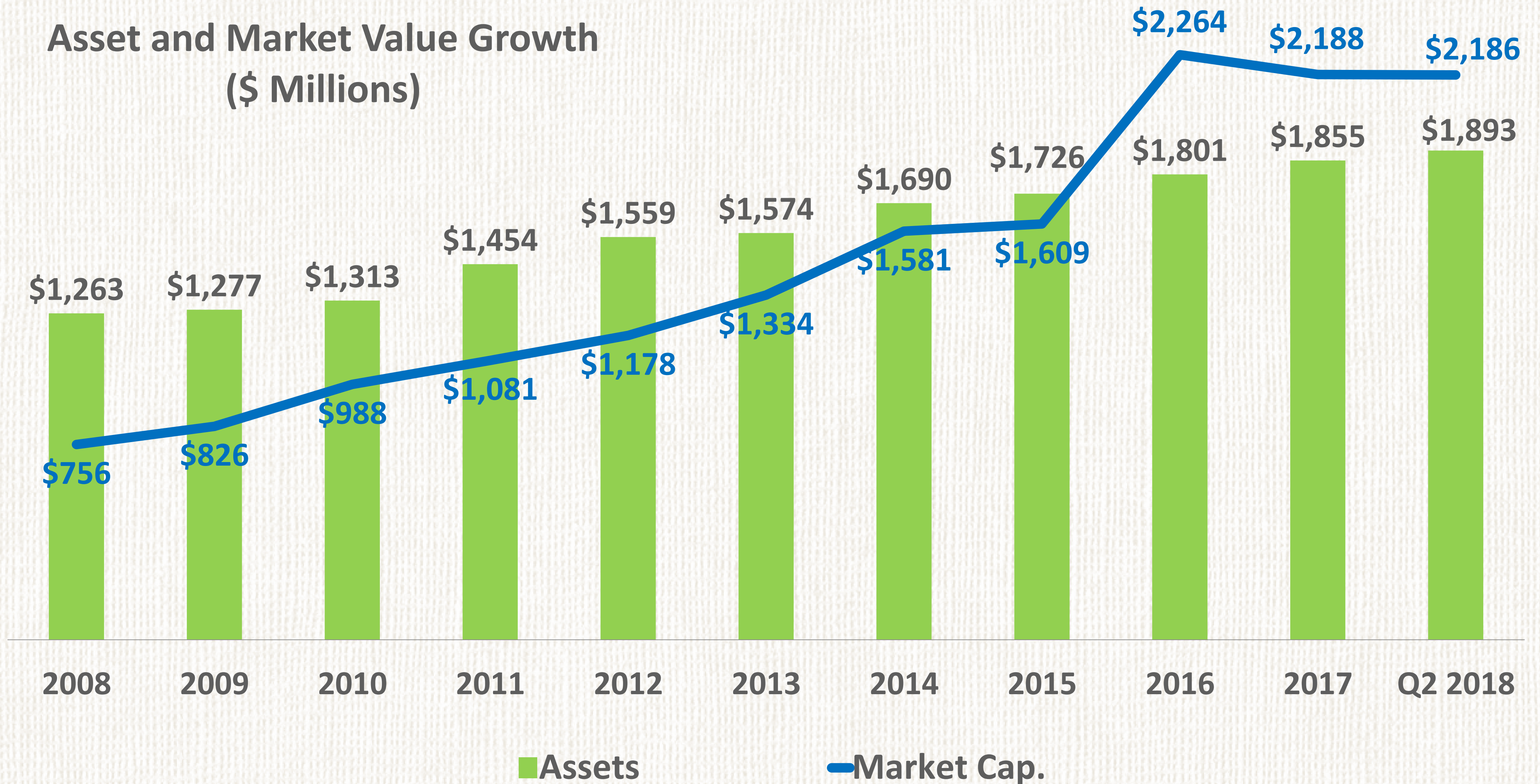
Dividend Considerations

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

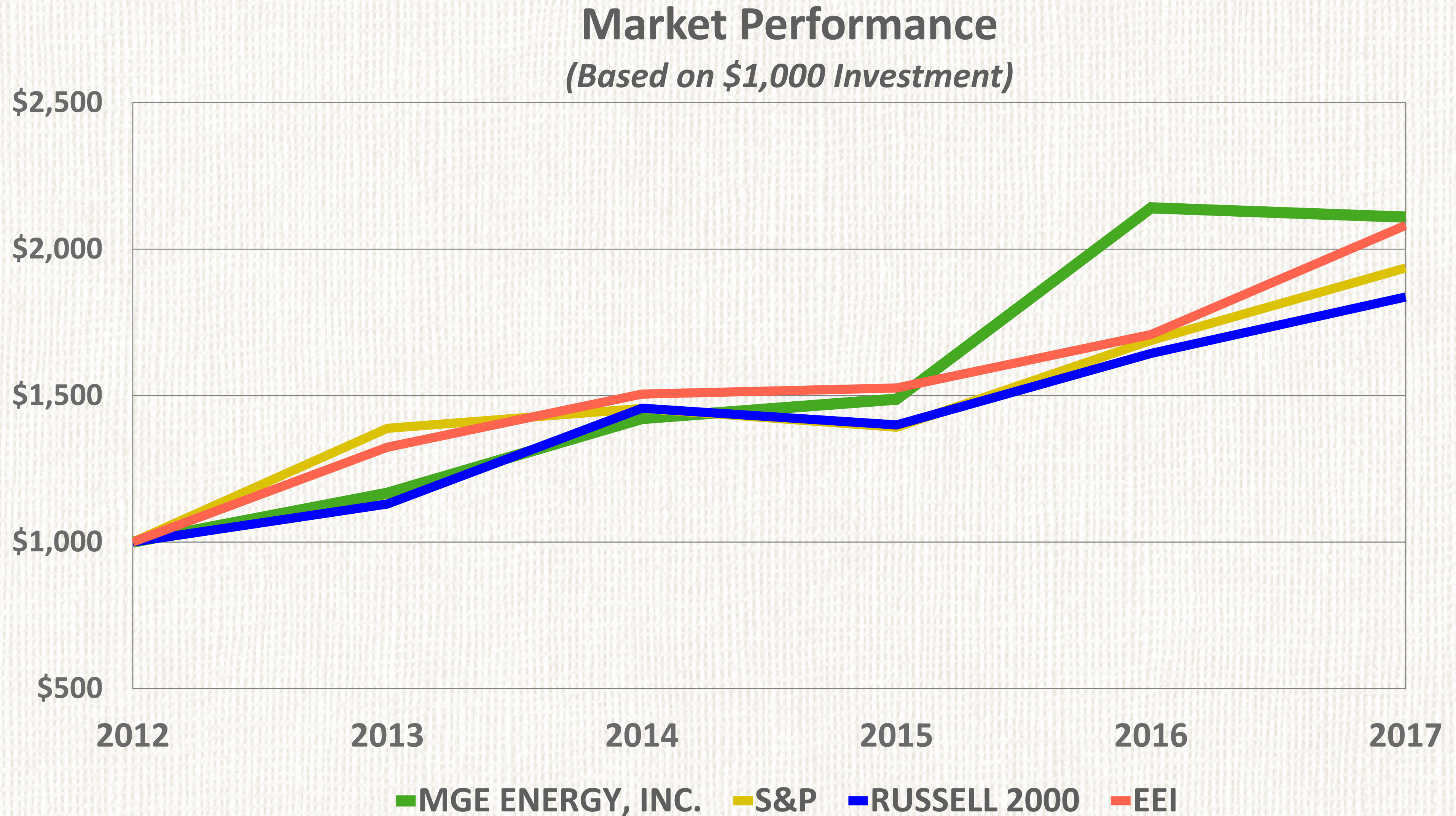
Dividend decisions made by Board of Directors



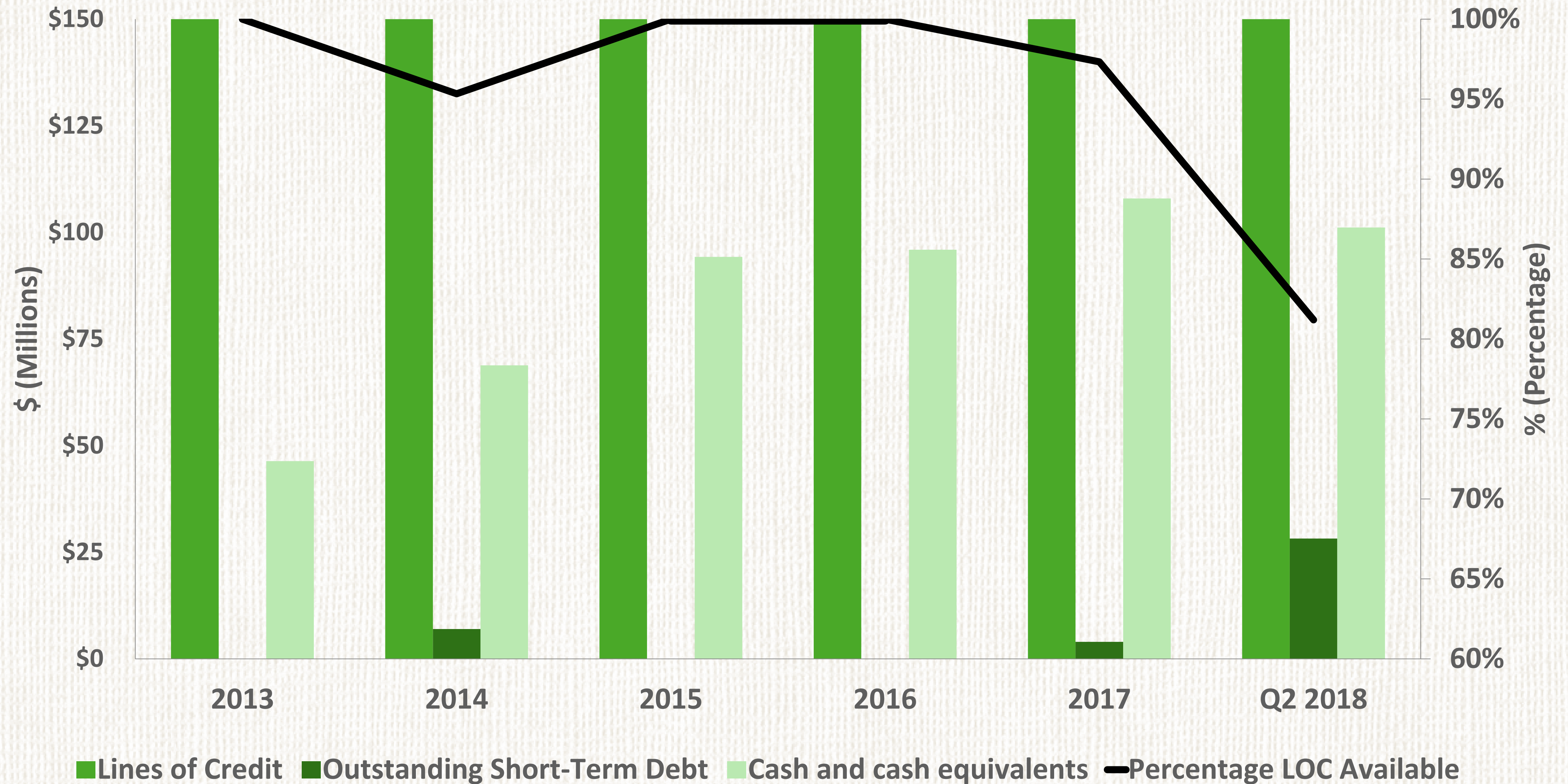
Stable Asset Growth



Strong Market Returns

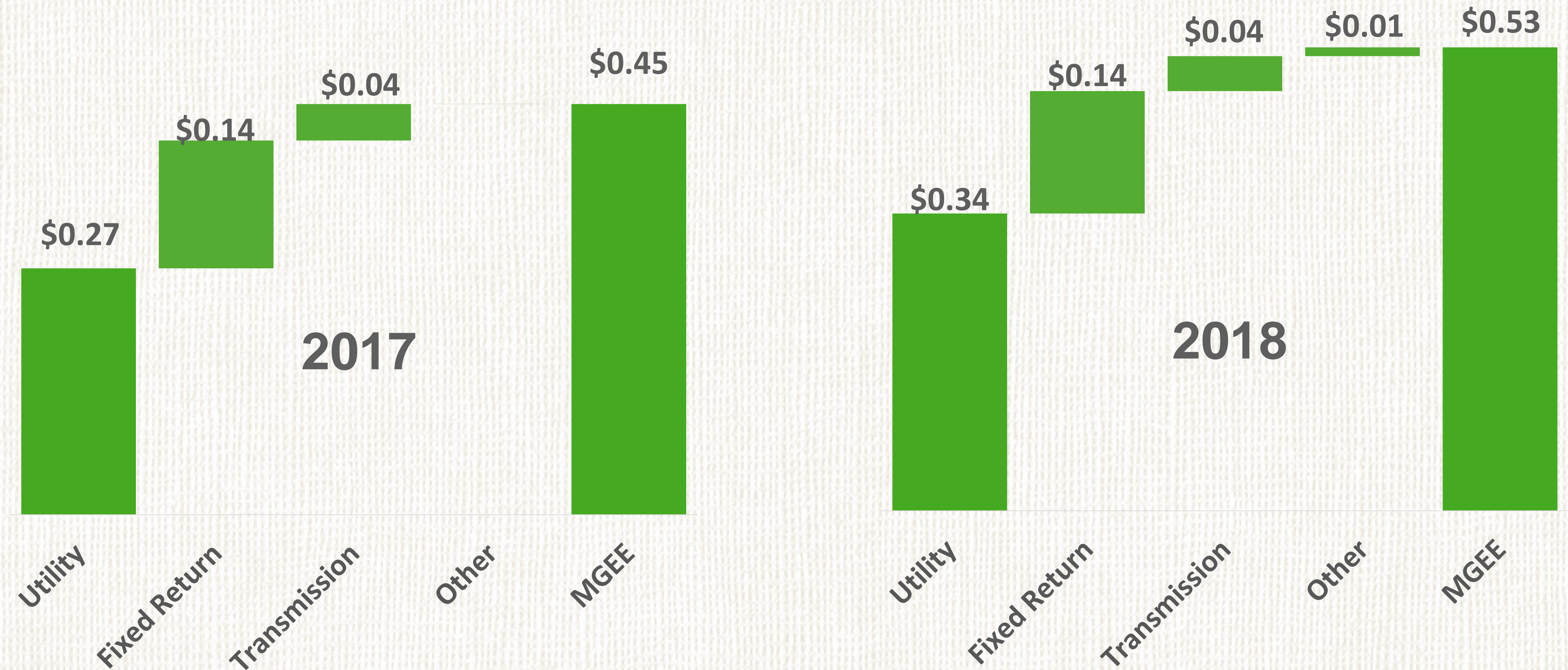


Sources of Liquidity



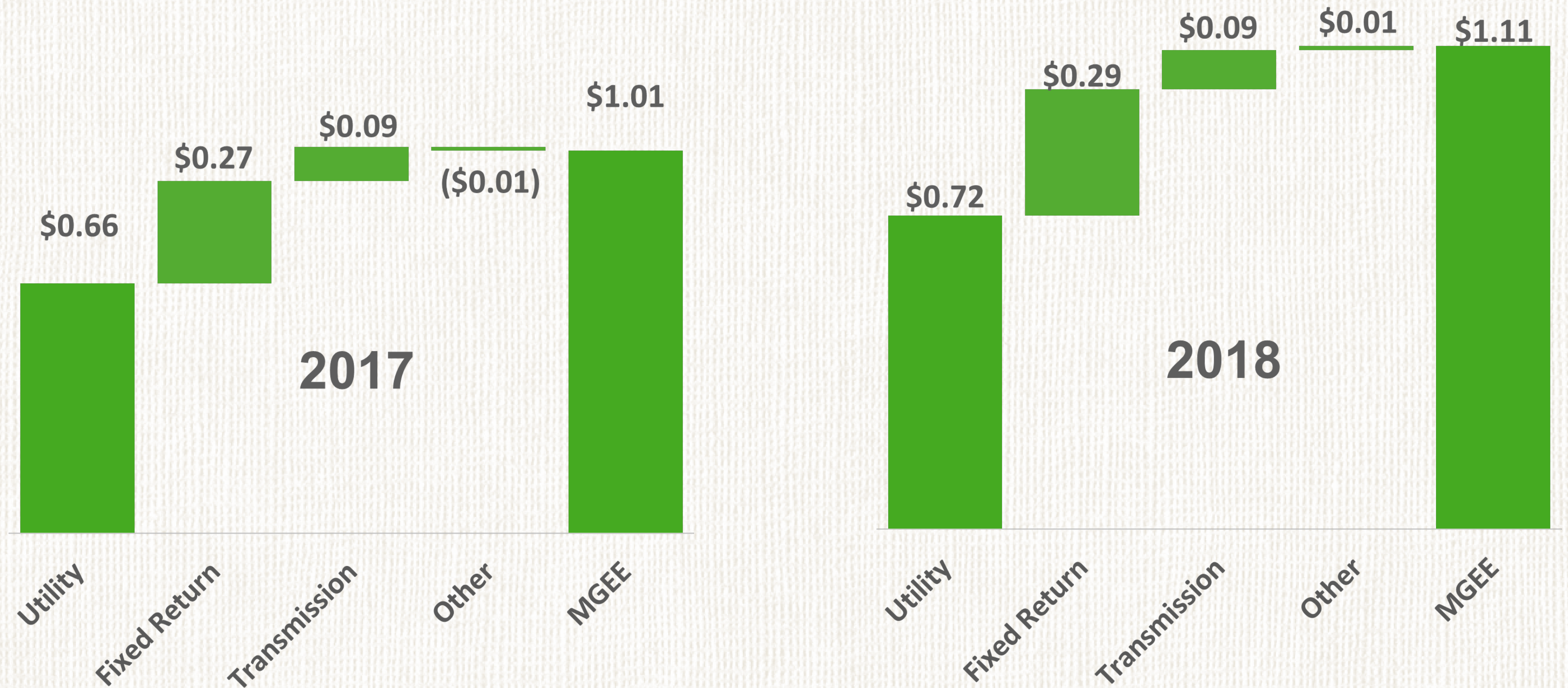
Earnings Per Share Segments

Three Months Ended June 30th



Earnings Per Share Segments

YTD Ended June 30th



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