



INTERIM REPORT  
SEPTEMBER 15, 2020

# Bold goals

Community  
focus



Together we build a  
strong energy future.

## Comments from the Chairman and CEO

### MGE continues to grow investment in local, large-scale solar

MGE Energy's regulated utility subsidiary, Madison Gas and Electric (MGE), is seeking state regulatory approval for a 20-megawatt solar array to be built near Madison. The O'Brien Solar Fields will provide locally generated solar energy to area businesses, municipalities and public institutions under the company's Renewable Energy Rider (RER). The project is part of nearly \$75 million in projected clean energy investment in the community by MGE.

MGE's RER program enables the company to partner with a large energy user to customize a renewable energy solution to meet that customer's energy needs. The customer is responsible for costs associated with the renewable generation facility and any distribution costs to deliver energy to the customer.

"This is an exciting project for our participating customers and for MGE. Twenty megawatts of locally generated, cost-effective carbon-free energy on our electric grid will help us achieve our goal of net-zero carbon electricity by 2050 and the sustainability goals of these customers," MGE Chairman, President and CEO Jeff Keebler said in announcing the project. "We are thankful for our customers' support and their participation and look forward to bringing what will be one of the largest solar arrays in the state to Dane County."

If approved by regulators, the array will serve the City of Fitchburg, Placon, Promega Corporation, Tribe 9 Foods, the University of Wisconsin-Madison, Willy Street Co-op and the Wisconsin Department of Administration. The project will span approximately 160 acres and consist of about 66,000 solar panels, making it the largest solar project in Dane County.

Construction is expected to begin this year with the array generating electricity in 2021. The O'Brien Solar Fields is one of four RER projects.

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### Morey Field Solar serving the grid

MGE's Morey Field Solar project at Middleton Municipal Airport began serving customers in early August. The 5-megawatt (MW) array serves customers who participate in MGE's Shared Solar program as well as the City of Middleton and the Middleton-Cross Plains Area School District under Renewable Energy Rider (RER) agreements.

Crews completed installation of the solar module and tracking systems in June. The array has nearly 17,000 solar panels that are capable of tracking the sun throughout the day, resulting in about 25% more energy harvested compared to fixed panels.

#### Program details

Shared Solar participants pay an up-front fee and a per-kilowatt-hour rate to purchase up to half of their annual electricity use through the voluntary program. MGE's first Shared Solar project, a 500-kilowatt array on the roof of Middleton's Municipal Operations Center, sold out quickly before it began serving customers in January 2017. The Morey Field Solar project expands the program, which now is open to participation by small business customers in MGE's electric service territory. Customers may sign up at [mge.com/SharedSolar](http://mge.com/SharedSolar).

#### Dane County Airport Solar project underway

In July, site work began near the Dane County Regional Airport in Madison where a 9-MW solar array is being built to serve Dane County operations under an RER agreement with MGE. The 31,000-panel array will cover almost 60 acres of County-owned land north of the airport. Dane County will lease the land to MGE who will construct and own the array and sell the energy to Dane County. The array is expected to be operational by the end of the year.



*Morey Field Solar at Middleton Municipal Airport.*

## MGE Energy increases dividend for 45th consecutive year

In July, the board of directors of MGE Energy increased the regular quarterly dividend rate 5% to \$0.37 per share on the outstanding shares of the company's common stock. The dividend is payable Sept. 15, 2020, to shareholders of record Sept. 1, 2020. This raises the annualized dividend rate by 7 cents from \$1.41 per share to \$1.48 per share. MGE Energy has paid cash dividends for more than 110 years.

### Second-quarter earnings

MGE Energy reported in August second-quarter earnings of \$18.8 million, or 53 cents per share, compared to \$15.5 million, or 45 cents per share, for the same period in the prior year. Electric net income increased \$2.3 million compared to the second quarter of 2019 primarily due to Allowance for Funds Used During Construction (AFUDC) earned from the construction of Two Creeks and Badger Hollow I and II solar generation projects and savings in operating and maintenance costs.

A reduction of retail sales driven by the impacts of COVID-19 and associated governmental regulations negatively impacted electric earnings in the second quarter of 2020. Electric commercial retail sales dropped approximately 10% in the second quarter compared to the same period in 2019; however, some businesses shifted their workforce to a remote work environment, which led to higher residential sales. Warmer weather primarily in June of 2020 also contributed to increased electric residential sales and mitigated the impact of COVID-19. Second-quarter electric residential sales increased by approximately 20% compared to the second quarter of 2019.

Gas net income in the second quarter of 2020 remained relatively flat compared to the second quarter of 2019.

The situation around the COVID-19 pandemic remains fluid. MGE has operated continuously throughout the pandemic and has not suffered any material disruptions in service or employment. MGE continues to monitor the situation and manage our response.

## MGE Connect® tests smart devices to manage the grid

MGE's smart thermostat program, MGE Connect, finishes its second season in September with more than 800 residential customers participating to help MGE manage peak electricity demand. The demand response program runs from June through September.

In summer 2019, MGE expanded its smart thermostat program to welcome more customers and more devices, renaming the program MGE Connect. MGE's initial smart thermostat pilot, which consisted of 500 residential Nest thermostat customers, was implemented in 2017 and 2018.

### How MGE Connect works

Minor adjustments—up to four degrees—are made to household temperatures during peak demand times. Customers are notified in advance through their device application and are able to change the temperature at any time during the event. Prior to some events, precooling is done to help ensure temperatures in the home remain comfortable.

### Strong start to season

With hot temperatures beginning in early June, MGE implemented a number of events early in the season when temperatures were 85 degrees or warmer. These events give MGE the opportunity to better understand the potential for using smart devices to help reduce stress on the grid by managing air conditioners during these hottest of days, which put pressure on utilities to generate and distribute enough electricity to everyone who needs it. Data from last season shows most customers allow the minor temperature adjustments during the events, which typically last two to four hours.

### A utility of the future

A foundational objective under our Energy 2030 framework for a more sustainable future is to work with customers to reduce peak demand on our electric system, which will help MGE to manage the grid and long-term costs to all customers. As the “conductor” of the grid, MGE works to ensure the grid operates efficiently and is sized appropriately.

## Balance Sheet

(Unaudited) (in thousands)	Jun 30 2020	Dec 31 2019	(in thousands)	Jun 30 2020	Dec 31 2019
<b>Assets</b>					
<b>Plant:</b>					
Property, plant and equipment, net . . . . .	\$1,524,617	\$1,530,199	Common shareholders' equity . . . . .	\$955,171	\$855,676
Construction work in progress . . . . .	161,542	112,484	Long-term debt . . . . .	521,456	523,741
<b>Total Plant . . . . .</b>	<b>1,686,159</b>	<b>1,642,683</b>	<b>Total Capitalization . . . . .</b>	<b>1,476,627</b>	<b>1,379,417</b>
<b>Investments . . . . .</b>	<b>91,698</b>	<b>88,492</b>	<b>Current Liabilities:</b>		
<b>Current Assets:</b>					
Cash and cash equivalents . . . . .	51,642	23,481	Accounts payable . . . . .	40,701	55,161
Accounts receivable, net . . . . .	33,879	40,482	Other current liabilities . . . . .	68,922	73,659
Other current assets . . . . .	132,229	117,678	<b>Total Current Liabilities . . . . .</b>	<b>109,623</b>	<b>128,820</b>
<b>Total Current Assets . . . . .</b>	<b>217,750</b>	<b>181,641</b>	<b>Other Credits:</b>		
Other long-term assets . . . . .	168,112	168,848	Deferred income taxes . . . . .	251,050	243,302
<b>Total Assets . . . . .</b>	<b>\$2,163,719</b>	<b>\$2,081,664</b>	Other . . . . .	326,419	330,125
			<b>Total Other Credits . . . . .</b>	<b>577,469</b>	<b>573,427</b>
			<b>Total Capitalization and Liabilities . . . . .</b>	<b>\$2,163,719</b>	<b>\$2,081,664</b>

## Statistics

Electric	Six Months Ended: Jun 30		
	2020	2019	% Change
<b>Sales</b> (thousands of kilowatt-hours)			
Residential . . . . .	409,909	385,804	6.2%
Commercial . . . . .	829,695	890,540	(6.8%)
Industrial . . . . .	78,849	85,423	(7.7%)
Other-retail/municipal . . . . .	165,536	177,740	(6.9%)
Sales to the market . . . . .	43,500	73,138	(40.5%)
<b>Total Sales . . . . .</b>	<b>1,527,489</b>	<b>1,612,645</b>	<b>(5.3%)</b>
<b>Gas</b> Six Months Ended: Jun 30			
<b>Deliveries</b> (thousands of therms)			
Residential . . . . .	61,857	69,062	(10.4%)
Commercial/Industrial . . . . .	53,213	61,060	(12.9%)
Gas transportation . . . . .	38,910	38,614	0.8%
<b>Total Gas Deliveries . . . . .</b>	<b>153,980</b>	<b>168,736</b>	<b>(8.7%)</b>

## Income Statement

(Unaudited) (in thousands, except per-share amounts)	Three Months Ended Jun 30		Six Months Ended Jun 30	
	2020	2019	2020	2019
<b>Operating Revenues:</b>				
Electric revenues . . . . .	\$93,961	\$97,077	\$186,989	\$194,546
Gas revenues . . . . .	23,079	25,070	79,924	95,170
<b>Total Operating Revenues . . . . .</b>	<b>117,040</b>	<b>122,147</b>	<b>266,913</b>	<b>289,716</b>
<b>Operating Expenses:</b>				
Fuel used for electric generation and purchased power . . . . .	19,548	21,439	39,740	46,207
Cost of gas sold . . . . .	6,339	8,875	37,137	52,128
Other operations and maintenance . . . . .	46,224	48,974	90,593	95,910
Depreciation and amortization . . . . .	18,434	18,091	36,601	35,230
Other general taxes . . . . .	4,975	4,985	9,882	9,948
<b>Total Operating Expenses . . . . .</b>	<b>95,520</b>	<b>102,364</b>	<b>213,953</b>	<b>239,423</b>
<b>Operating Income . . . . .</b>	<b>21,520</b>	<b>19,783</b>	<b>52,960</b>	<b>50,293</b>
Other income, net . . . . .	6,925	5,019	12,596	9,870
Interest expense, net . . . . .	(5,914)	(5,749)	(11,975)	(11,396)
Income before income taxes . . . . .	22,531	19,053	53,581	48,767
Income tax provision . . . . .	(3,740)	(3,505)	(8,753)	(9,213)
<b>Net Income . . . . .</b>	<b>\$18,791</b>	<b>\$15,548</b>	<b>\$44,828</b>	<b>\$39,554</b>
Earnings per share of common stock (basic and diluted) . . . . .	\$0.53	\$0.45	\$1.28	\$1.14
Average shares of common stock outstanding (basic and diluted) . . . . .	35,441	34,668	35,054	34,668

For detailed financial information, see the June 30, 2020, 10-Q.



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