



# FINANCIAL REPORT

## 2020 SECOND QUARTER





# 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, 2019 (the “2019 Form 10-K”), as updated by its Quarterly Report on Form 10-Q for the quarter ended June 30, 2020 (the “June 30, 2020 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 2019 Form 10-K, the June 30, 2020 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.*
- *This document does not constitute an offer to sell, or the solicitation of an offer to buy, any securities of MGE Energy, Inc., or Madison Gas and Electric Company. A registration statement relating to the common stock of MGE Energy, Inc., has been declared effective by the Securities and Exchange Commission. Any offering of such common stock is being made solely by means of a prospectus supplement and an accompanying prospectus, copies of which may be obtained from MGE Energy, Inc., at 133 South Blair Street, Madison, Wisconsin 53703, attention: Shareholder Services, telephone no. (800) 356-6423.*

# 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 2019 Form 10-K, June 30, 2020 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

## Attractive and Growing Dividend

*5-Year Dividend CAGR of 4.5%*

- Paid dividends for more than 110 years
  - Increased dividends for 45 consecutive years
- Annual dividend growth rate of 5% in the past five years
- Recent payout ratio range of 50-60%

## Strong Financial Profile

*Stable Earnings Growth with Strong Balance Sheet*

- Predominantly regulated earnings
- 10-year EPS CAGR of 5.5%
- 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 6.8%*

- Total forecasted regulated capex of approx. \$570M from 2020 through 2022<sup>(3)</sup>
- Premium service territory with constructive regulation
- Forward-looking test years
- Renewable Energy Rider
  - Ability to work cooperatively with businesses and tailor a renewable energy solution

## Substantial Sustainability Investment

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

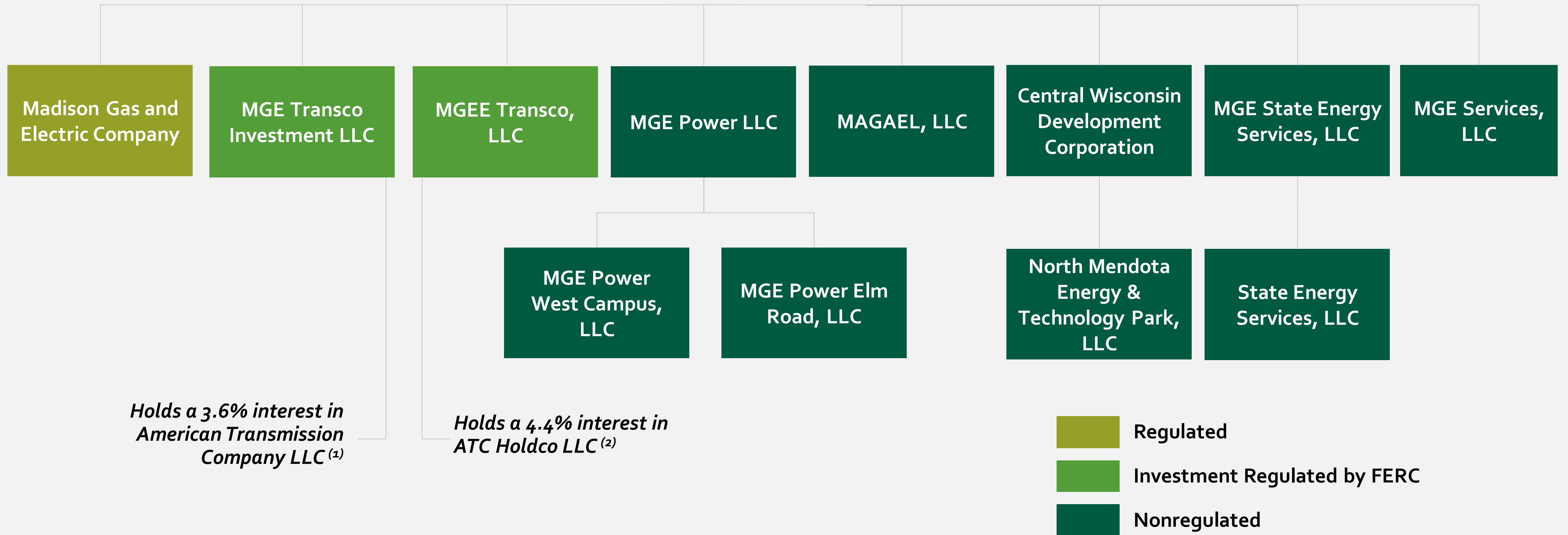
- Plan for decarbonizing generation by transitioning to clean energy, such as wind and solar
  - Announced projects designed to grow renewables capacity by 600% from 2015 <sup>(3)</sup>
- Helping customers use energy efficiently
- Electrifying transportation

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

(2.) A credit rating is not a recommendation to buy, sell or hold securities and may be lowered or withdrawn by the rating agency at any time

(3.) Information on this slide contains statements that are forward looking statements that involve risks and uncertainties that are subject to change at any time. See Cautionary Note Regarding Forward-Looking Information at the beginning of this presentation

# Corporate Structure



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

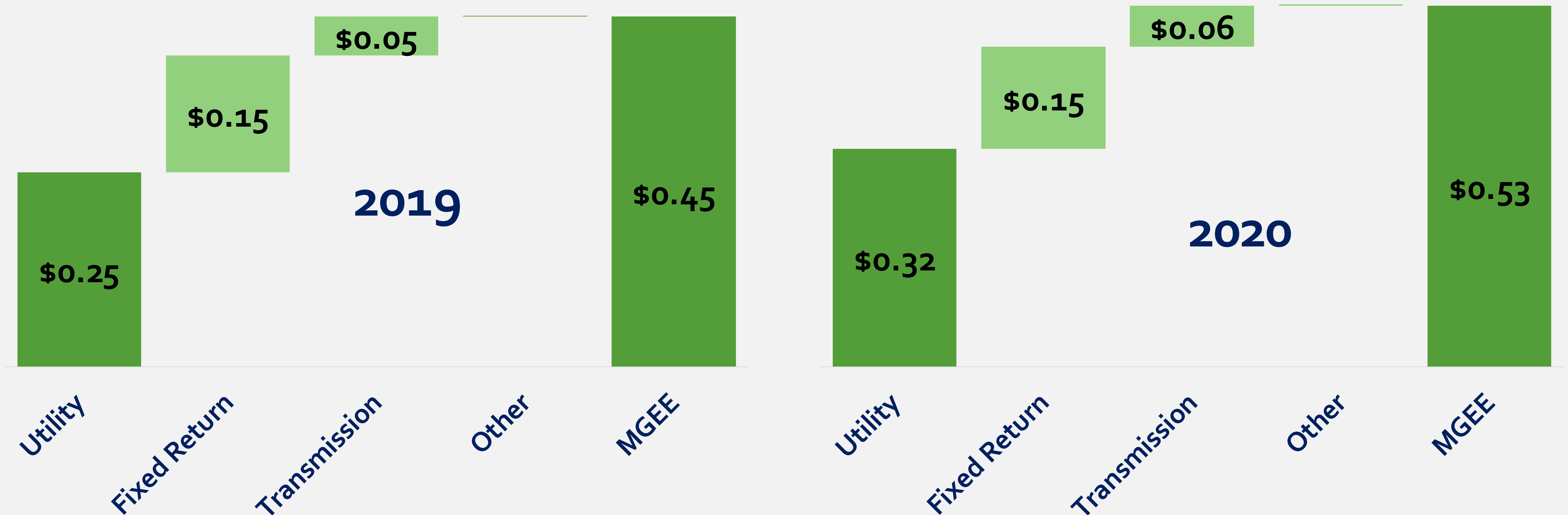
(2.) Transmission development company. Separate from American Transmission Company, LLC

# COVID-19 Update

<b>MGE Operations</b>	<ul style="list-style-type: none"> <li>• Following guidance of local, state and federal agencies</li> <li>• Customer and employee safety remain key focus</li> <li>• No material disruptions in utility operations to date</li> </ul>
<b>Regulatory Update</b>	<ul style="list-style-type: none"> <li>• On March 24, 2020, the PSCW issued an order under which utilities, including MGE, may not disconnect or refuse service to any customer, must offer deferred payment agreements, may not charge for late payments and may not require a cash deposit or other guarantee as a condition of any new service               <ul style="list-style-type: none"> <li>– PSCW authorized deferral of expenditures incurred</li> <li>– Recovery of these costs and late payment charges<sup>(1)</sup> are expected to be addressed in future rate proceedings</li> </ul> </li> <li>• The PSCW order was lifted on July 25, 2020 for everything except disconnections for residential which is extended to September 1<sup>st</sup> <ul style="list-style-type: none"> <li>– As permitted by regulatory action MGE notified the PSCW of its election to continue to waive late fees.</li> </ul> </li> </ul>
<b>Liquidity and Capital Projects</b>	<ul style="list-style-type: none"> <li>• Remain focused on maintaining strong credit quality</li> <li>• Liquidity on hand of \$52M in cash and cash equivalents and \$150M in available borrowing capacity under revolving credit facilities</li> <li>• Do not currently expect COVID-19 to significantly delay or disrupt the Two Creeks solar project</li> <li>• Badger Hollow I solar project was expected to be completed in 2020 and is now expected to be completed in April 2021</li> <li>• Badger Hollow II solar project was expected to be completed in 2021 and is now expected to be completed in December 2022</li> </ul>
<b>Impact to Demand</b>	<ul style="list-style-type: none"> <li>• COVID-19 began to impact customer demand in late March and resulted in lower retail sales through Q2 2020 including:               <ul style="list-style-type: none"> <li>– Commercial sales decreased by approximately 10% in the second quarter 2020 compared to the same period in the prior year.</li> <li>– The decrease was partially mitigated by an increase in residential sales of approximately 20%</li> </ul> </li> <li>• Adverse effects of the pandemic may be partially mitigated for MGE due to:               <ul style="list-style-type: none"> <li>– Large representation of commercial customers in essential sectors (e.g., government and healthcare)</li> <li>– Industrial customers comprise a small proportion of MGE's total customers</li> <li>– Residential sales are expected to continue to increase due to Forward Dane Plan</li> </ul> </li> <li>• As the duration of general economic disruption increases, so does the potential of a material adverse impact on our business</li> </ul>

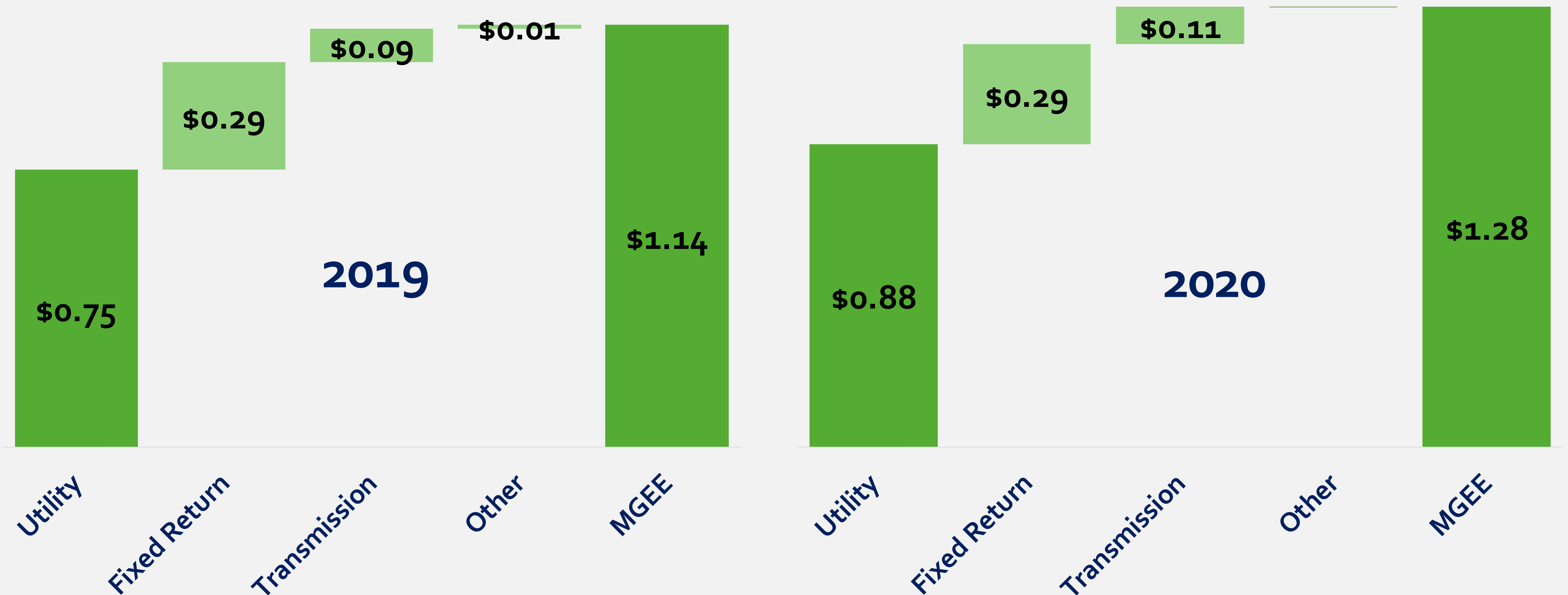
# Earnings per Share Segments

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



# Earnings per Share Segments

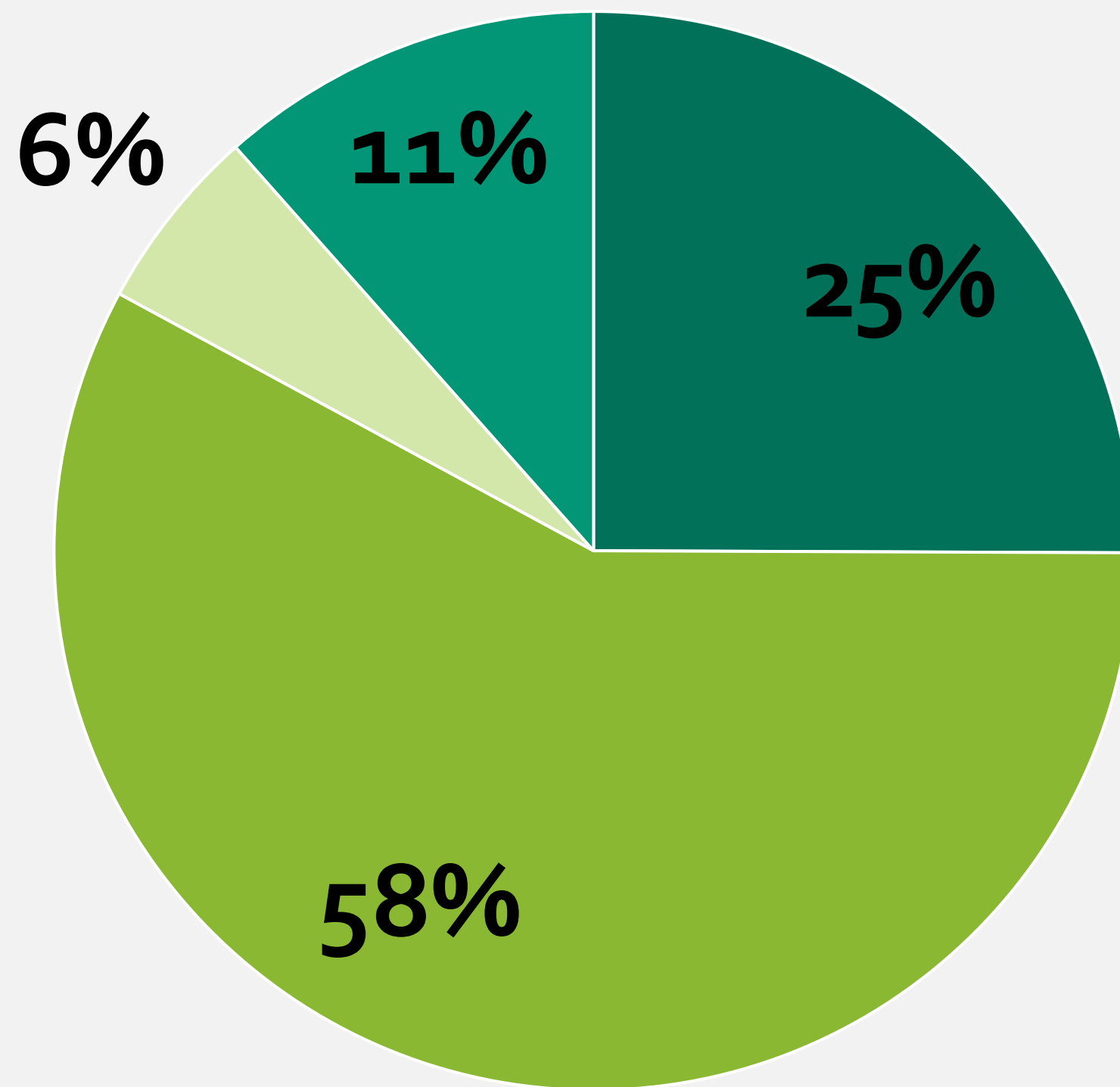
*YTD Ended June 30<sup>th</sup>*





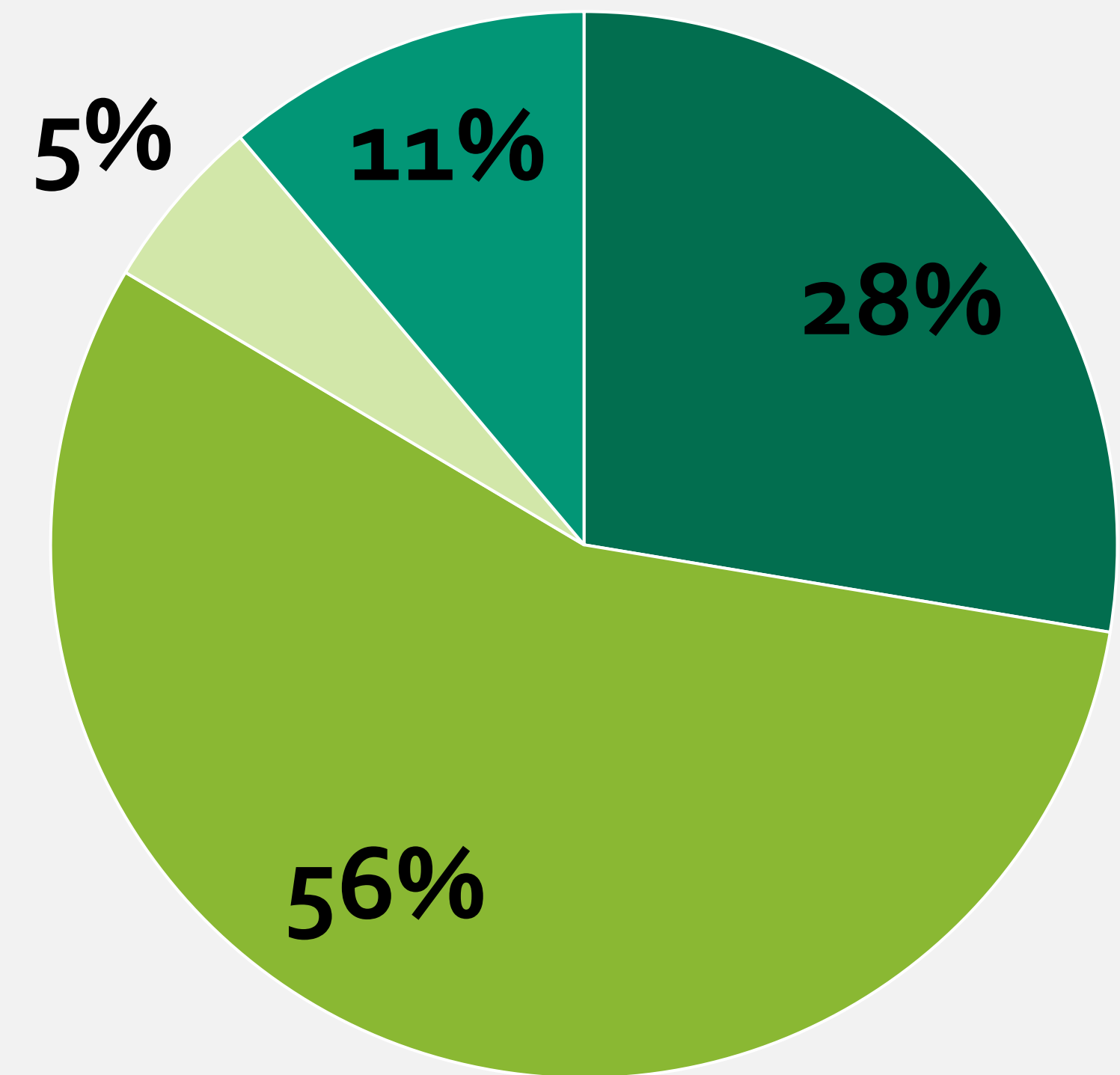
# Electric Retail Sales Mix – YTD Comparison

2019 YTD



■ Residential ■ Commercial ■ Industrial ■ Other

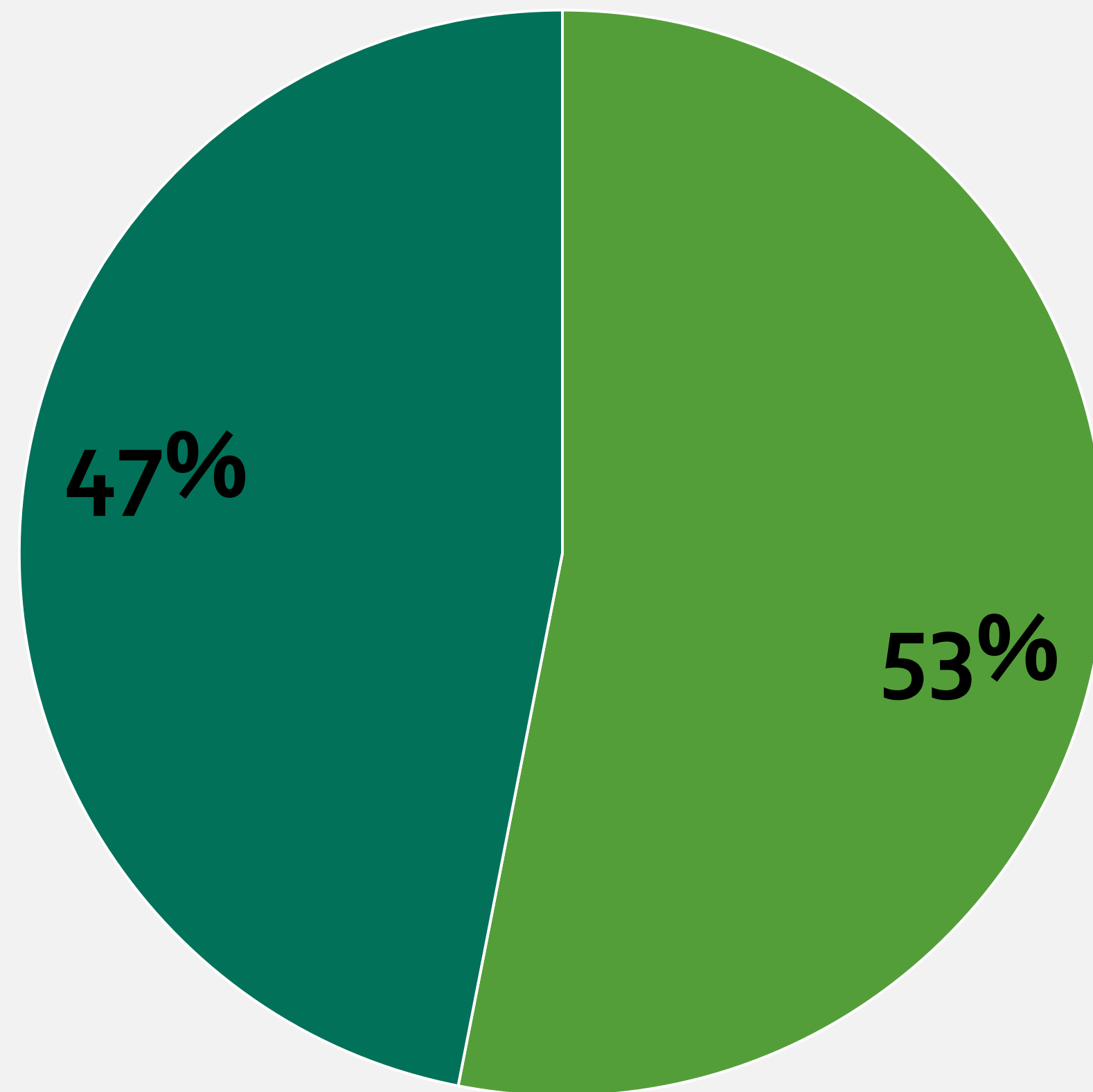
2020 YTD



■ Residential ■ Commercial ■ Industrial ■ Other

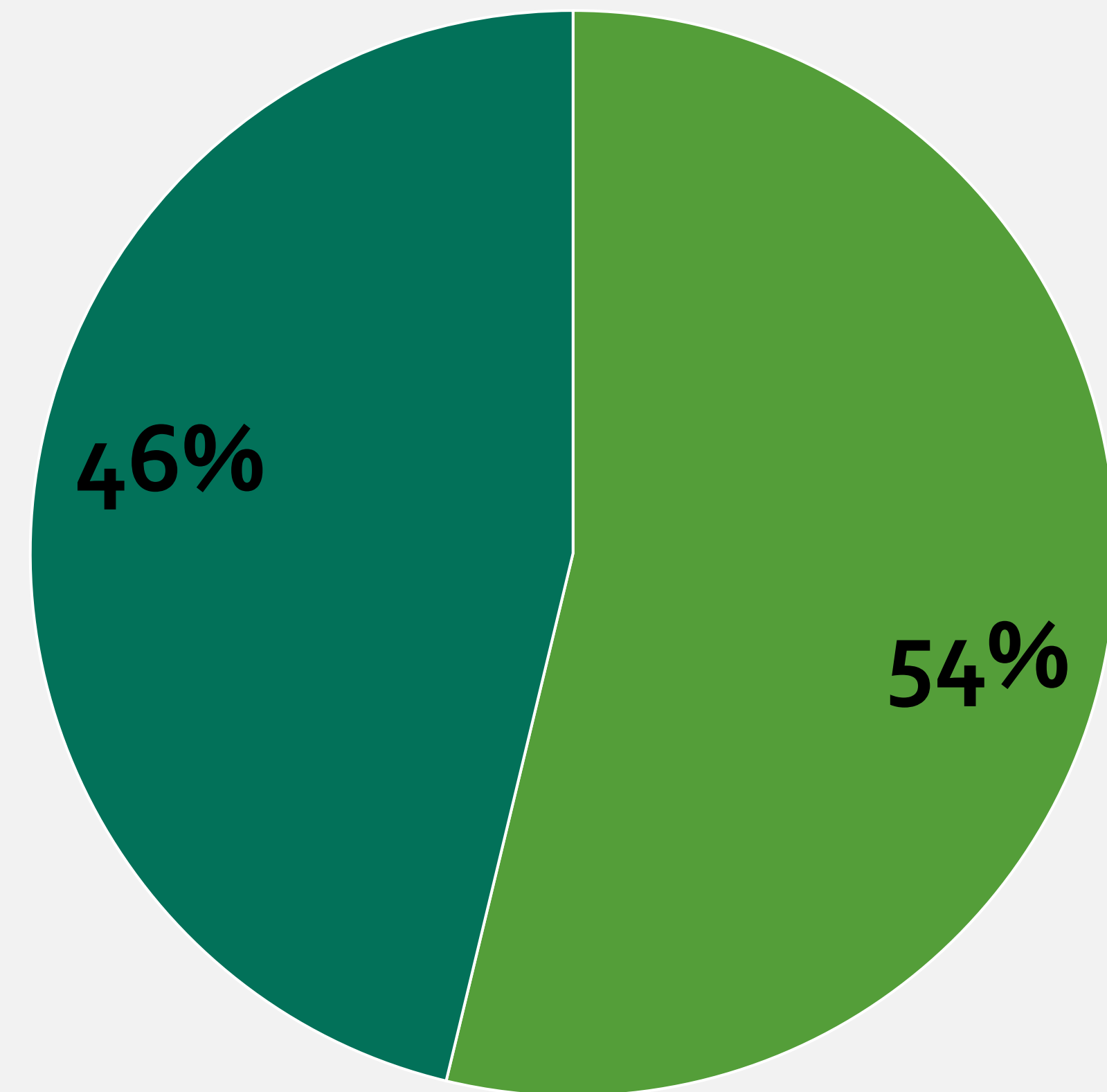
# Gas Retail Sales Mix – YTD Comparison

2019 YTD



■ Residential ■ Commercial / Industrial

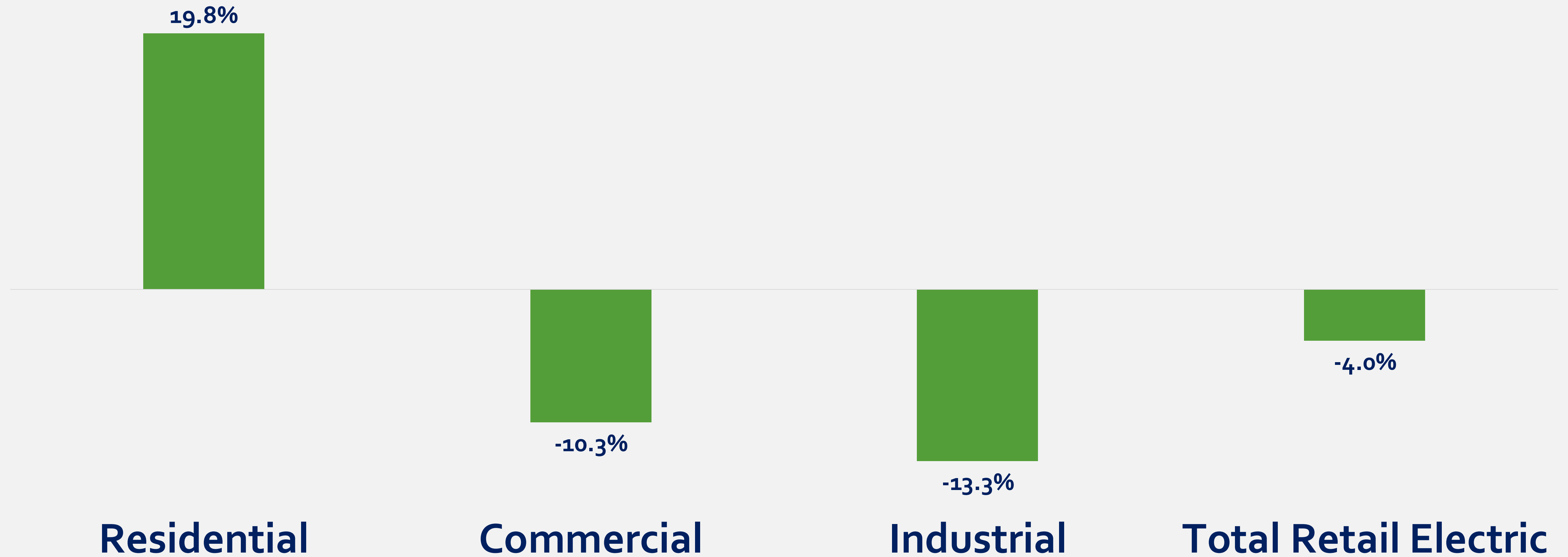
2020 YTD



■ Residential ■ Commercial / Industrial

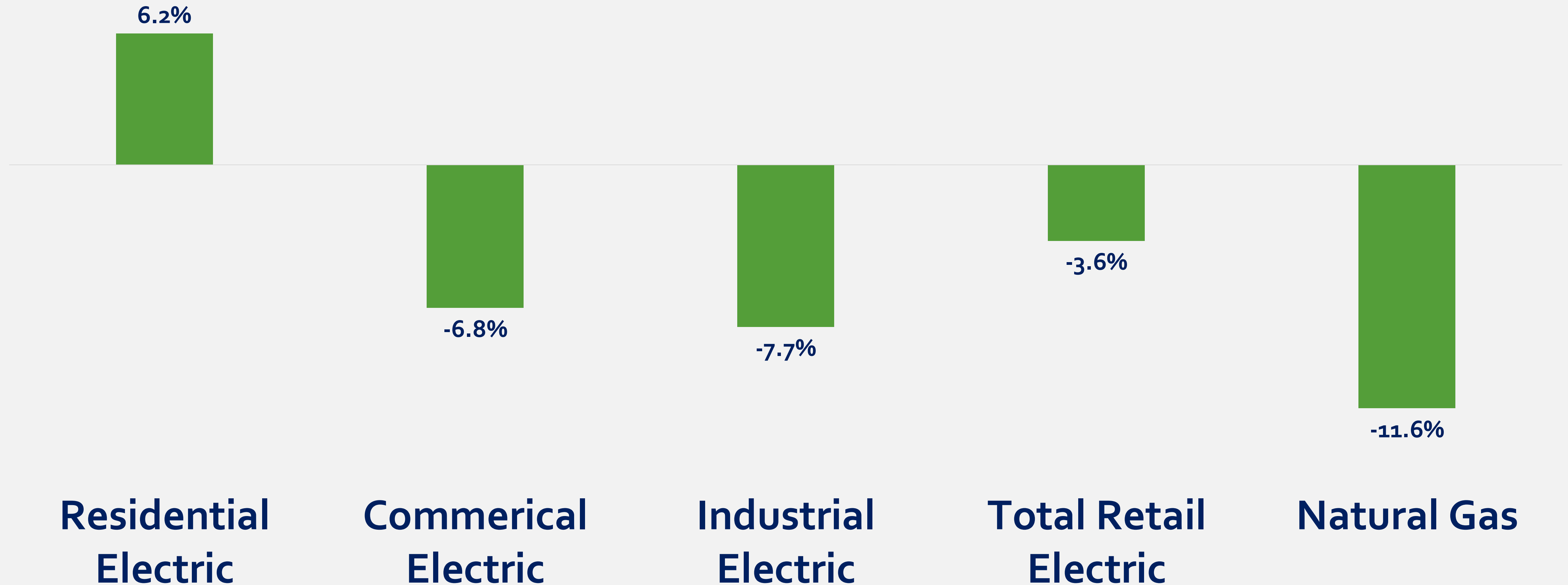


# MGE – Electric Retail Sales Q2 2020



	2020	2019	%
Cooling Degree Days (Normal 181)	213	118	80.5%

# MGE – Electric and Gas Sales YTD 2020



	2020	2019	%
Heating Degree Days (Normal 4,378)	4,140	4,720	(12.3)%



# Constructive Regulatory Environment

***Both credit agencies view the Wisconsin regulatory environment as highly credit supportive with timely operating and capital cost recovery, and view MGE's relationship with the PSCW as constructive.***

- *Regulatory approvals of utility-scale renewable investments and other innovative solar programs*
  - Saratoga Wind and Forward Wind
  - Badger Hollow I Solar, Two Creeks 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
- *2021 Rate Settlement*
  - Letter filed with PSCW with intent to negotiate and enter into a settlement agreement for 2021 electric and gas retail rates
  - Proposal would include no change in electric rates and small increase in gas rates
  - Proposal for escrow of pension costs, bad debt expense and customer credit card fees
  - Expect to maintain 2020 authorized ROE and capital structure

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

# Investing in Cleaner Energy Generation

## Energy 2030 and Net-Zero Carbon Electricity by 2050

- Reduction in CO<sub>2</sub> emissions
  - **40%** from 2005 levels by **2030**
    - Based on Paris Agreement and U.S. Mid-Century Strategy
  - **Net-Zero Carbon Electricity by 2050**
    - Strategy for deep decarbonization
    - Based on IPCC Special Report regarding 1.5°C scenario

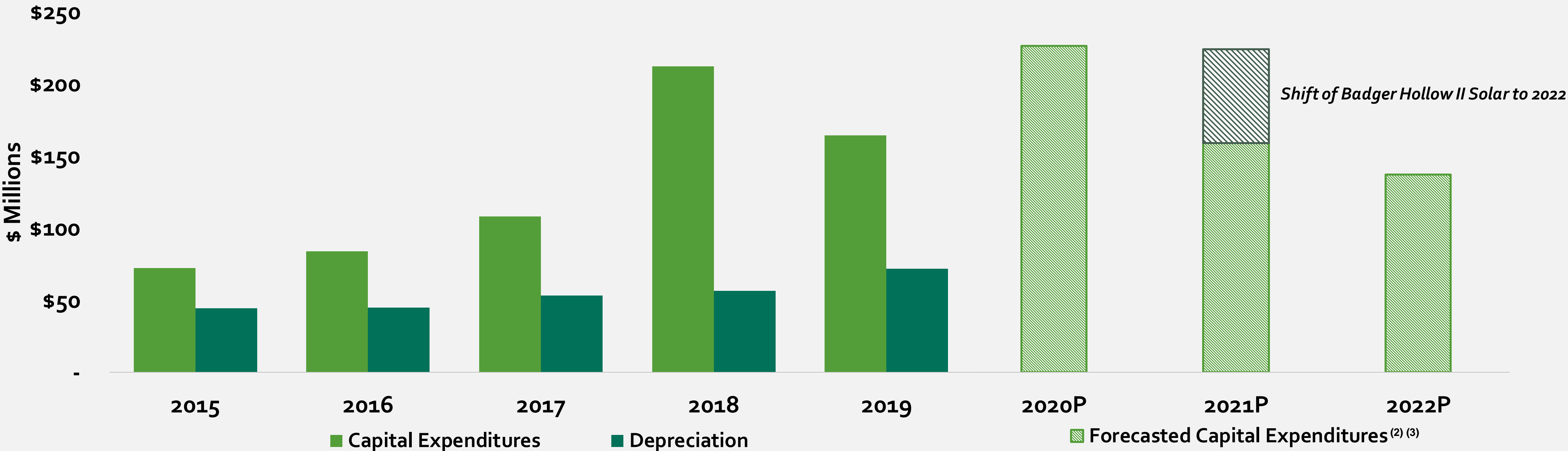


## Other Environmental Initiatives

- 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
- Regulated air emissions decreased between 60 and 97 percent since 2005
- Within the last 5 years, MGE has announced cost-effective projects that are expected to increase owned renewable capacity by approximately 600%



# Significant Growth in Capital Expenditures



Significant growth in capital expenditures driven by renewable investments in solar and wind generation, including:

Facility	MW	In-Service Date	Actual Capex (\$M) (as of year-end 2019)	Facility	MW	Expected In-Service Date <sup>(2)</sup>	Forecasted Capex <sup>(2) (3)</sup> (\$M)	PSCW Approval Status
Saratoga Wind	66	Feb. 2019	\$103.8	Badger Hollow I Solar	50	April 2021	\$65.0	Approved
Forward Wind	18	Apr. 2018	\$23.0	Two Creeks Solar	50	End of 2020	\$65.0	Approved
				Badger Hollow II Solar	50	Dec. 2022	\$65.0	Approved
				Additional Local Solar	Note 1	Various	\$64.0	Note 1

(1.) Additional local solar projects include Renewable Energy Rider and Shared Solar projects. Multiple projects are not filed or approved with the PSCW.  
(2.) Information on this slide contains statements that are forward looking statements that involve risks and uncertainties that are subject to change at any time. See Cautionary Note Regarding Forward-Looking Information at the beginning of this presentation.  
(3.) Forecasted Capital Expenditures as of December 31 2019, does not include AFUDC.



# Local Solar Programs

## Renewable Energy Rider (RER) Program

- MGE partners with large energy users on customized renewable energy solutions to meet their specific energy needs
  - MGE-owned solar facility
  - Tariffed rate with customer for capital and operations cost recovery
- MGE has filed applications with PSCW
  - 20 MW – O'Brien Solar Fields, Fitchburg
- MGE has received PSCW approval
  - 1.5 MW – Middleton Municipal Airport
  - 9.0 MW – Dane County Airport

## Shared Solar Program

- Provides an opportunity for eligible customers to add locally-generated solar to their energy mix without having to install solar panels
  - MGE-owned solar array with tariffed rate for solar output
- Original array (500 KW) was fully subscribed with waiting list
- Ongoing expansion to a second facility with continued interest
  - Additional 3.5 MW of capacity with second solar array





# Investment and Research – EVs

## Public Charging Network

- Wide network of electric vehicle charging stations
- Powered on 100% renewable energy

## Workplace Charging

- MGE works with local employers to facilitate onsite charging stations

## Home Charging

- Charge@Home Program
  - Pay a monthly fee for a charging station owned and maintained by MGE

## EV Discounts

- A partnership between MGE and local Nissan dealerships has helped sell electric vehicles in the greater Madison area by promoting deep discounts and tax incentives on the all-electric Nissan LEAF®

## 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
- Partnership advances shared goals to reduce emissions





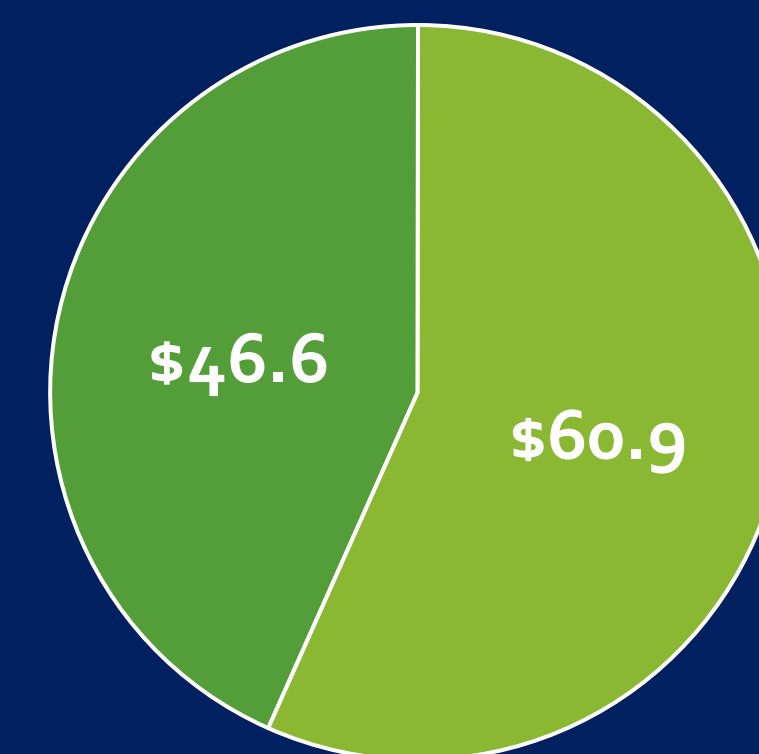
# Technology Investments

- In 2017, MGE committed to undertake a multiyear project to transform our foundational customer engagement capabilities and to enable increased flexibility and capability in delivering new products and services that advance our Energy 2030 framework and help MGE become a utility of the future
- This ongoing, enterprise-wide transformation includes the implementation of a new **customer information and billing system, engagement and marketing tools, along with other solutions** designed to:
  - Gain efficiencies
  - Enable new customer-facing technologies
  - Support new programs, products and services
- This five-year project is designed to transform MGE into a digital integrated utility

(1.) A portion of the Enterprise Forward expenditures are implementation costs of internal use software incurred in a hosted arrangement, totaling approximately \$21 million for the project and including \$7 million of forecasted expenditures for the years 2020 through 2022.



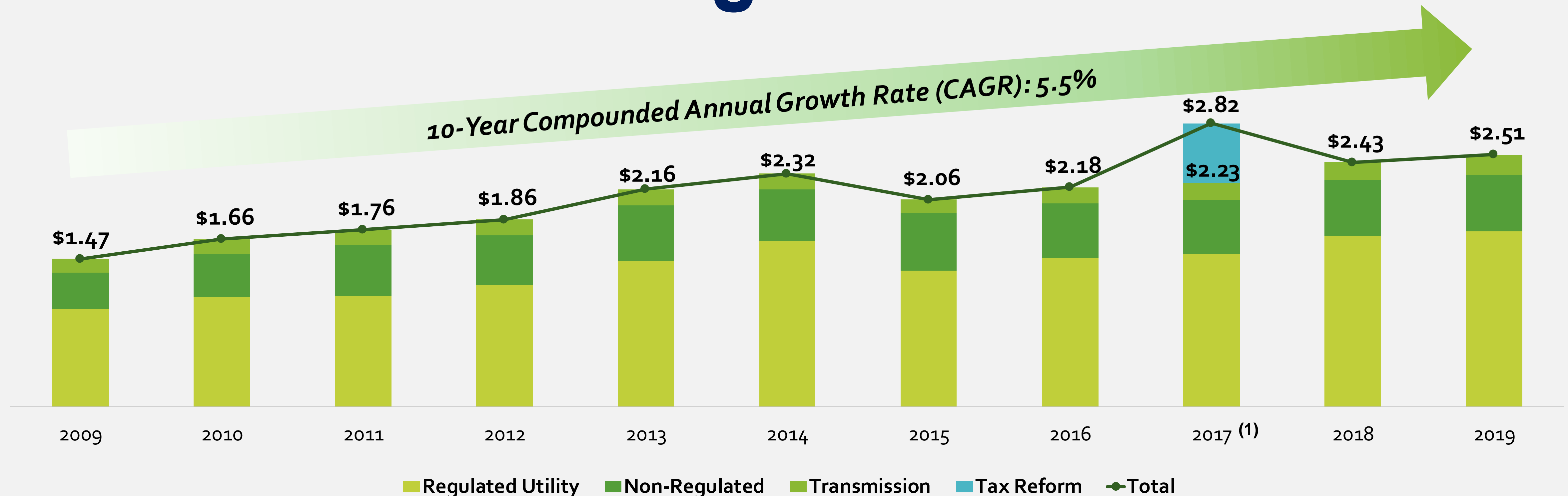
CAPITAL SPENDING (\$M)<sup>1</sup>  
(as of December 31, 2019)



- Actual Spending (2019 and prior)
- Forecasted Spending (2020 through 2022)



# Consistent Earnings Per Share Growth



- **Regulated Utility** – segment related to PSCW-regulated electric and gas utilities (Madison Gas and Electric Company)
- **Non-Regulated** – segment related to leased generation assets supported by Wisconsin state regulatory guidelines, providing a fixed return on equity investments for leased electric generating capacity (MGE Power Elm Road and MGE Power West Campus)
- **Transmission** – segment related to transmission investments in American Transmission Company (ATC), providing equity returns as regulated by FERC for all rate terms and conditions of service (MGE Transco). Also holds ATC Holdco, which seeks to develop transmission opportunities but does not own any active transmission operations.

# Commitment to Dividends & Shareholder Value

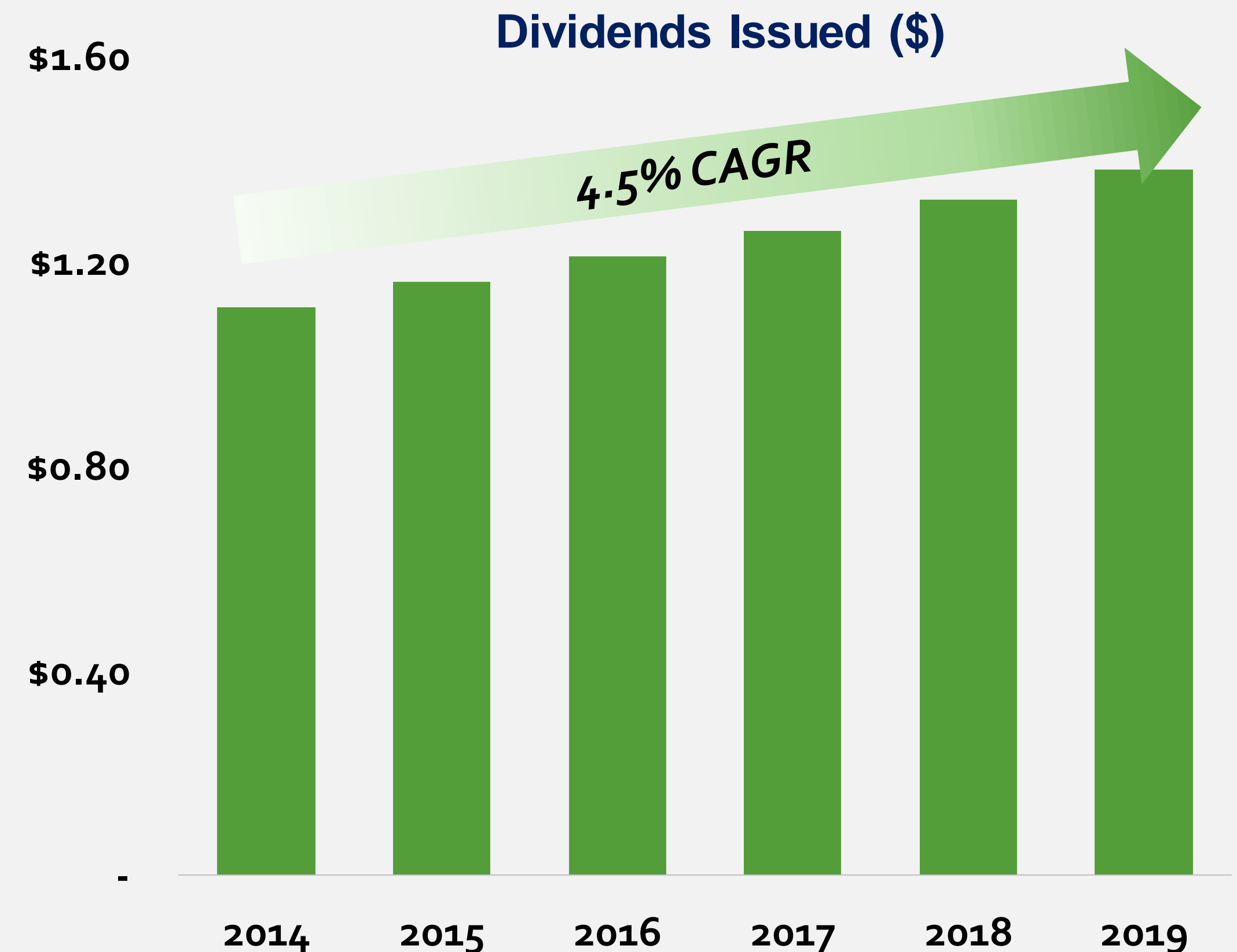
## Recent Dividend increase was approximately 5%

- Increased dividend in July for the 45<sup>th</sup> 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

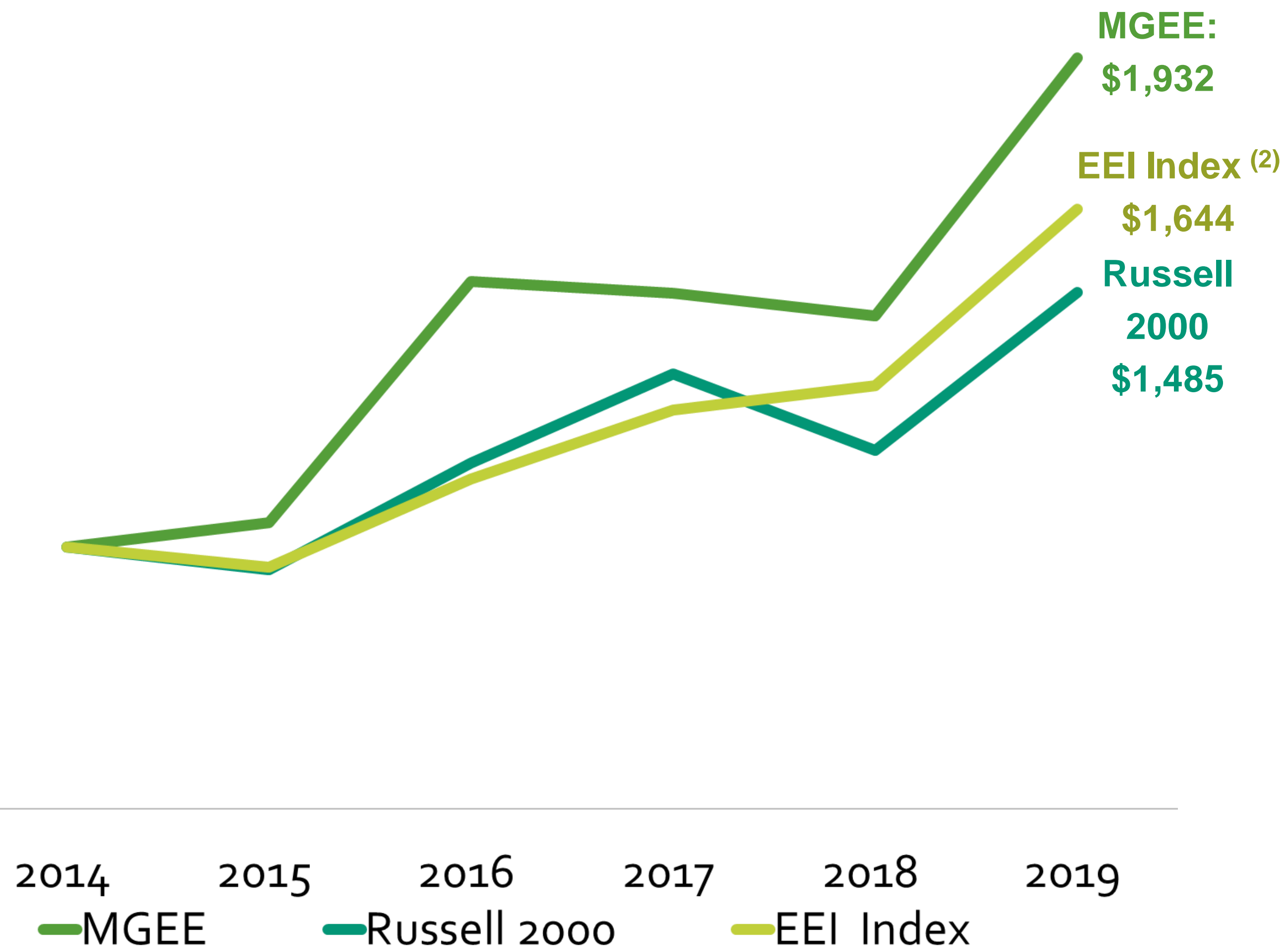
- Capital investment growth opportunities
- Balance sheet and credit ratings
- Projected cash generation and requirements
- Dividend payout ratio / yield consistent with industry and peers

## Dividend decisions made by Board of Directors





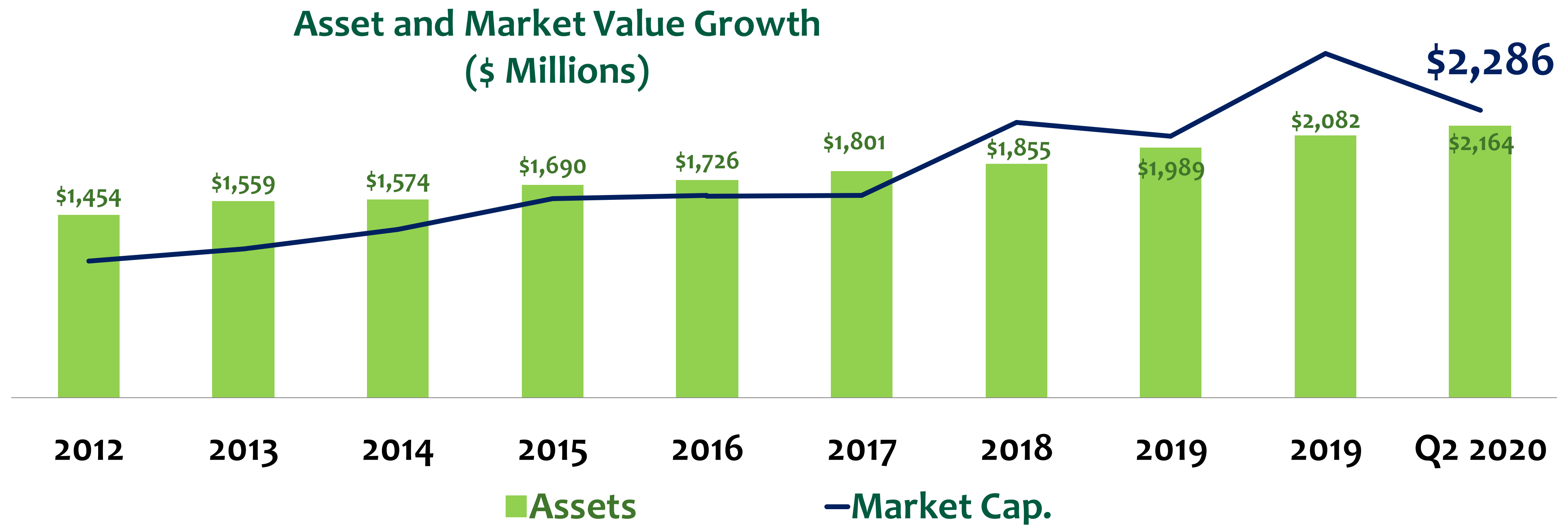
## Total Shareholder Return <sup>(1)</sup>



(1.) Based on \$1,000 investment in 2014

(2.) The EEI Index measures total shareholder return for the 40 publicly traded U.S. investor-owned electric utilities. The EEI Index is market cap-weighted and calculated on the final day of each quarter, covering both the year-to-date and trailing 12-month periods. The EEI Index is widely used in company proxy statements and industry benchmarking.

# TOTAL STOCK RETURN



# STABLE ASSET GROWTH





## FINANCIAL REPORT

2020 SECOND QUARTER

KEN FRASSETTO

[kfrassetto@mge.com](mailto:kfrassetto@mge.com)

608-252-4723

PO Box 1231

Madison WI 53701-1231