

United States

**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

☒ Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

*For the fiscal year ended:*

**December 31, 2020**

☐ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

*For the transition period from \_\_\_\_\_ to \_\_\_\_\_*

Commission File No.	Name of Registrant, State of Incorporation, Address of Principal Executive Offices, and Telephone No.	IRS Employer Identification No.
000-49965	<b>MGE Energy, Inc.</b> (a Wisconsin Corporation) 133 South Blair Street Madison, Wisconsin 53788 (608) 252-7000   mgeenergy.com	39-2040501
000-1125	<b>Madison Gas and Electric Company</b> (a Wisconsin Corporation) 133 S Blair Street Madison, Wisconsin 53788 (608) 252-7000   mge.com	39-0444025

**SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:**

	Title of Class	Trading Symbol	Name of Each Exchange on which Registered
MGE Energy, Inc.	Common Stock, \$1 Par Value Per Share	MGEE	The NASDAQ Stock Market

**SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:**

	Title of Class
Madison Gas and Electric Company	Common Stock, \$1 Par Value Per Share

Indicate by check mark if the registrants are well-known seasoned issuers, as defined in Rule 405 of the Securities Act.

**MGE Energy, Inc.** Yes ☒ No ☐

**Madison Gas and Electric Company** Yes ☒ No ☐

Indicate by check mark if the registrants are not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

**MGE Energy, Inc.** Yes ☐ No ☒

**Madison Gas and Electric Company** Yes ☐ No ☒

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports) and (2) have been subject to such filing requirements for the past 90 days.

**MGE Energy, Inc.** Yes ☒ No ☐

**Madison Gas and Electric Company** Yes ☒ No ☐

Indicate by check mark whether the registrants have submitted electronically every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding

12 months (or for such shorter period that the registrants were required to submit and post such files):

**MGE Energy, Inc.** Yes ☒ No ☐

**Madison Gas and Electric Company** Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act:

	Large Accelerated Filer	Accelerated Filer	Non-accelerated Filer	Smaller Reporting Company	Emerging Growth Company
MGE Energy, Inc.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Madison Gas and Electric Company	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

If an emerging growth company, indicate by checkmark if the registrants have elected not to use the extended transition period for complying with any new or revised financial reporting standards provided pursuant to Section 13(a) of the Exchange Act.

**MGE Energy, Inc.** ☐

**Madison Gas and Electric Company** ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

**MGE Energy, Inc.** Yes ☐ No ☒

**Madison Gas and Electric Company** Yes ☐ No ☒

The aggregate market value of the voting and nonvoting common equity held by nonaffiliates of each registrant as of June 30, 2020 was as follows:

MGE Energy, Inc.	\$2,292,032,738
Madison Gas and Electric Company	\$0

The number of shares outstanding of each registrant's common stock as of January 31, 2021, were as follows:

MGE Energy, Inc.	36,163,370
Madison Gas and Electric Company	17,347,894

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of MGE Energy, Inc.'s definitive proxy statement to be filed before April 30, 2021, relating to its annual meeting of shareholders, are incorporated by reference into Part III of this annual report on Form 10-K.

Madison Gas and Electric Company meets the conditions set forth in General Instruction (I)(1)(a) and (b) of Form 10-K and is therefore omitting (i.) the information otherwise required by Item 601 of Regulation S-K relating to a list of subsidiaries of the registrant as permitted by General Instruction (I)(2)(b), (ii.) the information otherwise required by Item 6 relating to Selected Financial Data as permitted by General Instruction (I)(2)(a), (iii.) the information otherwise required by Item 10 relating to Directors and Executive Officers as permitted by General Instruction (I)(2)(c), (iv.) the information otherwise required by Item 11 relating to executive compensation as permitted by General Instruction (I)(2)(c), (v.) the information otherwise required by Item 12 relating to Security Ownership of Certain Beneficial Owners and Management as permitted by General Instruction (I)(2)(c), and (vi.) the information otherwise required by Item 13 relating to Certain Relationships and Related Transactions as permitted by General Instruction (I)(2)(c).

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## **Filing Format**

This combined Form 10-K is being filed separately by MGE Energy, Inc. (MGE Energy) and Madison Gas and Electric Company (MGE). MGE is a wholly owned subsidiary of MGE Energy and represents a majority of its assets, liabilities, revenues, expenses, and operations. Thus, all information contained in this report relates to, and is filed by, MGE Energy. Information that is specifically identified in this report as relating solely to MGE Energy, such as its financial statements and information relating to its nonregulated business, does not relate to, and is not filed by, MGE. MGE makes no representation as to that information. The terms "we" and "our," as used in this report, refer to MGE Energy and its consolidated subsidiaries, unless otherwise indicated.

## **Forward-Looking Statements**

This report, and other documents filed by MGE Energy and MGE with the Securities and Exchange Commission (SEC) from time to time, contain forward-looking statements that reflect management's current assumptions and estimates regarding future performance and economic conditions—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. These forward-looking statements are made pursuant to the provisions of the Private Securities Litigation Reform Act of 1995. Words such as "believe," "expect," "anticipate," "estimate," "could," "should," "intend," "will," and other similar words generally identify forward-looking statements. Both MGE Energy and MGE 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.

The factors that could cause actual results to differ materially from the forward-looking statements made by a registrant include (a) those factors discussed in Item 1A. Risk Factors, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, and Item 8. Financial Statements and Supplementary Data, Footnote 16. Commitments and Contingencies, and (b) other factors discussed herein and in other filings made by that registrant with the SEC.

Readers are cautioned not to place undue reliance on these forward-looking statements, which apply only as of the date of this report. MGE Energy and MGE undertake no obligation to release publicly any revision to these forward-looking statements to reflect events or circumstances after the date of this report, except as required by law.

## **Where to Find More Information**

The public may read and copy any reports or other information that MGE Energy and MGE file with the SEC at the SEC's public reference room at 100 F Street, NE, Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. These documents also are available to the public from commercial document retrieval services, the website maintained by the SEC at [sec.gov](http://sec.gov), MGE Energy's website at [mgeenergy.com](http://mgeenergy.com), and MGE's website at [mge.com](http://mge.com). Copies may be obtained from our websites free of charge. Information contained on MGE Energy's and MGE's websites shall not be deemed incorporated into, or to be a part of, this report.

## Definitions, Abbreviations, and Acronyms Used in the Text and Notes of this Report

Abbreviations, acronyms, and definitions used in the text and notes of this report are defined below.

### MGE Energy and Subsidiaries:

CWDC	Central Wisconsin Development Corporation
MAGAEL	MAGAEL, LLC
MGE	Madison Gas and Electric Company
MGE Energy	MGE Energy, Inc.
MGE Power	MGE Power, LLC
MGE Power Elm Road	MGE Power Elm Road, LLC
MGE Power West Campus	MGE Power West Campus, LLC
MGE Services	MGE Services, LLC
MGE State Energy Services	MGE State Energy Services, LLC
MGE Transco	MGE Transco Investment, LLC
MGEE Transco	MGEE Transco, LLC
North Mendota	North Mendota Energy & Technology Park, LLC

### Other Defined Terms:

2006 Plan	MGE Energy's 2006 Performance Unit Plan
2013 Plan	MGE Energy's 2013 Director Incentive Plan
2017 Tax Act	Tax Cuts and Jobs Act of 2017
2020 Plan	MGE Energy's 2020 Performance Unit Plan
2021 Incentive Plan	MGE Energy's 2021 Long-Term Incentive Plan
ACE	Affordable Clean Energy
AFUDC	Allowance for Funds Used During Construction
ANR	ANR Pipeline
ARO	Asset Retirement Obligation
ATC	American Transmission Company LLC
ATC Holdco	ATC Holdco, LLC
Badger Hollow I	Badger Hollow I Solar Farm
Badger Hollow II	Badger Hollow II Solar Farm
BART	Best Available Retrofit Technology
Blount	Blount Station
BTA	Best Technology Available
CA	Certificate of Authority
CAA	Clean Air Act
CAVR	Clean Air Visibility Rule
CCR	Coal Combustion Residual
CO <sub>2</sub>	Carbon Dioxide
codification	Financial Accounting Standards Board Accounting Standards Codification
Columbia	Columbia Energy Center
Cooling degree days	Measure of the extent to which the average daily temperature is above 65 degrees Fahrenheit, which is considered an indicator of possible increased demand for energy to provide cooling
COVID-19	Coronavirus Disease 2019
COSO	Committee of Sponsoring Organizations
CPP	Clean Power Plan
CSAPR	Cross-State Air Pollution Rule
CWA	Clean Water Act
D.C. Circuit	United States Court of Appeals for the District of Columbia Circuit
Dth	Dekatherms
EEl	Edison Electric Institute
electric margin	Electric revenues less fuel for electric generation and purchase power costs, a non-GAAP measure
ELG	Effluent Limitations Guidelines
Elm Road Units	Elm Road Generating Station
EPA	United States Environmental Protection Agency
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
Forward Wind	Forward Wind Energy Center

FTR	Financial Transmission Rights
GAAP	Generally Accepted Accounting Principles
gas margin	Gas revenues less cost of gas sold, a non-GAAP measure
GHG	Greenhouse Gas
heating degree days (HDD)	Measure of the extent to which the average daily temperature is below 65 degrees Fahrenheit, which is considered an indicator of possible increased demand for energy to provide heating
ICF	Insurance Continuance Fund
IPCC	Intergovernmental Panel on Climate Change
IRS	Internal Revenue Service
kVA	Kilovolt Ampere
KW	Kilowatt, a measure of electric energy generating capacity
kWh	Kilowatt-hour
MISO	Midcontinent Independent System Operator, Inc. (a regional transmission organization)
MRO	Midwest Reliability Organization
MW	Megawatt
MWh	Megawatt-hour
NAAQS	National Ambient Air Quality Standards
Nasdaq	The Nasdaq Stock Market
NERC	North American Electric Reliability Corporation
NNG	Northern Natural Gas Company
NOV	Notice of Violation
NO <sub>x</sub>	Nitrogen Oxides
NYSE	New York Stock Exchange
O'Brien	O'Brien Solar Fields
OSCE	State of Wisconsin's Office of Sustainability and Clean Energy
Paris Agreement	Paris Agreement under the United Nations Framework Convention on Climate Change
PCBs	Polychlorinated Biphenyls
the Petition	Petition for Judicial Review of Agency Action
PGA	Purchased Gas Adjustment clause
PHMDC	Public Health Madison & Dane County
PHMDC Directives	Public Health Madison & Dane County's Forward Dane Plan and related emergency orders
PJM	PJM Interconnection, LLC (a regional transmission organization)
PM	Particulate Matter
PPA	Purchased power agreement
PSCW	Public Service Commission of Wisconsin
REC	Renewable Energy Credit
RER	Renewable Energy Rider
Riverside	Riverside Energy Center in Beloit, Wisconsin
ROE	Return on Equity
RTO	Regional Transmission Organization
Saratoga	Saratoga Wind Farm
SCR	Selective Catalytic Reduction
SEC	Securities and Exchange Commission
SIP	State Implementation Plan
SO <sub>2</sub>	Sulfur Dioxide
the State	State of Wisconsin
Stock Plan	Direct Stock Purchase and Dividend Reinvestment Plan of MGE Energy
Two Creeks	Two Creeks Solar Farm
UW	University of Wisconsin at Madison
VIE	Variable Interest Entity
WCCF	West Campus Cogeneration Facility
WDNR	Wisconsin Department of Natural Resources
WEPCO	Wisconsin Electric Power Company
working capital	Current assets less current liabilities
WPDES	Wisconsin Pollutant Discharge Elimination System
WPL	Wisconsin Power and Light Company
WPSC	Wisconsin Public Service Corporation
WRERA	Worker, Retiree and Employer Recovery Act of 2008
XBRL	eXtensible Business Reporting Language

## **PART I.**

### **Item 1. Business.**

MGE Energy operates in the following business segments:

- Regulated electric utility operations – generating, purchasing, and distributing electricity through MGE.
- Regulated gas utility operations – purchasing and distributing natural gas through MGE.
- Nonregulated energy operations – owning and leasing electric generating capacity that assists MGE through MGE Energy's wholly owned subsidiaries MGE Power Elm Road and MGE Power West Campus.
- Transmission investments – representing our investment in American Transmission Company LLC, a company engaged in the business of providing electric transmission services primarily in Wisconsin, and our investment in ATC Holdco LLC, a company created to facilitate out-of-state electric transmission development and investments.
- All other – investing in companies and property that relate to the regulated operations and financing the regulated operations, through its wholly owned subsidiaries CWDC, MAGAEL, MGE State Energy Services, North Mendota, and Corporate functions.

MGE's utility operations represent a majority of the assets, liabilities, revenues, expenses, and operations of MGE Energy. MGE Energy's nonregulated energy operations currently include an undivided interest in two coal-fired generating units located in Oak Creek, Wisconsin, which we refer to as the Elm Road Units, and an undivided interest in a cogeneration facility located on the Madison campus of the University of Wisconsin, which we refer to as the West Campus Cogeneration Facility or WCCF.

As a public utility, MGE is subject to regulation by the PSCW and the FERC. The PSCW has authority to regulate most aspects of MGE's business including rates, accounts, issuance of securities, and plant siting. The PSCW also has authority over certain aspects of MGE Energy as a holding company of a public utility. FERC has jurisdiction, under the Federal Power Act, over certain accounting practices and certain other aspects of MGE's business.

MGE Energy's subsidiaries are also subject to regulation under local, state, and federal laws regarding air and water quality and solid waste disposal. See "Environmental" below.

MGE Energy was organized as a Wisconsin corporation in 2001. MGE was organized as a Wisconsin corporation in 1896. Our principal offices are located at 133 South Blair Street, Madison, Wisconsin 53788, and our telephone number is (608) 252-7000.

With the global outbreak of the Coronavirus Disease 2019 (COVID-19) and the declaration of a pandemic by the World Health Organization on March 11, 2020, U.S. governmental authorities have deemed electric and gas utilities to be critical infrastructure. MGE Energy therefore has an obligation to keep operating and maintaining our critical electric and gas infrastructure. Since then, MGE Energy has been subject to, and is following, local, state and federal public health and safety regulations and guidance to control the pandemic. MGE Energy has operated continuously throughout the pandemic and has suffered no material disruptions in service or employment.

#### **Electric Utility Operations**

MGE distributes electricity in a service area covering a 264 square-mile area of Dane County, Wisconsin. The service area includes the city of Madison, Wisconsin. It owns or leases ownership interests in electric generation facilities located in Wisconsin and Iowa.

As of December 31, 2020, MGE supplied electric service to approximately 157,000 customers, with approximately 90% located in the cities of Fitchburg, Madison, Middleton, and Monona and 10% in adjacent areas. Of the total

number of customers, approximately 87% were residential and 13% were commercial or industrial.

Electric retail revenues for 2020, 2019, and 2018 were comprised of the following:

	Year Ended December 31,		
	2020 <sup>(a)</sup>	2019	2018
Residential	37.6%	34.8%	35.4%
Commercial	50.9%	53.2%	52.3%
Industrial	3.0%	3.2%	3.6%
Public authorities (including the UW)	8.5%	8.8%	8.7%
Total	100.0%	100.0%	100.0%

(a) In late March 2020, we began to see a shift in commercial and residential sales due to the impacts of COVID-19 and associated governmental regulations on customer demand. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations for further information.

Electric operations accounted for approximately 73.2%, 71.9%, and 71.8% of MGE's total 2020, 2019, and 2018 regulated revenues, respectively.

See Item 2. Properties for a description of MGE's electric utility plant.

MGE is registered with North American Electric Reliability Corporation (NERC) and one regional entity, the Midwest Reliability Organization (MRO). The essential purposes of these entities are to develop and implement regional and NERC reliability standards and determine compliance with those standards, including enforcement mechanisms.

### ***Transmission***

American Transmission Company LLC (ATC) was formed by Wisconsin-based utilities who were required by Wisconsin law to contribute their transmission facilities to it in 2001 and is owned by those utilities and their affiliates. ATC's purpose is to provide reliable, economic transmission service to all customers in a fair and equitable manner. ATC plans, constructs, operates, maintains, and expands transmission facilities that it owns to provide adequate and reliable transmission of power. ATC is regulated by FERC for all rate terms and conditions of service. ATC is also regulated by the PSCW for some aspects of its governance and is a transmission-owning member of the MISO.

### ***Regional Transmission Organizations (RTO)***

#### ***MISO***

MGE is a nontransmission owning member of the MISO. MISO, a FERC-approved RTO, is responsible for monitoring the electric transmission system that delivers power from generating plants to wholesale power transmitters. MISO's role is to ensure equal access to the transmission system and to maintain or improve electric system reliability across 15 U.S. states and the Canadian province of Manitoba.

MISO maintains a bid-based energy market. MGE offers substantially all of its generation on the MISO market and purchases much of its load requirement from the MISO market in accordance with the MISO Tariff. MGE participates in the ancillary services market operated by MISO. That market is an extension of the existing energy market in which MISO assumes the responsibility of maintaining sufficient generation reserves. In the ancillary services market, MISO provides the reserves for MGE's load, and MGE may offer to sell reserves from its generating units.

MGE participates in the voluntary capacity auction, which provides an optional monthly forum for buyers and sellers of aggregate planning resource credits to interact. Load serving entities such as MGE may participate in the voluntary capacity auction potentially to obtain the necessary aggregate planning resource credits needed to meet their planning reserve margin requirement established by the PSCW. Generator owners may participate to sell any excess aggregate planning resource credits.

#### ***PJM***

MGE is a member of PJM. PJM, an RTO, is a neutral and independent party that coordinates and directs the



operation of the transmission grid within its area of coverage, administers a competitive wholesale electricity market, and plans regional transmission expansion improvements to maintain grid reliability and relieve congestion.

### **Fuel supply and generation**

MGE satisfies its customers' electric demand with internal generation and purchased power. MGE's current fuel mix for generation fluctuates from year-to-year due to fuel pricing in the market, generating unit availability, weather, and customer demand. MGE has a responsibility to its customers to dispatch the lowest cost generation available pursuant to regulatory requirements.

During 2020, 2019, and 2018, MGE's electric energy delivery requirements were satisfied from the following fuel sources:

<i>(in MWh)</i>	2020	2019	2018
Coal	1,566,204	1,751,224	1,869,981
Natural gas	502,387	501,093	492,291
Renewable sources <sup>(a)</sup>	485,965	470,716	373,271
Fuel oil	472	695	578
Purchased power - other <sup>(b)(c)</sup>	789,058	762,894	836,741
Total fuel sources	<u>3,344,086</u>	<u>3,486,622</u>	<u>3,572,862</u>
Adjusted total fuel sources <sup>(c)</sup>	<u>3,663,569</u>	<u>3,807,652</u>	<u>3,842,502</u>

(a) Includes both internal generation and purchased power.

(b) Includes third-party purchased power and MISO market activity. A significant percentage of MGE's electric supply comes from internal generation sources. MGE supplements this internal generation with long-term purchase power agreements and spot purchases in the MISO market.

(c) The MISO market consists of two energy markets, the Day-ahead market and the Real-time market. The table above nets purchases and sales within the same hour in the two MISO markets. For the years ended December 31, 2020, 2019, and 2018, the amount netted between Day-ahead and the Real-time MISO markets was 319,483 MWh, 321,030 MWh, and 269,640 MWh, respectively. These amounts are reflected in "Adjusted total fuel sources."

MGE's Energy 2030 framework describes our plan for growth in renewables generation. This growth is expected to continue as legacy fossil fuel-fired facilities are retired and replaced with renewables, such as wind and solar assets, and battery storage solutions are developed and implemented. In February 2021, MGE and the other co-owners of Columbia, a two-unit coal-fired generation facility located near Portage, Wisconsin, announced plans to retire that facility. MGE currently owns 19% of the facility. The co-owners intend to retire Unit 1 by the end of 2023 and Unit 2 by the end of 2024. Final timing and retirement dates for Units 1 and 2 are subject to PSCW and regional regulatory reviews, including identification and approval of energy and capacity resources to replace Columbia.

MGE's carbon reduction goals are aligned with those of the scientific community, specifically the Intergovernmental Panel on Climate Change (IPCC), which has recognized the need to hold an increase in the global average temperature to well below 2°C above pre-industrial levels. The IPCC also calls for efforts to limit the temperature increase to 1.5°C above pre-industrial levels to significantly reduce the risks and most adverse impacts of climate change. The IPCC further recognized that holding global average temperature rise to the more aggressive scenario (1.5°C limit) requires CO<sub>2</sub> emissions to reach net-zero around 2050.

Consistent with that objective, MGE is targeting net-zero carbon electricity by 2050. In November 2020, the University of Wisconsin-Madison's Nelson Institute for Environmental Studies released its analysis of MGE's goal of net-zero carbon electricity by 2050. The study determined that our goal is aggressive and is consistent with the latest climate science. Our solar and wind projects, as described below, are a major step toward deep decarbonization and greater use of clean energy sources in pursuit of our net-zero carbon goal. Additionally, MGE seeks to reduce its use of fossil fuels and work to help customers with energy efficiency and electrification, including transportation.

MGE's carbon footprint is expected to decrease as it transitions to more renewable generation resources. This decrease is due in part to our investments in the following renewable generation resources: Forward Wind, purchased in 2018; Saratoga (wind), which became operational in February 2019; Two Creeks (solar), which

became operational in November 2020; and Badger Hollow I and II (solar), which are expected to enter commercial operation in April 2021 for phase I and by the end of 2022 for phase II.

MGE is working to achieve a more sustainable energy future using cost-effective renewable generation technologies for customers. Our Renewable Energy Rider and Shared Solar programs reduce MGE's carbon emissions while providing customers the ability to purchase renewable energy to meet their energy needs.

**Renewable Energy Rider (RER)** – Under this program, MGE partners with large energy users on customized renewable energy solutions to meet their specific energy needs. MGE owns the generation assets and RER customers are billed a contractual renewable resource rate for all costs associated with the construction and ongoing operations of the renewable generation facility. This contractual rate is approved by the PSCW and subject to terms and conditions specified in the RER rate schedule. The program entitles RER customers to the entire contractual energy output of the renewable energy resource. MGE will continue to recover the distribution system costs related to the energy consumed by these customers. In 2020, MGE completed construction of the Morey Field RER solar project (1.5MW) serving the City of Middleton and Middleton-Cross Plains School District and the Dane County RER solar project (9MW). Construction of a 20MW RER project (O'Brien Solar Fields, primarily serving governmental entities such as UW-Madison, Wisconsin Department of Administration, and the City of Fitchburg) has begun and is expected to be completed mid-2021. MGE is currently awaiting PSCW approval for an additional 8MW RER project serving the City of Madison and Madison Metropolitan School District.

**Shared Solar Program** – This program provides an opportunity for eligible customers to add locally-generated solar to their energy mix without having to install solar panels on their premises. The first solar array associated with this program, owned by MGE, became operational in 2017 and was fully subscribed for its capacity value of 500 KW. MGE recently expanded the program by completing construction of a second solar facility (Morey Field), which added 3.5 MW of capacity to the program in 2020.

Since 2015, MGE has announced several new utility-scale wind and solar projects, including Saratoga, Forward Wind, Two Creeks, Badger Hollow I & II, and other RER and Shared Solar facilities. These projects will be operational by the end of 2022 or are, in the cases of Saratoga, Forward Wind, Two Creeks, and certain RER and Shared Solar facilities, currently operational. Since introducing the Energy 2030 framework in November 2015, we have announced projects that we expect will increase our owned renewable capacity by almost 675% by the end of 2022.

#### *Generation sources*

MGE receives electric generation supply from coal-fired, gas-fired, and renewable energy sources. These sources include owned facilities as well as facilities leased from affiliates and accounted for under our nonregulated energy operations. See Item 2. Properties for more information regarding these generation sources, including location, capacity, ownership or lease arrangement, and fuel source. See "Nonregulated Energy Operations" below for more information regarding generating capacity leased to MGE by nonregulated subsidiaries.

#### *Purchased power*

MGE enters into short- and long-term purchase power commitments with third parties to meet a portion of its anticipated electric energy supply needs. The following table identifies purchase power commitments as of December 31, 2020, with unaffiliated parties for the next five years.

<i>(Megawatts)</i>	2021	2022	2023	2024	2025
Purchase power commitments	83	33	30	30	30

### **Gas Utility Operations**

MGE transports and distributes natural gas in a service area covering 1,684 square miles in seven south-central Wisconsin counties. The service area includes the city of Madison, Wisconsin and surrounding areas.

As of December 31, 2020, MGE supplied natural gas service to approximately 166,000 customers in the cities of Elroy, Fitchburg, Lodi, Madison, Middleton, Monona, Prairie du Chien, Verona, and Viroqua; 25 villages; and all or parts of 48 townships. Of the total number of customers, approximately 90% were residential and 10% were commercial or industrial. Gas revenues for 2020, 2019, and 2018 were comprised of the following:

	Year Ended December 31,		
	2020	2019	2018
Residential	61.6%	59.5%	59.4%
Commercial	33.4%	35.8%	35.8%
Industrial	1.1%	1.1%	1.6%
Transportation service and other	3.9%	3.6%	3.2%
Total	100.0%	100.0%	100.0%

Gas operations accounted for approximately 26.8%, 28.1%, and 28.2% of MGE's total 2020, 2019, and 2018 regulated revenues, respectively.

MGE can curtail gas deliveries to interruptible customers. These are customers who agree to reduce their load in the case of an emergency interruption. Approximately 3% of retail gas deliveries in 2020, 2019 and 2018 were to interruptible customers.

### ***Gas supply***

MGE has physical interconnections with ANR Pipeline Company (ANR) and Northern Natural Gas Company (NNG). MGE's primary service territory, which includes Madison and the surrounding area, receives deliveries at one NNG and four ANR gate stations. MGE's outlying territory receives deliveries at NNG gate stations located in Elroy, Prairie du Chien, Viroqua, and Crawford County. Interconnections with two major pipelines provide competition in interstate pipeline service and a more reliable and economical gas supply mix, which includes gas from Canada and the mid-continent and Gulf Coast regions of the United States.

During the winter months, when customer demand is high, MGE is primarily concerned with meeting its obligation to customers. MGE meets customer demand by using firm supplies under contracts finalized before the heating season, supplies in storage (injected during the summer), and other firm supplies purchased during the winter period.

By contract, a total of 5,922,505 Dth of gas can be injected into ANR's storage fields in Michigan from April 1 through October 31. These gas supplies are then available for withdrawal during the subsequent heating season, November 1 through March 31. Using storage allows MGE to buy gas supplies during the summer season, when prices are normally lower, and withdraw these supplies during the winter season, when prices are typically higher. Storage also gives MGE more flexibility in meeting daily load fluctuations.

MGE's contracts for firm transportation service of gas include winter maximum daily quantities of:

- 175,650 Dth (including 106,078 Dth of storage withdrawals) on ANR.
- 66,378 Dth on NNG.

### **Nonregulated Energy Operations**

MGE Energy, through our subsidiaries, has developed generation sources that assist MGE in meeting the electricity needs of our customers. These sources consist of the Elm Road Units and the WCCF, which are owned by subsidiaries of MGE Energy and leased to MGE. See Item 2. Properties for a description of these facilities, their joint owners, and the related lease arrangements.

### **Transmission Investments**

ATC owns and operates electric transmission facilities primarily in Wisconsin. MGE received an interest in ATC when it, like other Wisconsin electric utilities, contributed its electric transmission facilities to ATC as required by Wisconsin law. That interest is presently held by MGE Transco, a wholly-owned subsidiary of MGE Energy. As of December 31, 2020, MGE Transco held a 3.6% ownership interest in ATC.

In 2016, ATC Holdco was formed by several of the members of ATC, including MGE Energy, to facilitate electric transmission development and investments outside of Wisconsin, which typically have long development and investment lead times before becoming operational. ATC Holdco's future transmission development activities have been suspended for the near term. MGE Energy's ownership interest in ATC Holdco is held by MGEE Transco, a

wholly-owned subsidiary. As of December 31, 2020, MGEE Transco held a 4.4% ownership interest in ATC Holdco.

## **Environmental**

MGE Energy and MGE are subject to frequently changing local, state, and federal regulations concerning air quality, water quality, land use, threatened and endangered species, hazardous materials handling, and solid waste disposal. These regulations affect the manner in which we conduct our operations, the costs of those operations, as well as capital and operating expenditures. Regulatory initiatives, proposed rules, and court challenges to adopted rules, have the potential to have a material effect on our capital expenditures and operating costs. In addition to the regulations discussed below, MGE continues to track state and federal initiatives such as potential state and federal regulations governing surface water and/or groundwater containing per- and polyfluoroalkyl substances, potential changes to regulations governing polychlorinated biphenyl (PCB), potential changes to air and water standards, and potential climate change legislation.

In February 2021, MGE and the other co-owners of Columbia announced plans to retire that facility. The co-owners intend to retire Unit 1 by the end of 2023 and Unit 2 by the end of 2024. Final timing and retirement dates for Units 1 and 2 are subject to PSCW and regional regulatory reviews, including identification and approval of energy and capacity resources to replace Columbia. Effects of environmental compliance discussed below will depend upon the final approved retirement dates and compliance requirement dates.

### ***Federal and State Environmental Compliance During the Current Pandemic***

MGE was identified as an essential business under the State of Wisconsin's Safer at Home directive. It has been operating with full staff and has continued to prioritize its compliance with all applicable environmental regulations. MGE continues to follow local orders, as well as state Department of Health and Center for Disease Control guidance to operate in a manner to address potential spread of COVID-19 in order for the essential utility services to operate without interruptions. Due to the essential nature of the work that many MGE employees perform, MGE requested and received approval for certain critical employees to be included in Phase 1B of Wisconsin's Vaccination Distribution Plan as part of the "Non-EMS First Responder" group. Vaccinations for this group are forthcoming; a tentative date is set for March 1, 2021. The EPA and the WDNR have both provided guidance for regulated entities if compliance with regulations becomes unfeasible due to the current severity of COVID-19. In late June 2020, the EPA announced that COVID-19 guidance would sunset on August 31, 2020. MGE has developed contingencies for remaining in compliance during the pandemic and does not expect to rely on state or federal noncompliance relief. However, management cannot predict with certainty whether COVID-19 will disrupt these compliance activities. MGE expects to continue to build contingencies into compliance operations and communicate with regulators as needed during this unprecedented time.

## ***Water Quality***

### ***EPA's Effluent Limitations Guidelines and Standards for Steam Electric Power Generating Point Source Category***

In August 2020, the EPA finalized rule modifications to the Effluent Limitations Guidelines (ELG) for the steam electric power generating industry. The ELG rule establishes federal limits on the amount of metals and other pollutants that can be discharged in wastewater from new and existing steam electric generation plants. The rule will be applied to Wisconsin-based power plants as they renew their WPDES permits, but no later than December 31, 2023. The Columbia and Elm Road Units are subject to this rule. See Footnote 16.a. of the Notes to the Consolidated Financial Statements in this Report for further discussion of compliance plans for Columbia and the Elm Road Units. Management believes that any compliance costs will be recovered in future rates based on previous treatment of environmental compliance projects.

### ***EPA Cooling Water Intake Rules (Section 316(b))***

Section 316(b) of the Clean Water Act requires that the cooling water intake structures at electric power plants meet best available technology standards to reduce mortality from entrainment (drawing aquatic life into a plant's cooling system) and impingement (trapping aquatic life on screens). The EPA finalized its Section 316(b) rule for existing facilities in 2014. Section 316(b) requirements are implemented in Wisconsin through modifications to plants' WPDES permits, which govern plant wastewater discharges.

WCCF, Blount, and Columbia are considered existing plants under this rule. WCCF employs a system that meets the

Section 316(b) rule. Blount's WPDES permit assumes that the plant meets best technology available (BTA) for the duration of the permit, which expires in 2023. However, MGE must perform an entrainment study by the end of 2021 to determine future BTA, which will be included with the next permit renewal. Section 316(b) applies to river intakes at the Columbia plant. Columbia's operator received a permit in 2019 requiring studies of intake structures to help determine BTA. BTA improvements may not be required given that Columbia could be fully retired before the issuance of the next permit, which is expected to be issued in 2023 or later. MGE will continue to work with Columbia's operator to evaluate all regulatory requirements applicable to the planned retirements. Management believes that the Section 316(b) rule will not have a material effect on its existing plants and that any compliance costs will be recovered in future rates based on previous treatment of environmental compliance projects.

### ***Air Quality***

Air quality regulations promulgated by the EPA and Wisconsin Department of Natural Resources (WDNR) in accordance with the Federal Clean Air Act and the Clean Air Act Amendments of 1990 impose restrictions on emission of particulates, sulfur dioxide (SO<sub>2</sub>), nitrogen oxides (NO<sub>x</sub>), hazardous air pollutants and other pollutants, and require permits for operation of emission sources. These permits must be renewed periodically. Various newly enacted and/or proposed federal and state initiatives may result in additional operating and capital expenditure costs for fossil-fueled electric generating units.

#### **Ozone NAAQS**

In May 2018, the EPA issued a final rule designating the northeast portion of Milwaukee County as being in nonattainment with Ozone National Ambient Air Quality Standards (NAAQS). The Elm Road Units are located in Milwaukee County, outside the designated nonattainment area. In August 2018, several environmental groups, the City of Chicago, and the State of Illinois filed federal lawsuits challenging several of the EPA's attainment designation decisions, including the EPA's partial Milwaukee County designation as being too narrow and not sufficiently protective. In July 2020, the U.S. District Court of the District of Columbia remanded the partial Milwaukee County attainment designation back to the EPA for further explanation. If the entire county were to be considered in nonattainment, the State of Wisconsin would need to develop an implementation plan that addressed emissions that contribute to ozone (NO<sub>x</sub> and volatile organic compound emissions) for the county, which could affect operations and emissions control obligations of the Elm Road units. MGE is monitoring the outcome of the EPA's remand analysis and how it may affect our Elm Road Units in Milwaukee County. See Footnote 16.a. of the Notes to Consolidated Financial Statements in this Report for additional information.

#### **EPA's Cross-State Air Pollution Rule (CSAPR): Proposed Ozone Season Update based on 2008 Ozone NAAQS**

The EPA's CSAPR and its progeny are a suite of interstate air pollution transport rules designed to reduce ozone and fine particulate (PM<sub>2.5</sub>) air levels in areas that the EPA has determined as being significantly impacted by pollution from upwind states. This is accomplished in the CSAPR through a reduction in SO<sub>2</sub> and NO<sub>x</sub> from qualifying fossil-fuel fired power plants in upwind or "contributing" states. NO<sub>x</sub> and SO<sub>2</sub> contribute to fine particulate pollution and NO<sub>x</sub> contributes to ozone formation in downwind areas. Reductions are achieved through a cap and trade system. Individual plants can meet their caps through modifications and/or buying allowances on the market. CSAPR has been subject to ongoing legal challenges.

In 2016, the EPA finalized a CSAPR Update Rule to address pollution transport related to an updated ozone NAAQS. In September 2019, the U.S. Court of Appeals for the District of Columbia Circuit (D.C. Circuit) remanded the rule to the EPA holding that the rule improperly provided only a partial remedy for addressing interstate transport of pollutants from upwind to downwind states. In October 2020, the EPA published a proposed CSAPR Update Rule to address the remand that explicitly excludes Wisconsin. The EPA is under court order to finalize this update by March 2021. If the proposed rule is finalized as written, Wisconsin will not be subject to the emissions reductions included in the CSAPR Update Rule but will remain subject to the reductions required by the original CSAPR.

MGE has met its current obligations through a combination of reduced emissions through pollution control (e.g. SCR installation at Columbia), as well as owned, received, and purchased allowances. While uncertainty remains around CSAPR due to legal challenges, MGE expects to meet ongoing CSAPR obligations for the foreseeable future. MGE will continue to monitor developments to this rule.

#### **Clean Air Visibility Rule (CAVR)**

Columbia is subject to the best available retrofit technology (BART) regulations, a subsection of the EPA's CAVR,

which may require pollution control retrofits. Columbia's existing pollution control upgrades, and the EPA's stance that compliance with the CSAPR equals compliance with BART, should mean that Columbia will not need to do additional work to meet BART requirements. At this time, however, the BART regulatory obligations, compliance strategies, and costs remain uncertain in Wisconsin due to the continued legal challenges surrounding CSAPR and CAVR. MGE will continue to monitor developments to this rule.

#### Columbia Clean Air Act Litigation

Columbia is a coal-fired generating station operated by WPL and in which WPL, WPSC, and MGE have ownership interests. In December 2009, the EPA sent a Notice of Violation (NOV) to the co-owners, including MGE. The NOV alleged that WPL and the Columbia co-owners failed to comply with appropriate pre-construction review and permitting requirements and, as a result, violated the Prevention of Significant Deterioration program requirements, Title V Operating Permit requirements of the CAA, and the Wisconsin SIP. In June 2013, the court approved and entered a consent decree entered by the EPA, Sierra Club, and the co-owners of Columbia. One of the requirements of the consent decree required installation of an SCR system at Columbia Unit 2 by December 31, 2018. Installation of the SCR was approved by the PSCW and the SCR was placed in service in 2018. The consent decree remains open for compliance monitoring, but significant additional operating and capital expenditures are not expected.

#### ***Global Climate Change***

MGE is a producer of greenhouse gas (GHG) emissions, primarily from the fossil fuel generating facilities it uses to meet customers' energy needs, as well as from its natural gas pipeline system and fleet vehicles. Climate change and the regulatory response to it could significantly affect our operations in a number of ways, including increased operating costs and capital expenditures, restrictions on energy supply options, operational limits on our fossil fuel fired plants, permitting difficulties, and emission limits. MGE management would expect to seek and receive rate recovery of such compliance costs, if and when required. MGE continues to monitor proposed climate change legislation and regulation.

MGE has taken steps to address GHG emissions through voluntary actions. In 2005, MGE implemented its Energy 2015 Plan, which committed to ensuring a balanced, economic energy supply with reduced environmental emissions. The Plan emphasized increased renewable energy, energy efficiency, and new cleaner generation – three strategies that reduced GHG emissions. Under the Plan and other actions, our CO<sub>2</sub> emissions declined from 2005 to 2015 by approximately 20% even though total system delivered energy increased. In 2015, MGE announced its Energy 2030 framework that continues steps to reduce CO<sub>2</sub> emissions. Subject to regulatory approvals and other conditions, MGE aims to increase renewable energy to 25% of retail electric sales by 2025 and to 30% by 2030. Under our Energy 2030 framework prior to the announcement of the Columbia retirement, our plan was to reduce CO<sub>2</sub> emissions by 40% from 2005 levels by 2030. With the retirement of Columbia, we currently expect to achieve a reduction of 65% by 2030. Beyond 2030, we are targeting net-zero carbon electricity by 2050.

#### Federal Action on Climate Change

##### Executive Actions:

President Biden's actions on climate change, including multiple executive orders and the recommitment of the U.S. to the Paris Agreement under the United Nations Framework Convention on Climate Change (the Paris Agreement), indicate that he intends to make climate considerations a broad focus of his administration.

##### *Executive Order on Tackling the Climate Crisis at Home and Abroad*

This executive order establishes climate change as an essential element of domestic and international governmental policy. The order indicates that the U.S. will develop its emissions reduction targets under the Paris Agreement, instructs executive staff and federal departments and agencies to take actions to combat climate change using a government-wide approach, and creates several interagency working groups tasked with providing recommendations to meet the order's goals. MGE is following the development of recommendations and plans developed by agencies as a result of this order, as well as other executive actions taken by the new administration, to determine their applicability to MGE's decarbonization plans and to evaluate any potential impact to our operations.

## *Executive Order on Protecting Public Health and the Environment and Restoring Science to Tackle the Climate Crisis*

In January 2021, President Biden signed an executive order that establishes a list of national objectives for federal action (including regulations) taken under his administration. The order includes initiatives for protecting the environment, addressing climate change, and addressing public health. Executive departments and agencies are directed to immediately review all federal actions taken under the previous presidential administration to determine whether or not they meet the objectives set out in the order. Departments and agencies are further instructed to take applicable action, including suspending, revising or rescinding rules to correct any federal action under the previous administration that does not meet the national objectives set forth in this order. MGE will monitor and evaluate any potential regulation, guidance, and/or other federal directives that are developed as a result of this order and other executive actions taken by the new administration.

### Legislative Actions:

MGE is monitoring current legislative actions on climate change to determine their level of significance to MGE's decarbonization plans.

### State and Regional Action on Climate Change

#### Executive Actions

##### *Executive Order Relating to Clean Energy Wisconsin*

In August 2019, Wisconsin Governor Tony Evers signed an executive order to establish the Office of Sustainability and Clean Energy (OSCE). The order tasks the OSCE with, among other things, ensuring that the actions of the State of Wisconsin are aligned with the goals and recommendations of the Paris Agreement, verifying that electricity consumed by the State of Wisconsin is 100% carbon-free by 2050, and developing a comprehensive multi-sector clean energy plan for the state. The OSCE has put forth preliminary recommendations and is in the process of creating the statewide plan. MGE is engaged in this process and is participating on a Stakeholder Advisory Team in a voluntary capacity. MGE will be evaluating this plan for its applicability to MGE's decarbonization plans and to evaluate potential impact to our operations.

### Legislative Actions

MGE continues to monitor current legislative actions on climate change. There are no legislative actions to report at this time.

### EPA's Greenhouse Gas Reduction Guidelines under the Clean Air Act 111(d) Rule

In January 2021, the D.C. Circuit vacated and remanded to the EPA the Affordable Clean Energy Rule (ACE Rule) and the repeal of the predecessor Clean Power Plan Rule (CPP Rule), both of which regulated greenhouse gas emissions from existing electric generation units pursuant to Section 111(d) of the Clean Air Act. MGE is evaluating this D.C. Circuit decision for what impacts it may have on MGE's operations. MGE will continue to evaluate the rule development and monitor ongoing and potential legal proceedings.

### **Solid Waste**

#### EPA's Coal Combustion Residuals Rule

The EPA's 2015 Coal Combustion Residuals Rule (CCR), which regulates coal ash from burning coal for the purpose of generating electricity as a solid waste and defines what ash use activities would be considered generally exempt beneficial reuse of coal ash. The CCR rule also regulates landfills, ash ponds, and other surface impoundments used for coal combustion residuals by regulating their design, location, monitoring, and operation.

In July 2018, the EPA published a final rule that included amendments to the CCR. The amendments include the allowance of alternative performance standards for landfills and surface impoundments, revised risk-based groundwater protection standards, and an extension of the deadline by which certain facilities must cease the placement of waste in CCR units. In August 2018, the D.C. Circuit vacated parts of the 2015 CCR for not being sufficiently protective of the environment. In August 2020, the EPA revised the CCR rule to require owners or operators of coal-fired power plants to stop transporting CCR and non-CCR wastewater (a process known as "sluicing") to unlined surface impoundments. In addition, regulated entities must initiate impoundment closure as

soon as feasible and in no event later than April 2021, unless the EPA grants an extension. Columbia requested an extension to comply by October 2022. The EPA will address the remaining issues on remand in a subsequent action.

Review of the Elm Road Units has indicated that the costs to comply with this rule are not expected to be significant. Columbia's operator has completed a review of its system and has developed a compliance plan. See Footnote 16.a. of the Notes to the Consolidated Financial Statements in this Report for further discussion.

### **Renewable Energy Standards**

Wisconsin law establishes a minimum amount of energy MGE must supply from renewable sources. MGE currently exceeds the applicable minimum requirement of approximately 8%. The costs to comply with this requirement are being recovered in rates.

### **Human Capital**

The energy industry is ever-changing. MGE Energy and MGE believe it is important to continue to develop our human capital resources to meet the changing demands of our customers and communities. We are committed to sustainable workforce practices such as career development and training. We offer all employees the opportunity to learn and grow—whether the goal is to increase job proficiency, improve decision-making skills, or prepare for new roles and responsibilities. We work to provide our employees with the tools they need to grow and to be successful in their careers. This strategy is essential given our aging workforce and the recent retirement of key employees.

We value equity, diversity, and inclusion. We promote an inclusive, respectful work environment where individuals and groups can achieve their full potential. All employees have equitable access to employment and development opportunities. Everyone is responsible for helping to meet the objectives of our diversity and inclusion policy as well as supporting the principles of equal opportunity and affirmative action. We believe that our diversity makes us stronger.

In 2014, we launched a corporate safety commitment to strengthen our safety culture and thereby took another step on our journey to becoming an industry safety leader. Our Safety Steering Team meets bimonthly to examine safety topics and to identify and to prioritize continuous improvement opportunities. Our safety vision statement "We Power Safety" is highly visible throughout the organization.

The COVID-19 pandemic drove several changes in 2020. These changes range from equipping our field workers with personal protective equipment to offering support to office employees working from home. We continue to address challenges related to the pandemic as they arrive and will continue to meet the critical needs of our community. The safety of our employees and customers is always our top priority.

As of December 31, 2020, MGE had 723 employees, of which 327 employees are covered by collective bargaining agreements as described below:

<u>Union</u>	<u>Number of Employees Represented</u>	<u>Expiration of Collective Bargaining Agreement</u>
Local Union 2304 of the International Brotherhood of Electrical Workers	235	April 30, 2023
Local Union No. 39 of the Office and Professional Employees International Union	87	May 31, 2023
Local Union No. 2006, Unit 6 of the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial, and Service Workers International Union	5	October 31, 2023

### **Financial Information About Segments**

See Footnote 22 of the Notes to the Consolidated Financial Statements in this Report for financial information relating to MGE Energy's and MGE's business segments.



## Information About our Executive Officers

As of December 31, 2020, the executive officers of the registrants were as follows:

Executive	Title	Effective Date	Service Years as an Officer
Jeffrey M. Keebler <sup>(a)</sup> Age: 49	Chairman of the Board, President, and Chief Executive Officer President and Chief Executive Officer Senior Vice President – Energy Supply and Planning	10/01/2018 03/01/2017 07/23/2015	9
Jared J. Bushek <sup>(a)(b)</sup> Age: 40	Vice President – Finance, Chief Information Officer and Treasurer Assistant Vice President – Chief Information Officer	09/01/2020 07/23/2015	5
Lynn K. Hobbie <sup>(d)</sup> Age: 62	Executive Vice President – Marketing and Communications Senior Vice President – Marketing and Communications	03/01/2017 02/01/2000	26
Tamara J. Johnson <sup>(a)(c)</sup> Age: 56	Vice President – Accounting and Controller Assistant Vice President – Controller	09/01/2020 07/23/2015	5
Jeffrey C. Newman <sup>(a)(e)</sup> Age: 58	Executive Vice President Executive Vice President, Chief Financial Officer, Secretary and Treasurer Senior Vice President, Chief Financial Officer, Secretary and Treasurer	09/01/2020 03/01/2017 07/23/2015	23
Donald D. Peterson <sup>(d)</sup> Age: 61	Vice President – Energy Technology Assistant Vice President – Strategic Products and Services	03/01/2019 07/23/2015	5
Cari Anne Renlund <sup>(a)</sup> Age: 47	Vice President, General Counsel and Secretary Vice President and General Counsel	09/01/2020 11/02/2015	5

Note: Ages, years of service, and positions as of December 31, 2020.

(a) Executive officer of MGE Energy and MGE.

(b) Appointed as Chief Financial Officer of MGE Energy and MGE, effective as of September 1, 2020.

(c) Appointed as Chief Accounting Officer of MGE Energy and MGE, effective as of September 1, 2020.

(d) Executive officer of MGE.

(e) Retired effective December 31, 2020.

## Item 1A. Risk Factors.

MGE Energy and our subsidiaries, including MGE, operate in a regulated market environment that involves significant risks, many of which are beyond our control. The following risk factors may adversely affect our results of operations, cash flows and financial position and market price for our publicly traded securities. While we believe we have identified and discussed below the key risk factors affecting our business, additional unknown risks and uncertainties may adversely affect our performance or financial condition in the future.

### ***Pandemic virus or diseases, including COVID-19, could have a material adverse effect on our business, financial condition and liquidity.***

The outbreak of the Coronavirus Disease 2019 (COVID-19), and the implemented and evolving steps being taken to address it, could adversely affect our customers, our business, our financial condition and our liquidity. Possible effects include:

- Reduced economic activity impacting the use of electricity and gas services

The continued spread of COVID-19 may have a material adverse impact on the local economy in our service area, which could impact our business, results of operations, and financial condition. Federal, state, and local governments have implemented mitigation measures, including quarantines or closures or reduced operations of businesses, governmental agencies and other institutions. Reduced economic

activity can lead to lower consumption of electricity and gas that may not be offset by residential consumption.

- Delay in, and possible loss of, payments for utility service

During the first several months of the pandemic, the PSCW ordered Wisconsin utilities not to charge for late payments and not to disconnect customers for non-payment, which, in combination with the economic hardship caused by quarantine or stay-at-home orders, could result in losses as those payments are received late or not at all. Further, significant delays in those payments could affect our liquidity. Although the PSCW order was lifted in July 2020, we have undertaken to continue to waive late fees until April 1, 2021.

- Regulatory delays

We operate in a regulated environment. Delays in regulatory proceedings or the issuance of required permits or variances, due to limited operations, hours or ability to convene necessary meetings, could delay required approvals or permits and affect the timing of activities. The failure to get timely variances could expose us to fines and penalties.

- Regulatory recovery of deferred costs

Certain incurred costs are being deferred as regulatory assets for future recovery and not being recognized in the statements of income, reflecting a March 24, 2020, PSCW Order. These costs can affect our cash, but are not presently recoverable in rates. If recovery of those regulatory assets in customer rates is not approved or is no longer deemed probable, these deferred costs would be recognized as a current period expense, which could be material in the period in which such recognition is required.

- Employee and supplier disruptions

Employee absences and supply interruptions could affect our ability to operate and maintain our system.

- Volatility in the capital markets

Concerns about COVID-19 and its effects have caused, and may continue to cause, significant volatility in the capital markets. Market volatility as a result of COVID-19 may have a material adverse impact on the value of our employee benefits trusts investments, which could impact our costs for those benefits. The price of our common stock has been volatile. The COVID-19 pandemic and the significant uncertainties it has caused for the global economy, business activity, and business confidence have had, and are likely to continue to have, a significant effect on the market price of securities generally, including our securities.

The situation around COVID-19 remains fluid and the potential for a material impact on the results of operations, financial condition, and liquidity increases the longer the virus disrupts the local economy. Although we expect sales for future periods in 2021 to be negatively impacted by the COVID-19 pandemic, we cannot reasonably estimate with any degree of certainty the actual impact COVID-19 may have on our results of operations, financial position, and liquidity. The extent to which the COVID-19 pandemic may impact our business, operating results, financial condition, or liquidity will depend on future developments, including the duration of the outbreak, business and workforce disruptions, and the effectiveness of actions taken to contain and treat the disease.

Moreover, the effects of the COVID-19 pandemic may heighten many of the other risks described in this section including, but not limited to, interest rate changes, rating agency actions, governmental actions and market volatility.

### **Regulatory Risk**

***We are subject to extensive government regulation in our business, which affects our costs and responsiveness to changing events and circumstances.***

Our business is subject to regulation at the State and Federal levels. We are subject to regulation as a holding company by the PSCW. The PSCW regulates MGE's rates, terms and conditions of service; various business practices and transactions; financing; and transactions between it and its affiliates, including MGE Energy. MGE is also subject to regulation by the FERC, which regulates certain aspects of its business. ATC, in which we have an investment, is subject to regulation by FERC as to, among other things, rates. The regulations adopted by the State and Federal agencies affect how we do business, our ability to undertake specified actions since pre-approval or authorization may be required for projects, the costs of operations, and the rates charged to recover those costs. Our ability to attract capital also depends, in part, upon our ability to obtain a fair return from the PSCW.

***Our utility revenues are subject to regulatory proceedings, which can affect our ability to recover, and the timing of recovery of, costs that we incur in our operations.***

Our utility customer rates have a material impact on our financial condition, results of operations, and liquidity. Our ability to obtain adjustments to those rates depends upon timely regulatory action under applicable statutes and regulations. Rate regulation is based on providing an opportunity to recover costs that have been reasonably incurred and the ability to earn a reasonable rate of return on invested capital. However, we have no assurance that our regulators will consider all of our costs to have been reasonably incurred. In addition, our rate proceedings may not always result in rates that fully recover our costs or provide a reasonable return on equity. Certain costs and revenues are deferred as regulatory assets and liabilities for future recovery or refund to customers, as authorized by our regulators. If recovery of regulatory assets is not approved or is no longer deemed probable, these costs would be recognized as a current period expense and could materially and adversely impact our operations and financial performance in that period.

***We could be subject to higher costs and potential penalties resulting from mandatory reliability standards.***

MGE must adhere in its electric distribution system to mandatory reliability standards established by NERC. These standards cover areas such as critical infrastructure protection, emergency preparedness, facility design, and transmission operations, among others. The critical infrastructure protection standards focus on physical and access security of cyber assets, as well as incident response and recovery planning. Compliance with these standards affects operating costs and any noncompliance can result in sanctions, including monetary penalties.

***We are subject to changing environmental laws and regulations that may affect our costs and business plans.***

We are subject to environmental laws and regulations that affect the manner in which we conduct business, including capital expenditures, operating costs, and potential liabilities. Based upon early announcements, the new presidential administration is expected to undertake an active effort on climate change-related matters, including restrictions on greenhouse gas emissions, such as carbon. While it is difficult to know the extent of possible legislation or regulatory activity, it is expected there will be an increase in the number and scope of environmental laws and regulations. These laws and regulations may alter or limit our business plans, make them more costly, or expose us to liabilities for past, present, or future operations.

Numerous environmental laws and regulations govern many aspects of our present and future operations. These include: air emissions limits and reporting; ambient air quality standards; water quality; water intake and discharges; wetlands; solid and hazardous waste; handling and disposal of hazardous substances; protection of endangered resources, such as threatened and endangered species, protection of cultural resources and archaeological sites; remediation and management of contaminated sites; and control of potential pollution from electric and gas construction sites. These evolving regulations affect us by:

- Introducing uncertainty into our planning and capital expenditures processes, as changes in requirements may affect the timing and choice of compliance methods and require costly revisions to prior plans and commitments.
- Imposing or modifying limits on the operations of our facilities in order to meet restrictions on air emissions, water use or water discharges.
- Requiring capital expenditures and changes in operating procedures and costs as a result of the need to install additional pollution controls or more advanced technology or equipment at new or existing facilities.

- Mandating increasing purchases of renewable energy, which affects the use of existing generation, and energy efficiency initiatives, which affect revenues.

***We may be subject to future laws, regulations, or actions associated with public concern with fossil-fuel generation, greenhouse gases, and the effects of global climate change.***

Our subsidiaries operate or co-own electric power plants that burn fossil fuels, deliver natural gas, and deliver electricity to customers. These business activities are subject to evolving public concern regarding greenhouse gases (GHG), legislative and regulatory action, and possible litigation in response to that public concern. The primary greenhouse gas associated with our subsidiaries' combustion of fossil fuels, and the largest emission in our system overall, is carbon dioxide (CO<sub>2</sub>).

Our subsidiaries have incurred and are expected to continue to incur costs from more stringent regulation of GHG from power plants, natural gas delivery, greenhouse gases used in power distribution, and efficiencies lost during power distribution. While it is difficult to know the extent of possible legislation or regulatory activity, the federal government is likely to consider and pass some form of greenhouse gas legislation or regulations. In addition, litigation by environmental nongovernment organizations targeting GHG emissions from the electric power industry is also likely if the federal government fails to act on greenhouse gas initiatives.

Climate change could affect us in several other ways:

- Changes in weather patterns, including swings in intensity, could affect use of electricity and gas by our customers, affecting revenues; and could affect the condition of our facilities, affecting our costs.
- We may also incur costs associated with actions taken due to investor interest in reducing our subsidiaries' reliance on fossil fuel generation, and coal in particular. Investors may also move away from investing in fossil fuel generated electricity for reputational or perceived risk-related reasons, which could raise our costs of attracting capital.
- If we are not seen as being proactive in addressing concerns, we may experience reputational issues among our customers and the communities that we serve. Those issues could affect customers' energy choices, including efforts at self-supply, and could affect the handling and treatment of our rate requests and cost recovery.

These matters represent uncertainties in the operation and management of our business.

***We face risk for the recovery of fuel and purchased power costs.***

MGE has price risk exposure with respect to the price of natural gas, electricity, coal, emission credits, and oil. MGE burns natural gas in several of its peak electric generation facilities. In many cases, the cost of purchased power is tied to the cost of natural gas. In the event of an interruption in energy supply, whether due to equipment problems, transmission constraints, or otherwise, we may incur additional costs to obtain alternative sources of energy supply, in order to meet our contractual or regulatory obligations to our customers. Under the electric fuel rules, MGE would defer electric fuel-related costs that fall outside a symmetrical cost tolerance band. The tolerance band is defined by the PSCW and has been modified throughout the years based on market conditions and other relevant factors. Beginning in 2021, MGE is subject to a plus or minus 1% range. Prior to 2021, the range was set at 2%. Any over- or under-recovery of the actual costs in a year is determined in the following year and is then reflected in future billings to electric retail customers. Under the electric fuel rules, MGE would defer the benefit of lower costs, if its actual fuel costs fall outside the lower end of the range, and is required to defer costs, less any excess revenues, if its actual fuel costs exceed the upper end of the range. Excess revenues are defined as revenues in the year in question that provide MGE with a greater return on common equity than authorized by the PSCW in MGE's latest rate order. MGE assumes the risks and benefits of variances that are within the cost tolerance band.

***Changes in federal income tax policy may adversely affect our financial condition, results of operations, and cash flows, as well as our subsidiaries' credit ratings.***

We currently own and operate renewable energy generating facilities. These facilities generate production tax credits and investment tax credits that we use to reduce our federal tax obligations. The amount of tax credits we

earn depends on multiple factors, including facility generation, the cost of qualifying property, and the applicable tax credit rate. The disallowance of these tax credits in whole or in part as a result of changes in tax law or regulation could adversely impact our earnings and cash flows.

If corporate tax rates or policies are changed with future federal or state legislation, we may be required to take material charges against earnings. The 2017 Tax Act is still being interpreted and implemented by the IRS as well as state income tax authorities, and the 2017 Tax Act could continue to be subject to potential amendments and technical corrections, any of which could lessen or increase certain adverse impacts of the 2017 Tax Act.

There is still uncertainty as to when or how credit rating agencies, capital markets, the FERC, or state public utility commissions will treat any additional impacts of the 2017 Tax Act. These impacts could subject us or any of our subsidiaries to further credit rating downgrades. It is unclear whether additional opportunities may evolve for us to manage the adverse impacts of the 2017 Tax Act. In addition, certain financial metrics used by credit rating agencies, such as our funds from operations-to-debt percentage, could be negatively impacted by future rulings related to the 2017 Tax Act.

***We may not be able to use all tax credits for which we are eligible.***

We have historically reduced our consolidated federal and state income tax liability with the use of various tax credits under the applicable tax codes. We may not be able to fully use tax credits if our future federal and state taxable income and related income tax liability is insufficient to permit their use. In addition, any future disallowance of some or all of those tax credits as a result of legislation or an adverse determination by one of the applicable taxing jurisdictions could materially affect our tax obligations and financial results.

**Operating Risk**

***We are affected by weather, which affects customer demand and can affect the operation of our facilities.***

The demand for electricity and gas is affected by weather. Very warm and very cold temperatures, especially for prolonged periods, can dramatically increase the demand for electricity and gas for cooling and heating, respectively, as opposed to the softening effect of more moderate temperatures. Our electric revenues are sensitive to the summer cooling season and, to a lesser extent, the winter heating season. Similarly, very cold temperatures can dramatically increase the demand for gas for heating. A significant portion of our gas system demand is driven by heating. Extreme summer conditions or storms may stress electric systems, resulting in increased maintenance costs and limiting the ability to meet peak customer demand.

***We could be adversely affected by changes in the development, and utilization by our customers, of power generation, storage, and use technologies.***

Our revenues and the timing of the recovery of our costs could be adversely affected by improvements in power generation, storage, and use technology.

Advancements in power generation technology, including commercial and residential solar generation installations and commercial micro turbine installations, are improving the cost-effectiveness of customer self-supply of electricity. Improvements in energy storage technology, including batteries and fuel cells, could also better position customers to meet their around-the-clock electricity requirements. Improvements in the energy efficiency of lighting, appliances, and equipment will also affect energy consumption by customers. Such developments could reduce customer purchases of electricity but may not necessarily reduce our investment and operating requirements due to our obligation to serve customers, including those self-supply customers whose equipment has failed for any reason to provide the power they need whether due to inadequate on-site resources, restricted operating hours, or equipment failure. In addition, since a portion of our costs are recovered through charges based upon the volume of power delivered, a reduction in electricity deliveries will affect the timing of our recovery of those costs and may require changes to our rate structures.

Changes in power generation, storage, and use technologies could have significant effects on customer behaviors and their energy consumption. Customers could engage in individual conservation efforts by voluntarily reducing their consumption of electricity through changes in energy use and through the use of more energy efficient

lighting, appliances, and equipment. They could also change their consumption of electricity from us through the installation of alternative energy sources, such as rooftop solar panels and micro turbines for self-supply. Customer energy conservation could adversely affect our results of operations by reducing our revenues without necessarily changing our operating costs due to our obligation to serve.

***We are affected by economic activity within our service area.***

Higher levels of development and business activity generally increase the numbers of customers and their use of electricity and gas. Likewise, recessionary economic conditions generally have an adverse impact on our results of operations.

***The ability to obtain an adequate supply of coal could limit the ability to operate the co-owned coal-fired facilities from which we receive a significant portion of our electric supply.***

The availability of coal and the means to transport coal could:

- Affect our operating costs due to increased costs associated with lower levels of generation or the need for alternate supply or alternate transportation,
- Limit the ability to generate electricity if the plant operator is unable to arrange adequate deliveries of coal, and
- Result in potentially higher costs for replacement purchased power as well as potential lost market sales opportunities.

A significant portion of our electric generating capacity is dependent on coal. Demand for coal has been impacted by prevailing prices for natural gas and coal plant closures and may affect mine performance. Consequently, we are exposed to the risk that counterparties to these contracts will not be able to fulfill their obligations. Disruption in the delivery of fuel, including disruptions as a result of transportation delays, weather, labor relations, force majeure events, or environmental regulations affecting any of our fuel suppliers, could limit our ability to generate electricity at our facilities at the desired level. Should counterparties fail to perform, or other unplanned disruptions occur, we may be forced to fulfill the underlying obligation at higher prices. The plant operators may also be forced to reduce generation at our jointly-held coal units, which would cause us to replace this generation through additional power purchases from third parties. These factors may also affect the terms under which any of the existing coal supply or transportation agreements are renewed or replaced upon the expiration of their current terms.

***Our ability to manage our purchased power costs is influenced by a number of uncontrollable factors.***

We are exposed to additional purchased power costs to the extent that our power needs cannot be fully covered by the supplies available from our existing facilities and contractual arrangements. Those needs, and our costs, could be affected by:

- Increased demand due to, for example, abnormal weather, customer growth, or customer obligations,
- The inability to transmit our owned or contracted power from the generation source to our customers due to transmission line constraints, outages, or equipment failures,
- Reductions in the availability of power from our owned or contracted generation sources due to equipment failures, shortages of fuel or environmental limitations on operations, and
- Failure to perform on the part of any party from which we purchase capacity or energy, whether due to equipment failures or other causes.

An unexpected change in demand or the availability of generation or transmission facilities can expose us to increased costs of sourcing electricity in the short-term market where pricing may be more volatile.

***The equipment and facilities in our operational system are subject to risks that may adversely affect our financial performance.***

Weather conditions, accidents, and catastrophic events can result in damage or failures of equipment or facilities and disrupt or limit our ability to generate, transmit, transport, purchase, or distribute electricity and gas. Efforts

to repair or replace equipment and facilities may take place over prolonged periods or may be unsuccessful. We may also be unable to make the necessary improvements to our operational system, causing service interruptions. Furthermore, our facilities are interconnected with third-party transmission providers. Damage to or failures of these providers' equipment or facilities is out of our control but could lead to service interruptions. The resulting interruption of services would result in lost revenues and additional costs. We are also exposed to the risk of accidents or other incidents that could result in damage to or destruction of our facilities or damage to persons or property. Such issues could adversely affect revenues or increase costs to repair and maintain our systems.

***We could be adversely affected by production disruptions at our wind generating facilities.***

We own and operate wind generating facilities, which generate production tax credits used to reduce our federal tax obligations. Various operating and economic factors, including transmission constraints, unfavorable trends in pricing for wind energy, adverse weather conditions and the breakdown or failure of equipment, could significantly reduce the production tax credits generated by our wind farms, resulting in increased federal income tax expense. We could also be forced to replace lost wind generation capacity with additional power purchases from third parties, potentially leading to increased costs. These factors could have an adverse impact on our financial condition and results of operations, which could be material depending upon the cause of the disruption and its duration.

***Our operations and confidential information are subject to the risk of cyber-attacks.***

Our operations rely on sophisticated information technology systems and networks. Cyber-attacks targeting our electronic control systems used at our generating facilities and for electric and gas distribution systems, including denial of service and ransomware attacks, could result in a full or partial disruption of our operations. Any disruption of these operations could result in a loss of service to customers and loss of revenue, as well as significant expense to repair system damage and remedy security breaches.

Our business requires the collection and retention of personally identifiable information of our customers, shareholders, and employees, who expect that we will adequately protect such information. A significant theft, loss, or fraudulent use of personally identifiable information may cause our business reputation to be adversely impacted and could lead to potentially large costs to notify and protect the impacted persons. The occurrence of such an event may cause us to become subject to legal claims, fines, or penalties, any of which could adversely impact our results of operations.

The safeguards we have may not always be effective due to the evolving nature of cyber-attacks. We cannot guarantee that such protections will be completely successful in the event of a cyber-attack. If the technology systems were to fail or be breached by a cyber-attack, and not be recovered in a timely fashion, we may be unable to fulfill critical business functions and confidential data could be compromised, adversely impacting our financial condition and results of operations.

***We rely on the performance of our information technology systems, the failure of which could have an adverse effect on our business and performance.***

We operate in a highly engineered industry that requires the continued operation of sophisticated information technology systems and network infrastructure to manage our finances, to operate our control facilities, to provide electric and gas service to our customers, and to enable compliance with applicable regulatory requirements. Our computer-based systems are vulnerable to interruption or failure due to the age of certain systems, the introduction of viruses, malware, ransomware, security breaches, fire, power loss, system malfunction, network outages and other events that may be beyond our control. System interruptions or failures, whether isolated or more widespread, could impact our ability to provide service to our customers, which could have a material adverse effect on our operations and financial performance.

***Catastrophic and unpredictable events could have a material adverse effect on our business.***

A terrorist attack, war, natural disaster, pandemic virus or disease, or other catastrophic or unpredictable event could adversely affect our future revenues, expenses and operating results by: interrupting our normal business operations; causing employee absences or casualties, including loss of our key employees; interrupting or affecting

supplier operations; requiring substantial expenditures and expenses to repair, replace and restore normal business operations; and reducing investor confidence. Facilities for electric generation, transmission, and gas and electric distribution are potential targets of terrorist threats and activities. A terrorist act or catastrophic event at our facilities or the facilities of other companies to which we are interconnected could result in a disruption of our ability to generate, transmit, transport, purchase, or distribute electricity or natural gas. Such an event would have additional adverse effects, including environmental ramifications, increased security and insurance costs, as well as general economic volatility or uncertainty within our service territories. The inability to maintain operational continuity and any additional costs incurred for repairing our facilities or making alternative arrangements could materially and adversely affect our financial condition and results of operations.

***We face risk in connection with the completion of significant capital projects.***

Our capital projects, such as our renewable generation projects, are subject to various risks that could cause costs to increase or delays in completion. These risks include shortages of, the inability to obtain, the cost of, and the consistency of, labor, materials and equipment; the inability of the contractors to perform under their contracts; the inability to agree to terms of contracts or disputes in contract terms; work stoppages; adverse weather conditions; the inability to obtain necessary permits in a timely manner; changes in applicable laws or regulations; adverse interpretation or enforcement of permit conditions; governmental actions; legal action; and unforeseen engineering or technology issues. In the case of our renewable generation projects, we may face delays in the completion of the necessary transmission system connection or upgrades to accommodate the project.

If a capital project exceeds the approved project costs approved by the PSCW, we may not be able to recover those excess costs through regulated customer rates. If that happens, we may have to finance overruns through cash from operations, which may delay other projects, or by securing additional financing. Any or all of these methods may not be available when or in the amounts needed or may adversely affect our financial condition, results of operations and cash flows.

Inability to recover excess costs, or inability to complete the project in a timely manner, could adversely impact our financial condition and results of operations. Further, our revenues and cash flows may not increase immediately following our expenditure of funds on a particular project, which could affect our liquidity and financial position.

***Our stated long-term goals are based on various assumptions and beliefs that may not prove to be achievable in the time frame projected.***

Some of our current long-term goals include MGE's targeting of a net-zero carbon electricity by 2050 and MGE's Energy 2030 framework, which describes our plan for growth in renewables generation. MGE is working to achieve a more sustainable energy future using cost-effective renewable generation technologies. Management established these goals in conjunction with our board of directors based upon a number of different internal and external factors that characterize and influence our current and expected future activities. These long-term goals are based on certain assumptions regarding the timing, scope and relative costs of technological advancements, including generation, storage and energy use technologies; levels of customer participation in programs and partnerships, which will be critical to the achievement of the goals; our ability to transition or displace existing coal-fired resources on an ongoing basis; our ability to complete renewable generation projects in a timely manner and within approved budgets; our ability to obtain recovery of costs in rates; and our ability to obtain the necessary permits or licenses for such projects. These assumptions may differ materially from actual future results. Accordingly, we may not achieve our stated long-term goals in the timeframe projected or at all.

***Failure to successfully manage the implementation of our Enterprise Forward corporate initiative could adversely affect our operations.***

MGE committed to undertake a multi-year information technology 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 and billing system, and enterprise resource planning platform, along with other solutions that meet the goals of the initiative. Integrating new systems is complex, costly and time consuming and could result in performance delays and errors. If the systems and related processes do not operate as intended, it could result in disruptions to our business as well as unrecoverable excess costs. Inability to recover excess capital



and operating costs, or inability to implement the project successfully and in a timely manner, could adversely impact our financial condition and results of operations.

***We do not own all of the land on which our facilities are located, and we access certain facilities through rights-of-way which could disrupt our operations.***

We do not own all of the land on which certain of our facilities are located, and we are, therefore, subject to the risk of increased costs to maintain necessary land use. We obtain the rights to construct and operate certain of our related facilities on land owned by third parties for a specific period of time. Our loss of these rights, through our inability to renew right-of-way contracts on acceptable terms or increased costs to renew such rights, could have a material adverse effect on our financial condition, results of operations and cash flows.

***Failure to attract and retain an appropriately qualified workforce could affect our operations.***

An aging workforce and the retirement of key employees without appropriate replacements may lead to operating challenges and increased costs. Some of the challenges include lack of resources, loss of knowledge, and time required for replacement employees to develop necessary skills. Failure to identify qualified replacement employees could result in decreased productivity and increased safety costs. If we are unable to attract and retain an appropriately qualified workforce, our operations could be negatively affected.

## **Financial Risk**

***We are exposed to commodity price risk relating to our purchases of natural gas, electricity, coal, oil, and environmental allowances.***

We face commodity price risk exposure with respect to the purchase of natural gas, electricity, coal, oil, and environmental allowances. We also face risk through our use of derivatives such as futures, forwards, and swaps, to manage our commodity price risk. We could experience increased costs as a result of volatility in the market values of those commodities. We could also experience losses on our derivative contracts as a result of that market value volatility or if a counterparty fails to perform under a contract. In the absence of actively quoted market prices and pricing information from external sources, the valuation of these derivative contracts involves our exercise of judgment and use of estimates. As a result, changes in the underlying assumptions or use of alternative valuation methods could affect the reported fair value of these contracts.

***Our business is concentrated in Wisconsin.***

Our business activities, including those of our subsidiaries, are concentrated in Wisconsin. Changes in the economies of Wisconsin and surrounding regions could negatively impact the growth opportunities available to us and our subsidiaries, and the financial condition of our customers and prospects.

***Interest rate movements and market performance affects our employee benefit plan costs.***

Prevailing interest rates affect our assessment and determination of discount rates and are a key assumption in the determination of the costs and funding of our defined benefit pension plans. Changes in rates may impact the amount of expense and timing of contributions to those plans. The performance of the capital markets affects the values of the assets that are held in trust to satisfy the future obligations under our pension and postretirement benefit plans. We have significant obligations in these areas and hold significant assets in these trusts. A decline in the market value of those assets may increase our current and longer-term funding requirements for these obligations. Changes in the value of trust fund assets may affect the level of required contributions to these trusts to meet benefit obligations. Reduced benefit plan assets could result in increased benefit costs in future years and may increase the amount and accelerate the timing of required future funding contributions.

***We are exposed to interest rate risk.***

We are exposed to interest rate risk on our variable rate financing. Borrowing levels under commercial paper arrangements vary from period to period depending upon capital investments and other factors. Such interest rate risk means that we are exposed to increased financing costs and associated cash payments as a result of changes in

the short-term interest rates.

***We are exposed to counterparty credit risk primarily through our regulated energy business.***

Credit risk is the loss and additional expense that may result from counterparty nonperformance. We face credit risk primarily through MGE's regulated energy business. Failure of contractual counterparties to perform their obligations under purchase power agreements, commodity supply arrangements, or other agreements may result in increased expenses for MGE as a result of being forced to cover the shortfall in the spot or short-term market, where prices may be more volatile. That risk may be increased during periods of weak or stressed economic conditions.

***As a holding company, we are dependent on upstream cash flows from our subsidiaries for the payment of dividends on our common stock.***

As a holding company, we have no operations of our own, and our ability to pay dividends on our common stock is dependent on the earnings and cash flows of our operating subsidiaries and their ability to pay upstream dividends or to repay funds to us. Our subsidiaries have financial obligations that must be satisfied before funding us. These obligations include debt service and obligations to trade creditors, among others. Our subsidiaries are also subject to contractual and regulatory restrictions on the payment of dividends.

***Disruptions in the financial markets or changes to our credit ratings may affect our ability to finance at a reasonable cost and in accordance with our planned schedule.***

The credit markets have experienced disruption and uncertainty in prior years. To the extent that such issues affect the ability or willingness of credit providers or investors to participate in the credit markets or particular types of investments, or affect their perception of the risk associated with particular types of investments, our cost of borrowing could be affected. Furthermore, if we are unable to access the capital and credit markets on favorable terms, it could have a material adverse effect on our business, financial condition, results of operations, cash flows and liquidity and our ability to repay or refinance our debt. We also rely on our credit ratings to access the credit markets. If our credit ratings are downgraded for any reason, borrowing costs would increase, the number of potential investors could decrease, or we could be required to provide additional credit assurance, including cash collateral, to contract counterparties.

***Our insurance coverage may not be sufficient to cover losses caused by an operating failure or catastrophic events, including severe weather events, or it may not be available at a reasonable cost, or available at all.***

We may experience increased costs and difficulties in obtaining insurance coverage for risks that could arise from our ordinary operations. We or our contractors and customers could continue to experience coverage reductions and/or increased insurance costs in future years. No assurance can be given that future losses will not exceed the limits of our insurance coverage. Uninsured losses and increases in the cost of insurance may not be recoverable in customer rates. A loss that is not fully insured or cannot be recovered in customer rates could materially affect our financial condition, results of operations, liquidity, and cash flows. In addition, we are unable to predict whether we would be allowed to recover in rates the increased costs of insurance or the costs of any uninsured losses. If the amount of insurance is insufficient or otherwise unavailable, or if we are unable to obtain insurance at a reasonable cost or recover in rates the costs of any uninsured losses, our financial condition, results of operations, liquidity, and cash flows could be materially affected.

***General economic conditions may affect our operating revenues and our counterparty risks.***

MGE Energy's and MGE's operations are affected by local, national and worldwide economic conditions. The consequences of a prolonged period of reduced economic activity may include lower demand for energy, uncertainty regarding energy prices and the capital and commodity markets, and increased credit risk. A decline in energy consumption may adversely affect our revenues and future growth. Increased credit risk reflects the risk that our retail customers will not pay their bills in a timely manner or at all, which may lead to a reduction in liquidity and an eventual increase in bad debt expense.

***The stock market can be volatile, and various factors could cause our stock price to decline.***

The stock market has experienced, and may continue to experience, fluctuations that significantly impact the market prices of securities issued by many companies. Many factors affect the volatility and price of our common stock in addition to our operating results and prospects, including changes in conditions locally and in the broader economy. These conditions include technological change, the level of interest rates and yields on other investments, and the effects of the other risk factors discussed in this report. Our stock price could fluctuate significantly in response to our quarterly or annual results, as well as factors affecting the broader economy that are beyond our control.

**Item 1B. Unresolved Staff Comments.**

**MGE Energy and MGE**

None.

## Item 2. Properties.

### Electric Generation

Net summer rated capacity in service as of December 31, 2020, was as follows:

Plants	Location	Commercial Operation Date	Fuel	Nameplate Capacity (MW)	Net Summer Rated Capacity (MW) <sup>(a)</sup>	No. of Units
Steam plants:						
Columbia	Portage, WI	1975 & 1978	Low-sulfur coal	211	216 <sup>(b)(c)</sup>	2
Blount	Madison, WI	1957 & 1961	Gas	100	95 <sup>(f)</sup>	2
WCCF	Madison, WI	2005	Gas/oil	157	126 <sup>(d)</sup>	2
Elm Road Units	Oak Creek, WI	2010 & 2011	Coal	106	105 <sup>(b)(e)</sup>	2
Combustion	Madison, WI	1964-2000	Gas/oil	197	146 <sup>(f)</sup>	6
	Marinette, WI					
Portable generators	Madison, WI	1998-2019	Diesel	56	54 <sup>(f)</sup>	58
Solar arrays	Middleton, WI	2020	Solar	5	3 <sup>(f)(i)</sup>	1
	Madison, WI	2020	Solar	9	5 <sup>(f)(i)</sup>	1
	Two Creeks, WI	2020	Solar	50	25 <sup>(g)(i)</sup>	1
Wind turbines	Townships of Lincoln and Red River, WI	1999	Wind	11	1 <sup>(f)</sup>	17
	Township of Brookfield, IA	2008	Wind	30	4 <sup>(f)</sup>	18
	Counties of Dodge and Fond du Lac, WI	2008	Wind	18	2 <sup>(h)</sup>	86
	Howard County, IA	2019	Wind	66	20 <sup>(f)(i)</sup>	33
Total				1,016	802	

(a) Net summer rated capacity is determined by annual testing (measured in July) and may vary from year to year due to, among other things, the operating and physical conditions of the units.

(b) Baseload generation.

(c) MGE's share. See "Columbia" below.

(d) Facility is jointly owned. Based on the terms of the joint plant agreement between MGE and the UW, the UW has the ability to reduce net capability of these units by approximately 17 MW in the summer. The net summer rated capacity shown reflects this decrease. See "WCCF" below.

(e) MGE's share. See "Elm Road Units" below.

(f) These facilities are owned by MGE.

(g) Facility is jointly owned with WPSC. Power from this facility is shared in proportion to each owner's ownership interest. MGE's share is 33%.

(h) Facility is jointly owned with WPL and WPSC. Power from this facility is shared in proportion to each owner's ownership interest. Commercial operation date of facility is 2008; MGE purchased its ownership interest in 2018. MGE's share is 12.8%.

(i) As of December 31, 2020, Saratoga had no summer net rated capacity that qualified for the yearly MISO capacity auction due to the timing of the completion of upgrades under the Generator Interconnection Agreement, which is planned for completion in July 2022.

(j) As of December 31, 2020, the solar arrays had no summer net rated capacity that qualified for the yearly MISO capacity auction due to the timing of the date they were placed into service.

#### Columbia

MGE and two other utilities jointly own Columbia, a coal-fired generating facility consisting of two units, which, as of December 31, 2020, accounted for 27% of MGE's net summer rated capacity. Power from this facility is shared in proportion to each owner's ownership interest. As of December 31, 2020, MGE had a 19% ownership interest in Columbia. The other owners are WPL, which operates Columbia, and WPSC. In February 2021, MGE and the other co-owners announced plans to retire Columbia. The co-owners intend to retire Unit 1 by the end of 2023 and Unit 2 by the end of 2024. Final timing and retirement dates for Units 1 and 2 are subject to PSCW and regional regulatory reviews, including identification and approval of energy and capacity resources to replace Columbia.

The Columbia units burn low-sulfur sub-bituminous coal obtained from the Powder River Basin coal fields located in Wyoming. The coal inventory supply for the Columbia units was approximately 70 days as of December 31, 2019, and approximately 71 days as of December 31, 2020.

#### Elm Road Units and WCCF

MGE Power Elm Road and two other utilities own undivided interests in the Elm Road Units, consisting of two

units, which, as of December 31, 2020, accounted for 13% of MGE's net summer rated capacity. Power from these units is shared in proportion to each owner's ownership interest. MGE Power Elm Road owns an 8.33% ownership interest in the Elm Road Units, and its interest in the Elm Road Units is leased to MGE. The other owners are Wisconsin Energy Corporation, which operates the units, and WPPI Energy, Inc. The Elm Road Units burn bituminous coal obtained from northern West Virginia and southwestern Pennsylvania, and sub-bituminous coal from the Powder River Basin in Wyoming. MGE's share of the coal inventory supply for the Elm Road Units increased from approximately 53 days as of December 31, 2019, to approximately 83 days as of December 31, 2020. MGE Power Elm Road's share of the Elm Road Units is reflected in "Property, plant, and equipment, net" on MGE Energy's and MGE's consolidated balance sheets.

MGE Power West Campus and the UW jointly own undivided interests in a natural gas-fired cogeneration facility on the UW campus. The facility has the capacity to produce 30,000 tons of chilled water, 500,000 pounds per hour of steam, and approximately 150 MW of electricity. The UW owns 45% of the facility, which represents its interest in the chilled-water and steam assets. These assets are used to meet a part of the UW's need for air-conditioning and steam-heat capacity. MGE Power West Campus owns 55% of the facility, which represents its interest in the electric generating assets. These assets are used to provide electricity to MGE's customers. The UW's share of the plant and portion of the earnings from the WCCF are not reflected in the consolidated financial statements of MGE Energy or MGE. MGE Power West Campus's share of the plant is reflected in "Property, plant, and equipment, net" on MGE Energy's and MGE's consolidated balance sheets.

MGE leases MGE Power Elm Road's ownership interest in the Elm Road Units pursuant to two separate facility leases. MGE leases the electric generating assets owned by MGE Power West Campus and is responsible for operating the entire facility. At the end of the respective lease terms, MGE may, at its option, renew the facility lease for an additional term, purchase the leased ownership interest at fair market value, or allow the lease to end. The financial terms of the facility lease agreements are as follows:

Facilities	Assumed Capital Structure	Assumed Return on Equity	Lease Expiration
Elm Road Units	55% equity and 45% long-term debt	12.7%	Unit 1: 2040 Unit 2: 2041
WCCF	53% equity and 47% long-term debt	12.1%	2035

### Electric and Gas Distribution Facilities

As of December 31, 2020, MGE owned 854 miles of overhead electric distribution line and 1,272 miles of underground electric distribution cable, all of which are located in Wisconsin. These electric distribution facilities are connected by 52 substations, installed with a capacity of 1,202,500 kVA. MGE's gas facilities include 2,990 miles of distribution mains, which are all owned by MGE.

A significant portion of MGE's electric and gas distribution facilities are located above or underneath highways, streets, other public places, or property otherwise not owned by MGE. MGE believes that it has satisfactory rights to use those places or property in the form of permits, grants, easements, and licenses; however, it has not necessarily undertaken to examine the underlying title to the land upon which the rights rest.

### Encumbrances

The principal plants and properties of MGE are subject to the lien of its Indenture of Mortgage and Deed of Trust dated as of January 1, 1946, as amended and supplemented, under which MGE's first mortgage bonds are issued. As of December 31, 2020, there were \$1.2 million of first mortgage bonds outstanding. MGE Power Elm Road has collaterally assigned its right to lease payments from MGE for the Elm Road Units in order to secure the repayment of \$52.0 million of senior secured notes issued by MGE Power Elm Road. MGE Power West Campus has collaterally assigned its right to lease payments from MGE for the WCCF in order to secure the repayment of \$37.7 million of senior secured notes issued by MGE Power West Campus. See Footnote 14 of the Notes to Consolidated Financial Statements in this Report for additional information regarding these first mortgage bonds and the entitlement of certain senior notes to be equally and ratably secured if MGE issues additional first mortgage bonds.

**Item 3. Legal Proceedings.****MGE Energy and MGE**

MGE Energy and its subsidiaries, including MGE, from time to time are involved in various legal proceedings that are handled and defended in the ordinary course of business.

See "Environmental" under Item 1. Business and Footnote 16.a. of the Notes to Consolidated Financial Statements in this Report for a description of several environmental proceedings involving MGE. See Footnote 16.b. of the Notes to Consolidated Financial Statements under Item 8. Financial Statements and Supplementary Data in this Report for a description of other legal matters.

**Item 4. Mine Safety Disclosures.**

**MGE Energy and MGE** - Not applicable.

## PART II.

### Item 5. Market for Registrants' Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities.

#### Market for Common Equity

##### *MGE Energy*

MGE Energy common stock is traded on Nasdaq under the symbol MGEE. As of January 31, 2021, there were approximately 38,996 shareholders of record. For additional information regarding dividends and dividend restrictions, see Footnote 15 of the Notes to the Consolidated Financial Statements under Item 8. Financial Statements and Supplementary Data in this Report.

##### *MGE*

As of January 31, 2021, there were 17,347,894 outstanding shares of MGE common stock, all of which were held by MGE Energy. There is no market for shares of common stock of MGE.

#### Issuer Purchases of Equity Securities

##### *MGE Energy*

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(a)</sup>	Maximum Number (or Approximate Dollar Value) of Shares That May Yet Be Purchased Under the Plans or Programs <sup>(a)</sup>
October 1-31, 2020	7,460	\$ 65.05	-	-
November 1-30, 2020	7,318	70.19	-	-
December 1-31, 2020	36,931	73.10	-	-
Total	51,709	\$ 71.53	-	-

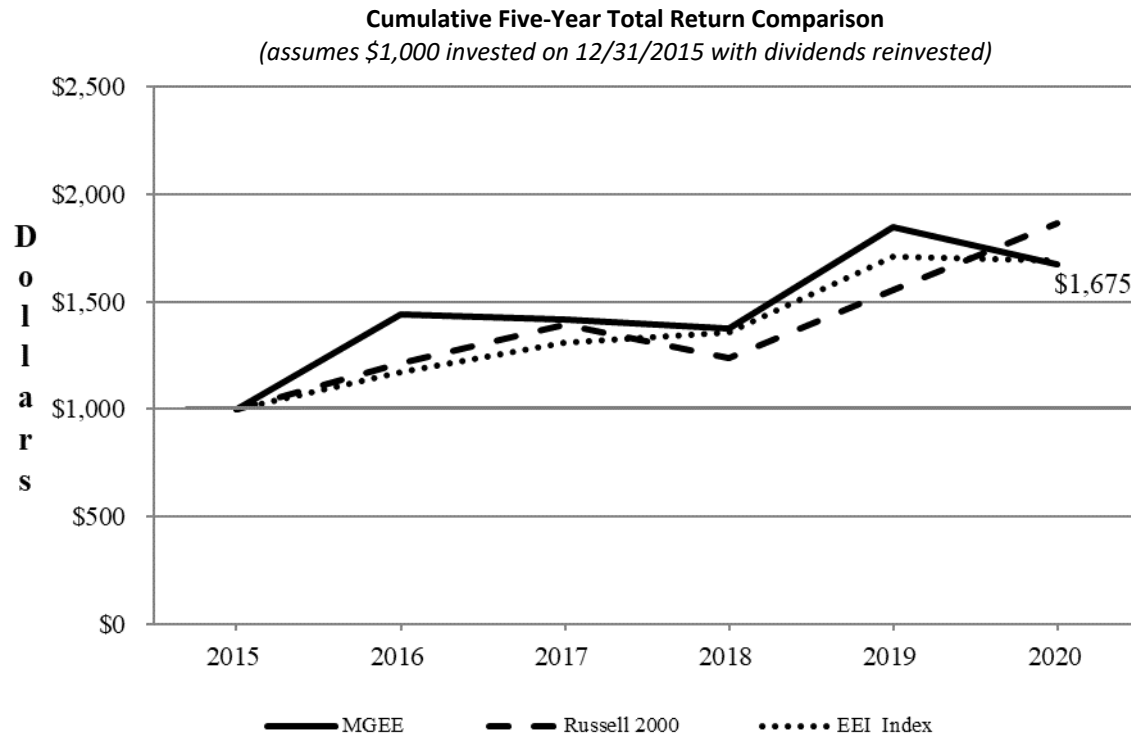
- (a) Under the MGE Energy, Inc. Direct Stock Purchase and Dividend Reinvestment Plan (Stock Plan), common stock shares deliverable to plan participants may be either newly issued shares or shares purchased on the open market, as determined from time to time by MGE Energy. During 2020, MGE Energy's transfer agent used open market purchases to provide shares to meet obligations to participants in the Stock Plan. The shares are purchased on the open market through the transfer agent's securities broker-dealer and then are reissued under the Stock Plan as needed to meet share delivery requirements. The volume and timing of share repurchases in the open market depends upon the level of dividend reinvestment and optional share purchases being made from time to time by plan participants. As a result, there is no specified maximum number of shares to be repurchased and no specified termination date for the repurchases. All shares issued through the Stock Plan, whether newly issued or open market purchases, are sold pursuant to a registration statement that was filed with the SEC and is currently effective.

##### *MGE*

None.

## Stock Performance Graph

The performance graph below illustrates a five-year comparison of cumulative total returns based on an initial investment of \$1,000 in MGE Energy common stock, as compared with the Russell 2000 and the EEI Index for the period 2015 through 2020. The EEI Index reflects the consolidated performance of Edison Electric Institute investor-owned electric utilities.



### Value of Investment as of December 31,

	2015	2016	2017	2018	2019	2020
MGE	\$ 1,000	\$ 1,439	\$ 1,418	\$ 1,377	\$ 1,846	\$ 1,675
Russell 2000	1,000	1,213	1,391	1,238	1,553	1,864
EEI Index	1,000	1,174	1,312	1,360	1,711	1,691



## Item 6. Selected Financial Data.

### MGE Energy, Inc.

(In thousands, except per share amounts)

	For the Years Ended December 31,				
	2020	2019	2018	2017	2016
<b>Summary of Operations</b>					
Operating revenues:					
Electric	\$ 394,372	\$ 408,980	\$ 402,001	\$ 414,274	\$ 410,202
Gas	144,261	159,875	157,767	148,825	134,543
Total operating revenues	538,633	568,855	559,768	563,099	544,745
Operating expenses	408,882	438,087	426,151	419,180	400,801
Other general taxes	19,754	19,858	19,410	19,294	20,062
Operating income	109,997	110,910	114,207	124,625	123,882
Other income, net	25,365	18,811	17,055	14,399	14,057
Interest expense, net	(23,521)	(23,063)	(19,609)	(19,324)	(19,866)
Income before taxes	111,841	106,658	111,653	119,700	118,073
Income tax provision <sup>(a)</sup>	(19,423)	(19,784)	(27,434)	(22,094)	(42,513)
Net income	\$ 92,418	\$ 86,874	\$ 84,219	\$ 97,606	\$ 75,560
Average shares outstanding <sup>(b)</sup>	35,612	34,668	34,668	34,668	34,668
Basic and diluted earnings per share	\$ 2.60	\$ 2.51	\$ 2.43	\$ 2.82	\$ 2.18
Dividends declared per share	\$ 1.45	\$ 1.38	\$ 1.32	\$ 1.26	\$ 1.21
<b>Assets</b>					
Electric	\$ 1,421,302	\$ 1,308,277	\$ 1,193,083	\$ 1,058,988	\$ 1,038,308
Gas	444,702	408,001	377,005	354,875	329,538
Nonregulated energy operations	254,298	258,004	265,301	270,384	271,277
Transmission investments <sup>(a)</sup>	74,480	71,668	66,366	61,783	74,535
All others	495,483	443,278	465,661	485,548	465,202
Eliminations	(436,614)	(407,564)	(378,798)	(376,396)	(377,800)
Total assets	\$ 2,253,651	\$ 2,081,664	\$ 1,988,618	\$ 1,855,182	\$ 1,801,060
<b>Capitalization including Short-Term Debt</b>					
Common shareholders' equity	\$ 976,000	\$ 855,676	\$ 816,644	\$ 778,187	\$ 724,088
Long-term debt <sup>(c)</sup>	524,074	543,400	497,896	422,613	387,124
Short-term debt	52,500	-	13,000	4,000	-
Total capitalization and short-term debt	\$ 1,552,574	\$ 1,399,076	\$ 1,327,540	\$ 1,204,800	\$ 1,111,212

(a) In December 2017, a one-time tax impact, as a result of the 2017 Tax Act, decreased income tax provision and transmission investment \$21.7 million and \$20.4 million, respectively.

(b) In May 2020, MGE Energy issued 1.5 million shares of its common stock in an underwritten public offering.

(c) Includes long-term debt due within one year, debt issuance costs, and unamortized discount.

## ***Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.***

### ***General***

MGE Energy is an investor-owned public utility holding company operating through subsidiaries in five business segments:

- Regulated electric utility operations, conducted through MGE,
- Regulated gas utility operations, conducted through MGE,
- Nonregulated energy operations, conducted through MGE Power and its subsidiaries,
- Transmission investments, representing our equity investment in ATC and ATC Holdco, and
- All other, which includes corporate operations and services.

Our principal subsidiary is MGE, which generates and distributes electric energy, distributes natural gas, and represents a majority portion of our assets, liabilities, revenues, and expenses. MGE generates, purchases, and distributes electricity to approximately 157,000 customers in Dane County, Wisconsin, including the city of Madison, and purchases and distributes natural gas to approximately 166,000 customers in the Wisconsin counties of Columbia, Crawford, Dane, Iowa, Juneau, Monroe, and Vernon.

Our nonregulated energy operations own interests in electric generating capacity that is leased to MGE. The ownership/leasing structure was adopted under applicable state regulatory guidelines for MGE's participation in these generation facilities, consisting principally of a stable return on the equity investment in the new generation facilities over the term of the related leases. The nonregulated energy operations include an ownership interest in two coal-fired generating units in Oak Creek, Wisconsin and a partial ownership of a cogeneration project on the UW-Madison campus. A third party operates the units in Oak Creek, and MGE operates the cogeneration project. Due to the nature of MGE's participation in these facilities, the results of MGE Energy's nonregulated operations are also consolidated into MGE's consolidated financial position and results of operations under applicable accounting standards.

We have not included a discussion of results of operations and changes in financial position for the year ended December 31, 2019, as compared to the year ended December 31, 2018. That discussion can be found in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our annual report on Form 10-K for the year ended December 31, 2019, which was filed with the SEC on February 26, 2020.

### ***Executive Overview***

Our primary focus today and for the foreseeable future is our core utility customers at MGE as well as creating long-term value for our shareholders. MGE continues to face the challenge of providing its customers with reliable power at competitive prices. MGE works on meeting this challenge by investing in more efficient generation projects, including renewable energy sources. MGE continues to examine and pursue opportunities to reduce the proportion that coal generation represents in its generation mix, as evidenced by its most recent announcement of the retirement of Columbia and its growing ownership of renewable generation sources. MGE will continue to focus on growing earnings while controlling operating and fuel costs. MGE's goal is to provide safe and efficient operations in addition to providing customer value. We believe it is critical to maintain a strong credit rating consistent with financial strength in MGE as well as the parent company in order to accomplish these goals.

We earn revenue and generate cash from operations by providing electric and natural gas utility services, including electric power generation and electric power and gas distribution. The earnings and cash flows from the utility business are sensitive to various external factors, including:

- Weather, and its impact on customer sales,
- Economic conditions, including current business activity and employment and their impact on customer demand,
- Regulation and regulatory issues, and their impact on the timing and recovery of costs,
- Energy commodity prices, including natural gas prices,
- Equity price risk pertaining to pension related assets,

- Credit market conditions, including interest rates and our debt credit rating,
- Environmental laws and regulations, including adopted and pending environmental rule changes,
- Governmental efforts to address the COVID-19 pandemic, including restrictions on activity, increased employee health and welfare costs, and precautions for dealing with members of the public, and
- Other factors listed in Item 1A. Risk Factors of this Report.

For the year ended December 31, 2020, MGE Energy's earnings were \$92.4 million or \$2.60 per share compared to \$86.9 million or \$2.51 per share for the same period in the prior year. MGE's earnings for the year ended December 31, 2020, were \$63.1 million compared to \$58.4 million for the same period in the prior year.

MGE Energy's net income was derived from our business segments as follows:

<i>(In millions)</i> <b>Business Segment:</b>	Year Ended December 31,	
	2020	2019
Electric Utility	\$ 50.5	\$ 46.3
Gas Utility	14.2	14.1
Nonregulated Energy	20.8	20.4
Transmission Investments	7.4	6.9
All Others	(0.5)	(0.8)
Net Income	<u>\$ 92.4</u>	<u>\$ 86.9</u>

Our net income during 2020 compared to 2019 primarily reflects the effects of the following factors:

#### *Electric Utility*

Electric net income increased primarily due to AFUDC equity earned from the construction of Two Creeks and Badger Hollow I and II and savings in operating and maintenance costs. An increase in assets included in rate base also contributed to increased earnings for 2020. A reduction of retail sales driven by the impacts of COVID-19 and associated governmental regulations affected electric earnings in 2020. During 2020, commercial retail sales decreased approximately 7%, compared to the same period in the prior year. This decrease was partially mitigated by an increase in residential sales of approximately 6%, compared to the same period in the prior year. As businesses shifted their workforce to a remote work environment, residential sales increased.

During 2020, the following events occurred:

**2019/2020 Rate Change Settlement:** In December 2018, the PSCW approved a settlement agreement between MGE and intervening parties in the then-pending rate case. The settlement decreased electric rates by 2.24%, or \$9.2 million, in 2019. The decrease in electric rates reflected the ongoing impacts of the 2017 Tax Act. Lower fuel costs and an increase in rate base from renewable generation assets further impacted the rate change. In 2020, electric rates decreased a further 0.84%, or \$3.4 million, as approved by the PSCW in December 2019 in MGE's 2020 Fuel Cost Plan, which reflected lower fuel costs. The settlement agreement increased gas rates by 1.06%, or \$1.7 million, in 2019 and 1.46%, or \$2.4 million, in 2020. The gas increase covered infrastructure costs. It also reflected the impacts of the 2017 Tax Act.

**PSCW Approval of Deferral of Pension and Other Postretirement Benefit Costs:** As a result of lower investment returns in the fourth quarter of 2018, pension and postretirement benefit costs increased in 2019. In August 2019, the PSCW approved MGE's request to defer the difference between estimated pension and other postretirement costs included in the 2019 and 2020 rate settlement and actual costs incurred. During 2019, MGE deferred approximately \$6.2 million of pension and other postretirement costs. During 2020, MGE collected approximately \$0.9 million of pension and other postretirement costs, which reduced the amount deferred in 2019. Net pension and other postretirement costs deferred over the two-year period is approximately \$5.3 million as of December 31, 2020. The net deferred costs were factored into the 2021 rate settlement.

**Utility Solar:** Larger solar generation projects recently completed or under construction are shown in the following table. Incurred costs are reflected in "Property, plant, and equipment, net" for projects placed in service or "Construction work in progress" for projects under construction on the consolidated balance sheets. MGE has received specific approval to recover 100% AFUDC on Two Creeks and Badger Hollow I and II. After tax, MGE recognized \$3.4 million, \$2.2 million, and \$0.2 million of AFUDC equity on Two Creeks and Badger Hollow I and II, respectively, during construction.

Project	Ownership Interest	Share of Generation	Share of Estimated Costs	Costs Incurred as of December 31, 2020 <sup>(a)</sup>	Date of Commercial Operation
Two Creeks	33%	50 MW	\$65 million	\$62.9 million	November 2, 2020
Badger Hollow I	33%	50 MW	\$65 million	\$54.7 million	April 2021 <sup>(b)</sup>
Badger Hollow II	33%	50 MW	\$65 million	\$5.2 million	December 2022 <sup>(b)</sup>
O'Brien	100%	20 MW	\$32 million	\$7.6 million	Mid 2021 <sup>(b)</sup>

(a) Excluding AFUDC.

(b) Estimated date of commercial operation.

**Equity Issuance:** In May 2020, MGE Energy issued 1.5 million shares of common stock in an underwritten offering. The net proceeds of \$79.6 million are being used for general corporate purposes including funding capital expenditures by MGE in projects such as Two Creeks, Badger Hollow I and II, Renewable Energy Rider solar projects, and other capital projects.

**Deferred Fuel Costs – Subject to Refund:** As of December 31, 2020, MGE had deferred \$3.2 million of 2020 fuel savings. These costs will be subject to the PSCW's annual review of 2020 fuel costs, expected to be completed during 2021.

During 2021, several items may affect us, including:

**2021 Rate Settlement Agreement:** In December 2020, the PSCW approved MGE's settlement agreement for its 2021 rate case. The settlement agreement has a zero percent increase for electric rates and an approximately 4% increase for gas rates in 2021. See "Other Matters" below for additional information on the 2021 rate settlement agreement.

**2019 Annual Fuel Proceeding:** The PSCW issued a final decision in the 2019 fuel rules proceedings regarding \$1.5 million of deferred savings giving MGE the option either to use the \$1.5 million as part of the settlement to MGE's 2021 rate case or to refund the balance to customers in October 2020. MGE elected to include the savings as part of the 2021 Rate Settlement Agreement described above, reducing electric retail rates as opposed to a one-time credit back to retail customers. There was no change to the refund in the fuel rules proceedings from the amount MGE deferred in the previous year.

**Tax Reform:** Pursuant to the 2017 Tax Act, deferred income tax balances as of December 31, 2017, were remeasured to reflect the decrease in the corporate tax rate. A regulatory liability of approximately \$131 million was recorded to reflect the fact that changes in income taxes are generally passed through in customer rates for the regulated utility. The amount and timing of the cash impact will depend on the period over which certain income tax benefits are provided to customers. Approximately \$117 million of the regulatory liability is a protected benefit that is being returned to customers using a normalization method of accounting. IRS normalization rules limit the rate at which MGE can return the benefits to customers. As determined in the rate settlement agreement for 2019 and 2020, MGE has included approximately \$8.3 million of the protected benefit in base rates. The approved rate settlement agreement for 2021 includes approximately \$5.3 million of the protected benefit in base rates and \$18.2 million of the unprotected benefit in electric base rates. The collection of the remaining unprotected portion related to gas will be addressed by the PSCW in a future rate case.

**ATC Return on Equity:** Several parties have filed complaints with the FERC seeking to reduce the ROE used by MISO transmission owners, including ATC. Any change to ATC's ROE could result in lower equity earnings and distributions from ATC in the future. We derived approximately 8.0% of our net income for the year ended December 31, 2020, from our investment in ATC. See "Other Matters" below for additional information concerning ATC.

**Environmental Initiatives:** There are proposed legislative rules and initiatives involving matters related to air emissions, water effluent, hazardous materials, and greenhouse gases, all of which affect generation plant capital expenditures and operating costs as well as future operational planning. At present, it is unclear how the changes in the presidential, congressional, and EPA administrations may affect existing, pending or new legislative or rulemaking proposals or regulatory initiatives. Such legislation and rulemaking could significantly affect the costs of

owning and operating fossil-fueled generating plants. We would expect to seek and receive recovery of any such costs in rates. However, it is difficult to estimate the amount of such costs due to the uncertainty as to the timing and form of the legislation and rules, and the scope and time of the recovery of costs in rates, which may lag after those costs have been incurred.

**EPA's Affordable Clean Energy (ACE) Rule:** In January 2021, the U.S. Court of Appeals for the District of Columbia Circuit (D.C. Circuit) vacated and remanded to the EPA the ACE Rule and the repeal of the predecessor Clean Power Plan Rule, both of which regulated greenhouse gas emissions from existing electric generation units pursuant to Section 111(d) of the Clean Air Act. MGE is still evaluating this D.C. Circuit decision for what impacts it may have to MGE operations. MGE will continue to evaluate the rule development and monitor ongoing and potential legal proceedings.

**Future Generation - Riverside:** In 2016, MGE entered into an agreement with WPL under which MGE may acquire up to 50 MW of capacity in a gas-fired generating plant being constructed by WPL at its Riverside Energy Center in Beloit, Wisconsin, during the five-year period following the in-service date of the plant. The plant was placed in service in May 2020. MGE has not yet determined whether it will exercise its option in the Riverside plant. A determination will be made based on a variety of factors during the option period. If MGE acquires 50 MW of capacity, the estimated cost would be approximately \$50 million.

**Columbia:** In February 2021, MGE, along with the co-owners, announced plans to retire the two unit coal-fired Columbia generating plant near Portage, Wisconsin. MGE currently owns 19% of the facility. The co-owners intend to retire Unit 1 by the end of 2023 and Unit 2 by the end of 2024. Final timing and retirement dates for Units 1 and 2 are subject to PSCW and regional regulatory reviews, including identification and approval of energy and capacity resources to replace Columbia. MGE continues to evaluate additional investments to replace the generation from Columbia while maintaining electric service reliability. These investments include cost-effective, clean energy projects to help achieve MGE's carbon reduction goals. See "Capital expenditures" below for additional information on forecasted capital expenditures.

**Paris Solar-Battery Park:** In February 2021, MGE, We Energies, and WPSC, filed a joint application with the PSCW for approval to acquire and construct the Paris Solar-Battery Park in the Town of Paris in Kenosha County, Wisconsin. If approved, MGE will own 20 MW of solar generation capacity and 11MW of battery storage. MGE's share of capital costs is expected to be approximately \$43 million and the project is anticipated to be completed by 2023.

### ***COVID-19 Update***

With the global outbreak of the Coronavirus Disease 2019 (COVID-19) and the declaration of a pandemic by the World Health Organization on March 11, 2020, U.S. governmental authorities have deemed electric and gas utilities to be critical infrastructure. MGE Energy therefore has an obligation to keep operating and maintaining our critical electric and gas infrastructure. Since then, MGE Energy has been subject to, and is following, local, state and federal public health and safety regulations and guidance to control the pandemic. MGE Energy has operated continuously throughout the pandemic and suffered no material disruptions in service or employment.

We discuss various COVID-19-related events and their effects below:

- ***Governmental Actions.*** State and local governments and regulators have taken steps to address the pandemic and its effects, which have affected levels of economic activity, revenues and expense.
  - ***State and Local Governments:*** State and local governments issued orders and regulations to restrict or manage business and individual activity that continues to evolve in response to changing health metrics and safety and health guidance. A late March 2020 statewide Stay at Home order has given way to phased activity resumption driven by local governments and public health departments. Actions by Public Health Madison & Dane County (PHMDC) affect Dane County, which comprises a majority of MGE's service area. PHMDC has issued several Emergency Orders and the Forward Dane plan (collectively, the PHMDC Directives) addressing activity during the pandemic. The PHMDC Directives provide for scaled re-opening of businesses and increased activity for residents based upon specific health metrics and consist of guidance and regulations

concerning how and when residents can interact and conduct business. In general, the PHMDC Directives: identify "essential" and "non-essential" businesses; regulate how those entities may conduct business safely; restrict capacity inside businesses depending upon business type and sector; limit the size of private and public gatherings; and require masks for occupants of public and private buildings. The PHMDC Directives are subject to modification throughout the pandemic based upon current health metrics in the county.

- *Regulatory – PSCW Orders:* On March 24, 2020, the PSCW ordered changes to the tariff provisions of all public utilities in Wisconsin in response to the COVID-19 pandemic. The order prohibited late payment charges, service disconnections, service refusals, and cash deposits as a condition of service. The order also required utilities to offer deferred payment arrangements to customers. The order resulted in increased bad debt expense and foregone revenue from late payment charges. This order, as it pertained to the prohibitions on service disconnections for residential customers, was in effect until November 1, 2020, at which time the annual winter disconnection moratorium began and continues until April 15, 2021. All other restrictions were lifted in July 2020. As permitted by regulatory action, MGE notified the PSCW of its election to continue to waive late fees until April 1, 2021, for all customer classes and seek recovery in a future period.

On March 24, 2020, the PSCW issued a further order authorizing deferral of expenditures incurred to ensure the provision of safe, reliable, and affordable access to utility services during the COVID-19 pandemic and late payment charges. Expenditures included items such as bad debt expense and personal protective equipment. Foregone revenue from late payment charges and the potential delay in payments from customers is expected to impact the timing of cash inflows. Subject to PSCW approval of recovery, foregone late payment charges are expected to be recognized as revenue when they are collected from customers, and deferred expenditures are expected to be recognized as a regulatory asset as costs are incurred (meaning that those expenditures will affect cash flows when paid but will not affect income until recovery is permitted by the PSCW). Recovery of expenditures and late payment charges is expected to be addressed in future rate proceedings. While management believes that cost recovery is probable, the timing of collection from customers cannot be estimated at this time. Management will continue to assess the probability of recovery of deferred costs as the COVID-19 pandemic progresses.

- *Liquidity:* We remain focused on maintaining strong credit quality. Subject to the duration and severity of the COVID-19 pandemic, we believe we have adequate liquidity on hand to support future operations and capital expenditures over the next twelve months. See "Liquidity and Capital Resources – Credit Facilities" below for more information about our credit facilities.
- *Revenue and Expense Impacts:* We began to see the impacts of COVID-19 and associated governmental regulations on customer demand in late March through the remainder of 2020 and continue to see lower retail sales. Commercial sales were down approximately 7% in 2020 compared to the same period in the prior year. In 2020, the reduction in revenue due to COVID-19 and associated governmental regulations was partially offset by cost containment measures. Residential sales increased approximately 6% in 2020 compared to the same period in the prior year. This effect was driven by businesses shifting their workforces to a remote work environment. We expect the commercial and residential sales trends to continue in 2021. We will continue to assess the degree to which our discretionary operations and maintenance expenses and capital spending can be reduced. This reduction has consisted, and is expected to continue to consist of deferring nonessential spending and management efforts to control spending, which includes travel, conferences, and other discretionary costs.
- *Capital Expenditures:* During 2020, we shifted the timing of expenditures for current and forecasted capital projects. COVID-19 and associated governmental regulations did not significantly delay or disrupt the Two Creeks solar project, which entered commercial operation in November 2020. Badger Hollow I solar project was expected to be completed in 2020 and is now expected to be completed in April 2021. Badger Hollow II was expected to be completed in 2021 and is now expected to be completed in December 2022. The O'Brien solar project was expected to be completed by January 1, 2021 and is now

expected to be completed in mid-2021. We have delayed other non-essential utility capital expenditures initially planned for 2020. No significant increase in costs is expected due to the delay. These updates have been reflected in our 2021-2023 capital expenditure forecast included under "Liquidity and Capital Resources" below.

- *Operations:* To date, MGE Energy has experienced no material disruptions in utility operations. Our administrative personnel have been working largely remotely, and our field operations have not been materially affected. We have seen some additional expenses associated with personal protective equipment and enhanced efforts to protect our personnel from the virus, which have been deferred as a regulatory asset.

As the duration of general economic disruption continues, so does the potential of a material adverse impact on our business. For this reason, although sales for 2020 were negatively impacted by COVID-19 and associated governmental regulations, we cannot reasonably estimate with any degree of certainty the actual impact they may have on future results of operations, financial position, and liquidity. See Part II, Item 1A. "Risk Factors" "Pandemic virus or diseases, including COVID-19, could have a material adverse effect on our business, financial condition and liquidity."

The following discussion is based on the business segments as discussed in Footnote 22 of the Notes to Consolidated Financial Statements in this Report.

## **Results of Operations**

Results of operations include financial information prepared in accordance with GAAP and electric and gas margins, both of which are non-GAAP measures. Electric margin (electric revenues less fuel for electric generation and purchase power costs) and gas margin (gas revenues less cost of gas sold) are non-GAAP measures because they exclude items used in the calculation of the most comparable GAAP measure, operating income. These exclusions consist of nonregulated operating revenues, other operations and maintenance expense, depreciation and amortization expense, and other general taxes expense. Thus, electric and gas margin are not measures determined in accordance with GAAP.

Management believes that electric and gas margins provide a meaningful basis for evaluating and managing utility operations since fuel for electric generation, purchase power costs, and cost of gas sold are passed through without mark-up to customers in current rates. As a result, management uses electric and gas margins internally when assessing the operating performance of our segments. The presentation of utility electric and gas margins herein is intended to provide supplemental information for investors regarding operating performance. These electric and gas margins may not be comparable to how other entities calculate utility electric and gas margin or similar measures. Furthermore, these measures are not intended to replace operating income as determined in accordance with GAAP as an indicator of operating performance.

**Year Ended December 31, 2020, Versus the Year Ended December 31, 2019**

(In millions)	Year Ended December 31,		
	2020	2019	\$ Change
Electric revenues	\$ 393.7	\$ 408.3	\$ (14.6)
Fuel for electric generation	(41.7)	(52.0)	10.3
Purchased power	(42.9)	(41.5)	(1.4)
Total Electric Margins (non-GAAP)	309.1	314.8	(5.7)
Gas revenues	144.3	159.9	(15.6)
Cost of gas sold	(63.7)	(79.8)	16.1
Total Gas Margins (non-GAAP)	80.6	80.1	0.5
Other operating revenues	0.7	0.7	-
Other operations and maintenance	(186.4)	(193.3)	6.9
Depreciation and amortization	(74.2)	(71.6)	(2.6)
Other general taxes	(19.8)	(19.8)	-
<b>Operating Income</b>	<b>\$ 110.0</b>	<b>\$ 110.9</b>	<b>\$ (0.9)</b>

Operating income for 2020 compared to 2019 primarily reflects the effects of the following factors:

- Electric revenues and fuel costs
  - A \$14.6 million decrease in electric revenue driven by lower commercial sales as a result of the COVID-19 pandemic and associated governmental regulations and restrictions on activity, partially offset by increased residential sales. Commercial retail sales decreased by 7.2% and residential sales increased by 5.9%, when compared to the prior year.
  - A \$10.3 million decrease in fuel for electric generation reflecting lower generation and market costs and a decrease in overall customer demand.
  - A \$1.4 million increase in purchased power costs primarily due to higher market purchases as a result of lower internal generation.
- Gas revenues and cost of gas sold
  - A \$15.6 million decrease in gas revenues driven by lower customer demand resulting from milder weather in the first and fourth quarters of 2020 and lower cost of gas, which is recovered on a pass-through basis in revenues.
  - A \$16.1 million decrease in cost of gas sold driven by lower cost per therm of gas. Average cost per therm decreased approximately 11%.
- A \$6.9 million decrease in other operations and maintenance. See "Consolidated operations and maintenance expenses" section below for a description of the factors contributing to the decrease.
- A \$2.6 million increase in depreciation and amortization expense driven by the timing of the commercial operation of Saratoga that took place in February 2019 as discussed in the "Consolidated depreciation expense" section below.



## Electric sales and revenues

The following table compares MGE's electric revenues and electric kWh sales by customer class for each of the years indicated:

(In thousands, except cooling degree days)	Revenues			Sales (kWh)		
	2020	2019	% Change	2020	2019	% Change
Residential	\$ 146,431	\$ 140,006	4.6 %	882,991	833,646	5.9 %
Commercial	198,043	213,265	(7.1)%	1,710,885	1,844,050	(7.2)%
Industrial	11,514	12,772	(9.8)%	160,840	171,932	(6.5)%
Other-retail/municipal	32,915	35,174	(6.4)%	346,252	364,254	(4.9)%
Total retail	388,903	401,217	(3.1)%	3,100,968	3,213,882	(3.5)%
Sales to the market	4,015	5,664	(29.1)%	141,454	168,833	(16.2)%
Other revenues	774	1,404	(44.9)%	-	-	-%
Total	\$ 393,692	\$ 408,285	(3.6)%	3,242,422	3,382,715	(4.1)%
Cooling degree days (normal 681)				733	657	11.6 %

## Electric Margin

Electric margin, a non-GAAP measure, decreased \$5.7 million during 2020 compared to 2019, due to the following:

(In millions)	
Decrease in commercial, industrial and other volume	\$ (7.3)
Customer fixed and demand charges	(4.0)
Rate changes	(3.6)
Other	(0.7)
Revenue subject to refund, net	(0.2)
Increase in residential volume	5.4
Decreased fuel costs	4.7
Total	\$ (5.7)

- **Commercial, industrial, and other retail volume.** During 2020, there was a 7.2% reduction in commercial sales compared to the same period in the prior year driven by impacts from the COVID-19 pandemic and associated governmental regulations and restrictions on activity.
- **Customer fixed and demand charges.** During 2020, fixed and demand charges decreased \$4.0 million primarily attributable to the decrease in demand charges for commercial customers. The COVID-19 pandemic and associated governmental regulations and restrictions on activity impacted commercial business operations leading to reduced sales.
- **Rate changes.** Rates charged to retail customers during 2020, were \$3.6 million lower than those charged during the same period in the prior year. In December 2019, the PSCW approved the 2020 Fuel Cost Plan, which reflected lower fuel costs and authorized MGE to decrease 2020 rates for electric retail customers by 0.84%.
- **Revenue subject to refund.** For cost recovery mechanisms, any over-collection of revenues resulting from the amount of costs authorized to be collected from customers in rates exceeding actual costs is recorded as a reduction of revenue in the period incurred, as the over-collection is expected to be refunded to customers in a subsequent period.
- **Residential volume.** During 2020, there was a 5.9% increase in residential sales driven by the impacts from the COVID-19 pandemic and associated governmental regulations and restrictions on activity. As businesses shifted their workforce to a remote work environment, residential sales increased.
- **Fuel costs.** Fuel costs decreased during 2020, primarily as a result of lower costs to generate electricity and lower required generation due to lower customer demand.

## Gas deliveries and revenues

The following table compares MGE's gas revenues and gas therms delivered by customer class during each of the years indicated:

(In thousands, except HDD and average rate per therm of retail customer)	Revenues			Therms Delivered		
	2020	2019	% Change	2020	2019	% Change
Residential	\$ 88,765	\$ 95,146	(6.7)%	102,477	111,144	(7.8)%
Commercial/Industrial	49,682	59,051	(15.9)%	92,883	104,740	(11.3)%
Total retail	138,447	154,197	(10.2)%	195,360	215,884	(9.5)%
Gas transportation	5,713	5,293	7.9 %	76,022	75,902	0.2 %
Other revenues	101	385	(73.8)%	-	-	-%
Total	\$ 144,261	\$ 159,875	(9.8)%	271,382	291,786	(7.0)%
Heating degree days (normal 7,050)				6,799	7,406	(8.2)%
Average rate per therm of retail customer	\$ 0.709	\$ 0.714	(0.7)%			

## Gas Margin

Gas margin, a non-GAAP measure, increased \$0.5 million during 2020 compared to 2019, due to the following:

(In millions)	
Rate changes	\$ 2.1
Other	0.9
Revenue subject to refund, net	0.7
Decrease in volume	(3.2)
Total	\$ 0.5

- **Rate changes.** In December 2018, the PSCW authorized MGE to increase 2020 rates for retail gas customers by 1.46%.
- **Other.** During 2020, other charges primarily increased as a result of increased revenue from fixed charges attributable to the increase in gas residential customers.
- **Revenue subject to refund.** For cost recovery mechanisms, any over-collection of revenues resulting from the amount of costs authorized to be collected from customers in rates exceeding actual costs is recorded as a reduction of revenue in the period incurred, as the over-collection is expected to be refunded to customers in a subsequent period.
- **Volume.** During 2020, retail gas deliveries decreased 9.5% compared to the same period in the prior year primarily related to less favorable weather conditions in the first and fourth quarters of 2020.

## Consolidated operations and maintenance expenses

For 2020, operations and maintenance expenses decreased \$6.9 million, compared to the same period in the prior year. The following contributed to the net change:

(In millions)	
Decreased administrative and general costs	\$ (3.5)
Decreased electric production costs	(1.8)
Decreased transmission costs	(1.2)
Decreased electric distribution costs	(0.4)
Decreased other costs	(0.7)
Increased gas distribution costs	0.7
Total	\$ (6.9)

- Decreased administrative and general costs are primarily related to a decrease in stock price reducing the fair value associated with the outstanding performance unit awards, which are remeasured quarterly. See

Footnote 12 of the Notes to Consolidated Financial Statements in this Report for additional information on performance unit awards. Other drivers included a reduction in nonessential spending driven by the COVID-19 pandemic and associated governmental regulations and management efforts to control spending, which includes training, travel expenses, and other discretionary spending.

- Decreased electric production expenses are primarily related to decreased operations and maintenance costs at the Elm Road Units, Columbia, and Forward Wind facility. Scheduled maintenance outages were delayed or reduced in 2020.
- Decreased transmission costs are related to lower transmission rates in 2020. The 2020 transmission rates reflect adjustments from a lower return on equity, ordered in FERC proceedings, for prior year rates. The lower transmission rate is reflected in customer revenue as revenue subject to refund.

### **Consolidated depreciation expense**

Electric depreciation expense increased \$1.9 million and gas depreciation expense increased \$0.7 million for 2020, compared to the same period in the prior year. MGE placed the Saratoga Wind Farm in service in February 2019. Timing of the in-service date contributed to the increase in electric depreciation expense.

### **Nonregulated Energy Operations - MGE Energy and MGE**

The nonregulated energy operations are conducted through MGE Energy's subsidiaries: MGE Power Elm Road (the Elm Road Units) and MGE Power West Campus (WCCF), which have been formed to own and lease electric generating capacity to assist MGE. For 2020 and 2019, net income at the nonregulated energy operations segment was \$20.8 million and \$20.4 million, respectively.

### **Transmission Investment Operations - MGE Energy**

The transmission investment segment holds our interest in ATC and ATC Holdco, and its income reflects our equity in the earnings of those investments. ATC Holdco was formed in December 2016 to pursue transmission development opportunities which typically have long development and investment lead times before becoming operational. ATC Holdco's future transmission development activities have been suspended for the near term. During 2020 and 2019, other income at the transmission investment segment primarily reflects ATC's operations and was \$10.2 million and \$9.5 million, respectively. In May 2020, the FERC issued an opinion further refining the methodology for setting the ROE that electric utilities are authorized to earn. See Footnote 7.b. of the Notes to Consolidated Financial Statements in this Report and "Other Matters" below for additional information concerning ATC and summarized financial information regarding ATC.

### **Consolidated Income Taxes - MGE Energy and MGE**

In 2020, the effective electric tax rate decreased as a result of higher AFUDC equity from Two Creeks and Badger Hollow I and II, which is not included in taxable income, and a tax credit generated by the Saratoga Wind Farm. See Footnote 10 of the Notes to Consolidated Financial Statements in this Report for details of effective income tax rates for continuing operations.

### **Noncontrolling Interest, Net of Tax - MGE**

The noncontrolling interest, net of tax, reflects the accounting required for MGE Energy's interest in MGE Power Elm Road (the Elm Road Units) and MGE Power West Campus (WCCF). MGE Energy owns 100% of MGE Power Elm Road and MGE Power West Campus; however, due to the contractual agreements for these projects with MGE, the entities are considered VIEs with respect to MGE and their results are consolidated with those of MGE, the primary beneficiary of the VIEs. The following table shows MGE Energy's noncontrolling interest, net of tax, reflected on MGE's consolidated statement of income:

(In millions)	Year Ended December 31,	
	2020	2019
MGE Power Elm Road	\$ 15.2	\$ 15.1
MGE Power West Campus	7.2	7.2

## ***Liquidity and Capital Resources***

Subject to the duration and severity of the COVID-19 pandemic, MGE Energy and MGE expect to have adequate liquidity to support future operations and capital expenditures over the next twelve months. Available resources include cash and cash equivalents, operating cash flows, liquid assets, borrowing capacity under revolving credit facilities, and access to equity and debt capital markets. MGE Energy expects to generate funds from both long-term debt financing, including tax exempt debt and short-term debt financing, and, if needed, could issue new shares through its Direct Stock Purchase and Dividend Reinvestment Plan.

### **Cash Flows**

The following summarizes cash flows for MGE Energy and MGE during 2020 and 2019:

<i>(In thousands)</i>	MGE Energy		MGE	
	2020	2019	2020	2019
<b>Cash provided by/(used for):</b>				
Operating activities	\$ 172,443	\$ 130,475	\$ 166,318	\$ 125,870
Investing activities	(210,412)	(172,357)	(205,261)	(164,818)
Financing activities	59,194	(17,233)	39,818	37,807

### **Cash Provided by Operating Activities**

#### ***MGE Energy***

MGE Energy's consolidated net cash provided by operating activities is derived mainly from the electric and gas operations of its principal subsidiary, MGE.

Cash provided by operating activities for 2020 was \$172.4 million, an increase of \$41.9 million when compared to the prior year.

MGE Energy's net income increased \$5.5 million for 2020 when compared to the prior year.

MGE Energy's federal and state taxes paid decreased \$6.2 million during 2020, when compared to the prior year. The decrease in taxes paid is primarily related to increased production and investment tax credits.

Working capital accounts (excluding prepaid and accrued taxes) resulted in \$0.1 million in cash used for operating activities for 2020, primarily due to decreased current liabilities, increased accounts receivable, and increased unbilled revenues, partially offset by increased accounts payable.

Working capital accounts (excluding prepaid and accrued taxes) resulted in \$19.7 million in cash used for operating activities for 2019, primarily due to decreased accounts payable, decreased current liabilities, and increased inventories, partially offset by decreased unbilled revenues. The decrease in other current liabilities is attributable to a \$3.2 million one-time tax bill credit and a \$9.4 million one-time fuel credit to retail customers in 2019.

Hosted software asset expenditures during 2020 were \$2.4 million. This amount represents a decrease of \$4.2 million of cash used when compared to the prior year.

#### ***MGE***

Cash provided by operating activities for 2020 was \$166.3 million, an increase of \$40.4 million when compared to the prior year.

Net income increased \$4.7 million for 2020, when compared to the prior year.

MGE's federal and state taxes paid decreased \$6.2 million during 2020, when compared to the prior year. The decrease in taxes paid is primarily related to increased production and investment tax credits.

Working capital accounts (excluding prepaid and accrued taxes) resulted in \$2.1 million in cash provided by operating activities for 2020, primarily due to increased accounts payable, partially offset by decreased current liabilities, increased accounts receivable, and increased unbilled revenues.

Working capital accounts (excluding prepaid and accrued taxes) resulted in \$19.4 million in cash used for operating activities for 2019, primarily due to decreased accounts payable, decreased current liabilities, and increased inventories, partially offset by decreased unbilled revenues. The decrease in other current liabilities is attributable to a \$3.2 million one-time tax bill credit and a \$9.4 million one-time fuel credit to retail customers in 2019.

Hosted software asset expenditures during 2020 were \$2.4 million. This amount represents a decrease of \$4.2 million of cash used when compared to the prior year.

## Capital Requirements and Investing Activities

### ***MGE Energy***

MGE Energy's cash used for investing activities increased \$38.1 million for 2020 when compared to the prior year.

Capital expenditures for 2020 were \$203.1 million. This amount represents an increase of \$39.1 million from the expenditures made in the prior year. This increase primarily reflects expenditures on the construction of Two Creeks and Badger Hollow I and II, which increased \$25.3 million over the prior year.

Capital contributions in ATC and other investments decreased \$2.2 million for 2020 when compared to the prior year.

### ***MGE***

MGE's cash used for investing activities increased \$40.4 million for 2020 when compared to the prior year.

Capital expenditures for 2020 were \$203.1 million. This amount represents an increase of \$39.1 million from the expenditures made in the prior year. This increase primarily reflects expenditures on the construction of Two Creeks and Badger Hollow I and II, which increased \$25.3 million over the prior year.

### ***Capital expenditures***

The following table shows MGE Energy's actual capital expenditures for both 2020 and 2019, and forecasted capital expenditures for 2021 through 2023:

<i>(In thousands)</i> For the years ended December 31,	Actual		Forecasted		
	2019	2020	2021	2022	2023
Electric	\$ 125,086	\$ 162,210	\$ 155,200	\$ 136,800	\$ 168,200
Gas	36,193	36,906	41,400	33,300	29,700
Utility plant total	161,279	199,116	196,600	170,100	197,900
Nonregulated	2,757	4,023	5,400	5,100	11,000
MGE Energy total	<u>\$ 164,036</u>	<u>\$ 203,139</u>	<u>\$ 202,000</u>	<u>\$ 175,200</u>	<u>\$ 208,900</u>

MGE Energy used internally generated funds from operations, short-term borrowings under existing lines of credit, cash raised in the public markets from its May 2020 equity issuance, and long-term external financing to meet its 2020 capital requirements and cash obligations, including dividend payments. With respect to the next 12 months, MGE Energy expects to raise capital from both long-term debt and short-term debt financing, and, if needed, through the issuance of new shares under its Direct Stock Purchase and Dividend Reinvestment Plan. MGE's Energy 2030 framework details our plan for growth in generation for renewables. This growth is expected to continue as legacy fossil fuel-fired facilities are retired and replaced with renewables, such as wind and solar assets, and battery storage solutions are developed and implemented. Beyond 2030, MGE is targeting net-zero carbon electricity by 2050. These solar, wind, and battery storage projects are a major step toward deep decarbonization and greater use of clean energy sources in pursuit of our goal. MGE is seeking to address new generation needs through additional investments in renewable generation. MGE continues to evaluate solar, wind, and battery

storage projects that align with its goals. MGE also seeks to mitigate volatility in retail electric rates through the use of fuel savings and the tax benefits of renewables. In conjunction with project evaluation, MGE is exploring various ownership structures and ratemaking alternatives to mitigate rate impacts.

In November 2020, construction of the Two Creeks solar project was completed. Total cost excluding AFUDC was approximately \$62.9 million. RER solar projects Morey Field serving the City of Middleton and Middleton-Cross Plains School District and Dane County Airport were completed in July and December 2020, respectively. These renewable generation projects represent progress towards our net-zero carbon goal.

Forecasted capital expenditures are based upon management's assumptions with respect to future events, including the timing and amount of expenditures associated with environmental compliance initiatives, legislative and regulatory action, customer demand and support for electrification and renewable energy resources, energy conservation programs, load growth, the timing of any required regulatory approvals, and the adequacy of rate recovery. Actual events may differ materially from these assumptions and result in material changes to those forecasted amounts.

Our forecasted capital expenditures reflect the following projects:

**Badger Hollow I and II Solar Generation Project:** Badger Hollow I and II, located in Wisconsin, are jointly owned. MGE's ownership share is 33%. Badger Hollow I is expected to be completed in April 2021 and Badger Hollow II is expected to be completed in December 2022. Each phase of the project is expected to be approximately \$65 million. As of December 31, 2020 and 2019, capital expenditures, excluding AFUDC, were \$55.3 million and \$6.8 million, respectively.

**Service Area Renewable Solar Projects:** The RER program allows MGE to partner with a large energy user to tailor a renewable energy solution and related project financing to meet a customer's specific energy needs. The forecasted capital expenditures related to these local solar projects are expected to be approximately \$37 million for the years 2021 through 2023. Construction of a 20MW RER project (O'Brien Solar Fields, primarily serving governmental entities) has begun and is expected to be completed by mid-2021. MGE is currently awaiting PSCW approval for an additional 8MW RER project serving the City of Madison and Madison Metropolitan School District.

**Generation Projects for Replacement of Columbia:** In February 2021, MGE, along with its co-owners, announced plans to retire Columbia Unit 1 by the end of 2023 and Unit 2 by the end of 2024. MGE continues to evaluate additional investments to replace the generation from Columbia while maintaining electric service reliability. These investments include cost-effective, clean energy projects to help achieve MGE's carbon reduction goals, including the recent announcement of the Paris Solar-Battery Park (20 MW of solar generation capacity and 11 MW of battery storage) expected to be completed by 2023. Approximately \$150 million has been included in forecasted capital expenditures for the years 2021 through 2023 for projects to replace Columbia's generation, which includes MGE's \$43 million share of estimated capital expenditures for the Paris Solar-Battery Park. Additional capital expenditures are expected to continue beyond 2023.

**Enterprise Forward:** Enterprise Forward is a multi-year information technology project, which includes implementation of a new customer information system and other applications. MGE is currently half way through this transformational program. There is approximately \$50 million of forecasted capital expenditures for the years 2021 through 2023.

**Electric and Gas Distribution:** In 2022 and 2023, electric and gas distribution include expenditures for enhanced metering solutions to provide customers with more timely and detailed energy use information. Investments in advanced metering infrastructure will provide additional benefits including outage and demand response and automated meter reading capabilities. Forecasted capital expenditures in those years is approximately \$20 million.

**Electric Production:** MGE has consistently valued reliability for its electric and natural gas utility customers. MGE utilizes backup generation programs to provide significant capacity sources for overall system reliability and resiliency. Forecasted capital expenditures in 2021 and 2023 include additional projects of approximately \$7 million related to these programs.

## **Financing Activities**

### ***MGE Energy***

Cash provided by MGE Energy's financing activities was \$59.2 million for 2020, compared to \$17.2 million of cash used for financing activities in 2019.

For 2020, cash dividends paid were \$51.7 million compared to \$47.8 million in the prior year. This increase was a result of a higher dividend per share (\$1.45 vs. \$1.38) and a greater number of outstanding shares as a result of the May 2020 equity issuance.

During 2020, MGE Energy issued common stock for net proceeds of \$79.6 million, which are being used for general corporate purposes including funding capital expenditures at MGE, such as Two Creeks, Badger Hollow I and II, Renewable Energy Rider solar projects, and other capital projects.

During 2020, MGE borrowed \$19.3 million through the issuance of Industrial Development Revenue Refunding Bonds which was used to refinance \$19.3 million of existing Industrial Development Revenue Refunding Bonds at a lower interest rate. During 2020, MGE made repayments of \$15.0 million for a maturing long-term note. During 2019, MGE issued \$50.0 million of senior unsecured notes, which was used to assist with financing additional capital expenditures, including Two Creeks and Badger Hollow I, maturing short-term debt, and other corporate obligations.

For 2020, net short-term debt borrowings were \$52.5 million compared to net short-term debt repayments of \$13.0 million in the prior year.

### ***MGE***

During 2020, cash provided by MGE's financing activities was \$39.8 million, compared to \$37.8 million of cash provided by financing activities in 2019.

Capital contributions made by MGE Energy to MGE were \$30.0 million in 2020, compared to \$30.5 million in 2019.

Distributions to parent (MGE Energy) from noncontrolling interest, which represent distributions from MGE Power Elm Road and MGE Power West Campus, were \$21.5 million for 2020, compared to \$23.5 million in the prior year. The noncontrolling interest arises from the accounting required for the entities, which are not owned by MGE but are consolidated as VIEs.

During 2020, MGE borrowed \$19.3 million through the issuance of Industrial Development Revenue Refunding Bonds which was used to refinance \$19.3 million of existing Industrial Development Revenue Refunding Bonds at a lower interest rate. During 2020, MGE made repayments of \$15.0 million for a maturing long-term note. During 2019, MGE issued \$50.0 million of senior unsecured notes, which was used to assist with financing additional capital expenditures, including Two Creeks and Badger Hollow I, maturing short-term debt, and other corporate obligations.

For 2020, net short-term debt borrowings were \$52.5 million compared to net short-term debt repayments of \$13.0 million in the prior year.

## **Dividend Restrictions**

Dividend payments by MGE to MGE Energy are subject to restrictions arising under a PSCW rate order and, to a lesser degree, MGE's first mortgage bonds. The PSCW order restricts any dividends that MGE may pay MGE Energy if its common equity ratio, calculated in the manner used in the rate proceeding, is less than 55%. MGE's thirteen month rolling average common equity ratio as of December 31, 2020, is 60.2%, as determined under the calculation used in the rate proceeding. This restriction did not restrict MGE's payment of dividends in 2020. No cash dividends were paid by MGE to MGE Energy in 2020 or 2019 in light of the desire to fund planned capital expenditures with internally generated cash. The rate proceeding calculation includes indebtedness imputed amounts for MGE's outstanding purchase power capacity payments and other PSCW adjustments but does not

include the indebtedness associated with MGE Power Elm Road and MGE Power West Campus, which are consolidated into MGE's financial statements but are not direct obligations of MGE.

MGE has covenanted with the holders of its first mortgage bonds not to declare or pay any dividend or make any other distribution on or purchase any shares of its common stock unless, after giving effect thereto, the aggregate amount of all such dividends and distributions and all amounts applied to such purchases, after December 31, 1945, shall not exceed the earned surplus (retained earnings) accumulated subsequent to December 31, 1945. As of December 31, 2020, approximately \$529.9 million was available for the payment of dividends under this covenant.

MGE Power West Campus has covenanted with the holders of its outstanding senior secured notes not to declare or make distributions to us in the event that, both before and after giving effect to such distribution, its total debt to total capitalization would exceed .65 to 1.00 or its projected debt service coverage ratio for the following four fiscal quarters would be less than 1.25 to 1.00. Projected debt service coverage considers the projected revenues available for debt service, after deducting expenses other than debt service, in relation to projected debt service on indebtedness.

MGE Power Elm Road has covenanted with the holders of its outstanding senior secured notes not to declare or make distributions to us in the event that, both before and after giving effect to such distribution, its projected debt service coverage ratio for the following four fiscal quarters would be less than 1.25 to 1.00. Projected debt service coverage considers the projected revenues available for debt service, after deducting expenses other than debt service, in relation to projected debt service on indebtedness.

### **Credit Facilities**

As of December 31, 2020, MGE Energy and MGE had the following aggregate bank commitments and available capacity under their credit agreements:

Borrower (In Millions)	Aggregate Bank Commitments	Outstanding Commercial Paper	Letters of Credit Issued Inside Credit Facilities	Outstanding Borrowings	Available Capacity	Expiration Date
MGE Energy	\$ 50.0	\$ -	\$ -	\$ -	50.0	February 7, 2024
MGE	\$ 100.0	\$ 52.5	\$ 0.7	\$ -	46.8	February 7, 2024

Borrowings under the Credit Agreements may bear interest at a rate based upon either a "floating rate" or a "Eurodollar Rate" adjusted for statutory reserve requirements, plus an adder based upon the credit ratings assigned to MGE's senior unsecured long-term debt securities. The "floating rate" is calculated on a daily basis as the highest of a prime rate, a Federal Funds effective rate plus 0.5% per annum, or a Eurodollar Rate for a one-month interest period plus 1%. The "floating rate" adder ranges from zero to 0.125%. The "Eurodollar Rate" is calculated as provided in the Credit Agreements. The "Eurodollar Rate" adder ranges from 0.625% to 1.125%.

The credit agreements require the borrower to maintain a ratio of consolidated debt to consolidated total capitalization not to exceed a maximum of 65%. In the case of MGE, the ratio calculation excludes assets, liabilities, revenues, and expenses included in MGE's financial statements as a result of the consolidation of VIEs, such as MGE Power Elm Road and MGE Power West Campus. As of December 31, 2020, the ratio of consolidated debt to consolidated total capitalization for each of MGE Energy and MGE, as calculated under the credit agreements' covenant, were 37.1% and 40.0%, respectively. See Footnote 13 of the Notes to Consolidated Financial Statements in this Report for additional information regarding the credit facilities.



## Capitalization Ratios

MGE Energy's capitalization ratios were as follows:

	MGE Energy	
	2020	2019
Common shareholders' equity	62.9%	61.2%
Long-term debt <sup>(a)</sup>	33.7%	38.8%
Short-term debt	3.4%	-%

(a) Includes the current portion of long-term debt.

## Credit Ratings

MGE Energy's and MGE's access to the capital markets, including, in the case of MGE, the commercial paper market, and their respective financing costs in those markets, may depend on the credit ratings of the entity that is accessing the capital markets.

None of MGE Energy's or MGE's borrowing is subject to default or prepayment as a result of a downgrading of credit ratings, although a downgrading of MGE's credit ratings would increase fees and interest charges under both MGE Energy's and MGE's credit agreements.

## Contractual Obligations and Commercial Commitments for MGE Energy and MGE

MGE Energy's and MGE's contractual obligations as of December 31, 2020, representing cash obligations that are considered to be firm commitments, are as follows:

(In thousands)	Total	Payment Due Within:			Due After 5 Years
		1 Year	2-3 Years	4-5 Years	
<b>MGE Energy</b>					
Long-term debt <sup>(a)</sup>	\$ 528,220	\$ 4,771	\$ 59,203	\$ 10,431	\$ 453,815
Short-term debt <sup>(b)</sup>	52,500	52,500	-	-	-
Interest expense <sup>(c)</sup>	388,986	23,126	44,401	41,346	280,113
Leases <sup>(d)</sup>	56,429	2,158	3,697	2,151	48,423
Purchase obligations <sup>(e)</sup>	280,254	79,290	80,554	58,546	61,864
Construction obligations <sup>(f)</sup>	102,062	102,062	-	-	-
Other obligations <sup>(g)</sup>	24,958	18,210	2,096	1,575	3,077
Total MGE Energy contractual obligations	<u>\$ 1,433,409</u>	<u>\$ 282,117</u>	<u>\$ 189,951</u>	<u>\$ 114,049</u>	<u>\$ 847,292</u>
<b>MGE</b>					
Long-term debt <sup>(a)</sup>	\$ 528,220	\$ 4,771	\$ 59,203	\$ 10,431	\$ 453,815
Short-term debt <sup>(b)</sup>	52,500	52,500	-	-	-
Interest expense <sup>(c)</sup>	388,986	23,126	44,401	41,346	280,113
Leases <sup>(d)</sup>	56,429	2,158	3,697	2,151	48,423
Purchase obligations <sup>(e)</sup>	280,254	79,290	80,554	58,546	61,864
Construction obligations <sup>(f)</sup>	102,062	102,062	-	-	-
Other obligations <sup>(g)</sup>	24,958	18,210	2,096	1,575	3,077
Total MGE contractual obligations	<u>\$ 1,433,409</u>	<u>\$ 282,117</u>	<u>\$ 189,951</u>	<u>\$ 114,049</u>	<u>\$ 847,292</u>

(a) Long-term debt consisting of secured first mortgage bonds, unsecured medium-term notes, and Industrial Development Revenue Bonds issued by MGE, and private placement debt issued by MGE, MGE Power Elm Road, and MGE Power West Campus.

(b) Short-term debt consisting of commercial paper for MGE. See Footnote 13 of the Notes to Consolidated Financial Statements in this Report.

(c) Amount represents interest expense on long-term debt. See Footnote 14 of the Notes to Consolidated Financial Statements in this Report for further discussion of the long-term debt outstanding as of December 31, 2020.

(d) Leases. See Footnote 5 of the Notes to Consolidated Financial Statements in this Report.

(e) Purchase obligations for MGE Energy and MGE consist primarily of the purchase of electricity and natural gas, electric transmission,

natural gas storage capacity, natural gas pipeline transportation, and the purchase and transport of coal. See Footnote 16.c. of the Notes to Consolidated Financial Statements in this Report.

- (f) Construction obligations consist primarily of Badger Hollow I and II, other renewable solar projects, and software development related to the Enterprise Forward initiative that includes a new customer information and billing system.
- (g) Other obligations are primarily related to investment commitments, chattel paper agreements, environmental projects, fuel credit, and uncertain tax positions.

The above amounts do not include any contributions for MGE's pension and postretirement plans. MGE does not expect to need to make any required contributions to the qualified plans for 2021. The contributions for years after 2021 are not yet currently estimated. Due to uncertainties in the future economic performance of plan assets, discount rates, and other key assumptions, estimated contributions are subject to change. MGE may also elect to make additional discretionary contributions to the plans.

The above amounts do not include future capital calls by ATC and ATC Holdco. The amount and timing of future capital calls to these entities is uncertain and primarily dependent on the operations and expansion of ATC and the resumption of development activities by ATC Holdco.

MGE Energy's and MGE's commercial commitments as of December 31, 2020, representing commitments triggered by future events and including financing arrangements to secure obligations of MGE Energy and MGE, are as follows:

(In thousands)	Total	Expiration Within:			Due After 5 Years
		1 Year	2-3 Years	4-5 Years	
<b>MGE Energy</b>					
Lines of credit <sup>(a)</sup>	\$ 150,000	\$ -	\$ 150,000	\$ -	\$ -
<b>MGE</b>					
Lines of credit <sup>(b)</sup>	\$ 100,000	\$ -	\$ 100,000	\$ -	\$ -

(a) Amount includes the facilities discussed in (b) plus an additional line of credit. MGE Energy has available at any time a \$50 million committed revolving credit agreement, expiring in February 2024. As of December 31, 2020, MGE Energy had no borrowings outstanding under this credit facility.

(b) Amount includes two committed revolving credit agreements totaling \$100 million expiring in February 2024. These credit facilities are used to support commercial paper issuances. As of December 31, 2020, MGE had \$52.5 million of commercial paper outstanding backed by the facilities but no borrowings outstanding. As of December 31, 2020, MGE had \$0.7 million of letters of credit issued inside credit facilities.

## Other Matters

### Rate Matters

In December 2020, the PSCW approved a settlement agreement for MGE's 2021 rate case. The settlement agreement provides for a zero percent increase for electric rates and an approximately 4.0% increase for gas rates in 2021. The electric rate settlement includes an increase in rate base but the associated rate increase is primarily offset by lower fuel and purchase power costs and a one-time \$18.2 million return to customers of the portion of excess deferred taxes related to the 2017 Tax Act not governed by IRS normalization rules. As part of the settlement, the fuel rules bandwidth will be set at plus or minus 1% for 2021. When compared to the 2020 rate case, the settlement includes lower forecasted electric sales for 2021 to reflect changes to customer usage during the COVID-19 pandemic. The gas rate increase covers infrastructure costs and technology improvements. The settlement agreement also includes escrow accounting treatment for pension and other postretirement benefit costs, bad debt expense, and customer credit card fees. Escrow accounting treatment allows MGE to defer any difference between estimated costs in rates and actual costs incurred until its next rate case filing. Any difference would be recorded as a regulatory asset or regulatory liability.

Details related to MGE's 2021 approved settlement agreement are as follows:

<i>(Dollars in thousands)</i>	Authorized Average Rate Base <sup>(a)</sup>	Authorized Return on Common Equity <sup>(b)</sup>	Common Equity Component of Regulatory Capital Structure	Effective Date
Electric (2021 Test Period)	\$ 1,019,177	9.8 %	55.84 %	1/1/2021
Gas (2021 Test Period)	282,360	9.8 %	55.84 %	1/1/2021

(a) Average rate base amounts reflect MGE's allocated share of rate base and do not include construction work in progress (CWIP) or a cash working capital allowance and were calculated using a forecasted 13-month average for the test periods. The PSCW provides a return on selected CWIP and a cash working capital allowance by adjusting the percentage return on rate base.

(b) Authorized returns on common equity may not be indicative of actual returns earned or projections of future returns, as actual returns will be affected by the volume of electricity or gas sold.

In January 2021, certain environmental groups filed a petition against the PSCW regarding MGE's 2021 rate settlement. MGE has intervened in the petition in cooperation with the PSCW. See Footnote 9.a. for more information regarding this matter.

## ATC

**2013 FERC Complaint** - In 2013, several parties filed a complaint with the FERC seeking to reduce the base return on equity (ROE) used by MISO transmission owners, including ATC. The complaint provided for a statutory refund period of November 2013 through February 2015. The complaint asserted that the MISO ROE should not exceed 9.15%, that the equity components of hypothetical capital structures should be restricted to 50%, and that the relevant incentive ROE adders should be discontinued. At the time, MISO's base ROE was 12.38% and ATC's base ROE was 12.2%. On September 28, 2016, FERC issued an order, for the period November 2013 through February 2015, reducing ATC's base ROE to 10.32%. In November 2019, FERC issued an order to further reduce ATC's base ROE to 9.88%. In May 2020, the FERC issued an order further refining the methodology for setting the ROE that electric utilities are authorized to earn. This increased the ROE from 9.88% to 10.02%. This base ROE is effective for the 2013 FERC complaint period and for all periods following September 2016.

**2015 FERC Complaint** - In February 2015, several parties filed a complaint with the FERC seeking to reduce the base ROE used by MISO transmission owners, including ATC, to 8.67%. The complaint provided for a statutory refund period of February 2015 through May 2016 with a refund effective date retroactive to the complaint filing date. In June 2016, an administrative law judge issued an initial decision for the complaint that would reduce the transmission owner's base ROE to 9.7%. In November 2019, FERC issued an order dismissing the complaint with the determination that the ROE was reasonable. As a result of this order and the methodology FERC used to determine the applicable ROE in the 2013 FERC complaint, several parties have requested a rehearing by FERC. If FERC denies these requests, the complainants are likely to file an appeal with the appellate court. Any change to ATC's ROE could result in lower equity earnings and distributions from ATC in the future.

In January 2015, FERC accepted the transmission owners' request for a 50 basis-point incentive ROE adder for participating in MISO. The adder became effective January 6, 2015.

As of December 31, 2018, our share of the estimated refund recorded was \$2.5 million, including interest. Following the November 2019 FERC order, our share of ATC's earnings reflects a pre-tax adjustment of \$2.0 million, including interest, related to the 2013 complaint refund period and from September 28, 2016 through December 31, 2019. As a result of the May 2020 FERC order, our share of ATC's earnings reflects a \$0.6 million reduction of our reserve. Additionally, our share of ATC's earnings reflects the derecognition of a possible refund related to the 2015 complaint as ATC considers such a refund to be no longer considered probable due to FERC's November 2019 dismissal of that complaint. However, due to pending requests for rehearing, a loss related to the 2015 complaint remains possible. Our share of the estimated refund for the 2015 complaint is approximately \$2.3 million. As of December 31, 2020, our share of the estimated refund amount reflected a net increase in ATC's earnings with a pre-tax adjustment of \$0.6 million, inclusive of interest. We derived approximately 8.0% of our net income for 2020 and 2019 and approximately 7.3% of our net income for 2018 from our investment in ATC.

## ***Critical Accounting Estimates - MGE Energy and MGE***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to regulatory assets and liabilities, unbilled revenues, pension obligations, income taxes, and derivatives. We base our estimates on historical experience and on various assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Those values may differ from these estimates under different assumptions or conditions. We believe the following critical accounting estimates affect our more significant judgments used in the preparation of our consolidated financial statements.

### **Regulatory Assets/Liabilities**

Regulatory assets represent costs that have been deferred to future periods when it is probable that the regulator will allow future recovery of those costs through rates. MGE bases its assessment of recovery on precedents established by the regulatory body. Regulatory liabilities represent previous collections from customers that are expected to be refunded to customers in future periods. Regulatory assets and regulatory liabilities typically include deferral of energy costs, the normalization of income taxes, the deferral of certain operating expenses, and non-ARO removal costs. The accounting for these regulatory assets and liabilities is in accordance with regulatory accounting standards.

MGE continually assesses whether the regulatory assets and liabilities meet the criteria for probability of future recovery or deferral. This assessment considers factors such as changes in the regulatory environment, recent rate orders to other regulated entities under the same jurisdiction, and the status of any pending or potential deregulation legislation. If future recovery of costs becomes no longer probable, the assets and liabilities would be recognized as current-period revenues or expenses.

Amortization of regulatory assets and liabilities is provided over the recovery or deferral period as allowed in the related regulatory agreement.

### **Unbilled Revenues**

Revenues from the sale of electricity and gas are recorded when they are delivered to customers. Sales quantity is measured by customers' meters. Due to the large volume of those meters, it is impractical to read all of them at month end. Meters are read on a systematic basis throughout the month based on established meter-reading schedules. Consequently, at the end of any month, there exists a quantity of electricity and gas that has been delivered to customers but has not been captured by the meter readings. As a result, management must estimate revenue related to electricity and gas delivered to customers between meter-read dates and the end of the reporting period. These estimates include:

- The amount of electricity expected to be lost in the process of its transmission and distribution to customers (referred to as line loss) and the amount of electricity actually delivered to customers.
- The amount of gas expected to be lost in the process of distribution to customers and the amount of gas actually delivered to customers.
- The mix of sales between customer rate classes having different rates, which is based upon historical utilization assumptions.

MGE monitors the reasonableness of the unbilled revenue estimate through the review of ratios such as unbilled electric consumption compared to billed electric sales. To confirm the reasonableness of unbilled gas, the estimated unbilled consumption is compared to various other statistics, including percent of gas available for sale, change in unbilled month-to-month and change in unbilled compared to the prior year.

### **Pension and Other Postretirement Benefit Plans**

MGE provides employees with certain retirement (pension) and postretirement (health care and life insurance) benefits. In order to measure the expense and obligations associated with these benefits, management must make a variety of estimates, including discount rates used to value certain liabilities, the expected return on plan assets set aside to fund these costs, the rate of compensation increase, employee turnover rates, retirement rates, health care trends, mortality rates, and other factors. These accounting estimates may change due to the uncertainty attached to the estimate as well as the fact that these estimates are difficult to measure. Different estimates used could result in recognizing different amounts of expense over different periods of time. Recovery in rates is expected.

MGE uses third-party specialists to assist it in evaluating its assumptions as well as to appropriately measure the costs and obligations associated with these retirement benefits. The discount rate and expected return on plan assets are based primarily on available investment yields and the historical performance of plan assets. They are critical accounting estimates because they are subject to management's judgment and can materially affect financial performance.

- *Assumed return on assets.* This assumption represents the rate of return on plan assets reflecting the average rate of earnings expected on the funds invested (or to be invested) to provide for the benefits included in the projected benefit obligation. For 2020, MGE used an assumed return on assets of 7.20% for pension and 6.76% for other postretirement benefits. In 2021, the pension asset assumption will decrease to 7.00% and the postretirement benefit assumption will decrease to 6.60%. The annual expected rate of return is based on projected long-term equity and bond returns, maturities and asset allocations. Holding other assumptions constant, for every 1% reduction in the expected rate of return on plan assets, annual pension and other postretirement cost would increase by approximately \$4.3 million, before taxes.
- *Discount rate.* The discount rate represents the rate at which pension obligations could effectively be settled on a present-value basis. MGE uses high-grade bond yields as a benchmark for determining the appropriate discount rate. MGE uses individual spot rates rather than a weighted average of the yield curve spot rates to measure the service cost and interest cost components for net periodic benefit cost. Holding other assumptions constant, a 0.5% increase in the discount rate on the obligation balance as of December 31, 2020, would decrease annual pension and other postretirement cost by approximately \$3.1 million, before taxes.
- *Medical trend assumptions.* The health care cost trend rate is the assumed rate of increase in per-capita health care charges.
- *Mortality rate assumption.* Expected mortality rates are used in the valuation to determine the expected duration of future benefit payments to the plan participants. MGE utilizes mortality tables and projection scales developed by the society of actuaries. These tables and scales were last updated in 2020.

See Footnote 11 of the Notes to Consolidated Financial Statements in this Report for additional discussion of these plans.

### **Income Tax Provision**

MGE Energy's and MGE's income tax provisions, including both current and deferred components, are based on estimates, assumptions, calculations, and interpretation of tax statutes for the current and future years. Determination of current-year federal and state income tax will not be settled for years.

Management regularly makes assessments of tax return outcomes relative to financial statement tax provisions and adjusts the tax provisions in the period when facts become final.

Additionally, in determining our current income tax provision, we assess temporary differences resulting from differing treatments of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are recorded in our balance sheets. When we maintain deferred tax assets, we assess the likelihood that these assets will be recovered through adjustments to future taxable income. Future tax benefits are recognized to the extent that realization of such benefits is more likely than not. A valuation allowance is recorded for those benefits that do not meet this criterion. We record an allowance reducing the asset to a value

we believe will be recoverable based on our expectation of future taxable income. We believe the accounting estimate related to the valuation allowance is a critical accounting estimate because it is highly susceptible to change from period to period as it requires management to make assumptions about our future income over the lives of the deferred tax assets, and the impact of increasing or decreasing the valuation allowance is potentially material to our results of operations.

#### **Derivative Instruments**

MGE accounts for derivative financial instruments, except those qualifying for the normal purchase normal sale exception, at their fair value on the balance sheet. Fair value is determined using current quoted market prices, except for the PPA, which is valued utilizing an internally-developed pricing model. This model includes observable and unobservable inputs.

MGE received approval from the PSCW to establish a regulatory asset or liability for the deferral of the effects of mark-to-market accounting on contracts related to commodity hedging in MGE's regulated operations.

#### **Adoption of Accounting Principles and Recently Issued Accounting Pronouncements - MGE Energy and MGE**

See Footnote 2 of the Notes to Consolidated Financial Statements in this Report for discussion of new accounting pronouncements.

## **Item 7A. Quantitative and Qualitative Disclosures About Market Risk.**

MGE Energy and MGE are potentially exposed to market risk associated with interest rates, commodity prices, and equity returns. MGE currently has no exposure to foreign currency risk. MGE manages some risk exposure through risk management policies and the use of derivative instruments. MGE's risk management policy prohibits speculative trading transactions.

### **Commodity Price Risk**

MGE has commodity price risk exposure with respect to the price of natural gas, electricity, coal, emission credits, and oil. MGE's electric operations burn natural gas in several of its peaking power plants and, in many cases, the cost of purchased power is tied to the cost of natural gas. MGE employs established policies and procedures to reduce the market risks associated with changing commodity prices. MGE's commodity risks are substantially mitigated by the current ratemaking process in place for recovering electric fuel cost, purchased energy costs, and the cost of natural gas.

The recovery of MGE's electric fuel costs is subject to fuel rules established by the PSCW. Fuel rules require Wisconsin utilities to defer electric fuel-related costs that fall outside a symmetrical cost tolerance band. Any over- or under-recovery of the actual costs is determined in the following year and is then reflected in future billings to electric retail customers. Under the electric fuel rules, MGE would defer the benefit of lower costs if the actual electric fuel costs fall outside the lower end of the range and is required to defer costs, less any excess revenues, if the actual electric fuel costs exceed the upper end of the range. Excess revenues are defined as revenues in the year in question that provide MGE with a greater return on common equity than authorized by the PSCW in MGE's latest rate order. The range is defined by the PSCW and has been modified throughout the years based on market conditions and other relevant factors. Beginning in 2021, MGE is subject to a plus or minus 1% range. Prior to 2021, the range was set at 2%. MGE assumes the risks and benefits of variances that are within the cost tolerance band. For 2021, \$64.9 million in fuel and purchased power costs will be recovered in rates and are subject to this rule and included in MGE's fuel monitoring level rates. See Footnote 9 of the Notes to Consolidated Financial Statements in this Report for additional information.

MGE recovers the cost of natural gas in its gas utility segment through the purchased gas adjustment clause (PGA). Under the PGA, MGE is able to pass through to its gas customers the cost of gas. If the commodity costs of gas exceed a monthly benchmark amount, the excess amount is subject to a prudence review and approval by the PSCW before it can be passed through to customers.

MGE also reduces price risk caused by market fluctuations via physical contracts and financial derivative contracts, including futures, swaps, options, forwards, and other contractual commitments. The maximum length of time over which cash flows related to energy commodities can be hedged under applicable PSCW approvals is four years.

MGE has financial gas and electric commodity contracts to hedge commodity price risk in the gas and electric utility segments. These contracts are primarily comprised of exchange-traded option and future contracts. MGE also holds financial transmission rights (FTRs), which are used to hedge the risk of increased transmission congestion charges. As of December 31, 2020, the fair value of exchange traded derivatives and FTRs exceeded their cost basis by \$0.2 million. Under the PGA clause and electric fuel rules, MGE may include the costs and benefits of the aforementioned fuel price risk management tools in the costs of fuel (natural gas or power). Because these costs or benefits are recoverable, the related unrealized loss or gain has been deferred on the consolidated balance sheets as a regulatory asset or liability, respectively.

MGE has also entered into a purchased power agreement that provides MGE with firm capacity and energy that began on June 1, 2012, and ends on May 31, 2022 (the "base term"). The agreement also allows MGE an option to extend the contract after the base term. The agreement is considered a derivative contract and is recognized at its fair value on the consolidated balance sheets. However, the derivative qualifies for regulatory deferral and is recognized with a corresponding regulatory asset or liability depending on whether the fair value is in a loss or gain position. The fair value of the contract as of December 31, 2020, reflected a loss position of \$14.1 million.

### **Interest Rate Risk**

Both MGE Energy and MGE may have short-term borrowings at varying interest rates. MGE issues commercial paper for its short-term borrowings, while MGE Energy draws from its current credit facility to meet our short-term borrowing needs. Borrowing levels vary from period to period depending upon capital investments and other factors. Future short-term interest expense and payments will reflect both future short-term interest rates and borrowing levels. MGE Energy and MGE manage interest rate risk by limiting their variable rate exposure and continually monitoring the effects of market changes on interest rates. MGE is not exposed to changes in interest rates on a substantial portion of its long-term debt until that debt matures and is refinanced at market rates. Assuming the current level of variable rate borrowings and assuming a 1% change in the 2020 average interest rate under those borrowings, it is estimated that our 2020 interest expense and net income would have changed \$0.5 million for both MGE Energy and MGE.

#### **Equity Price Risk - Pension-Related Assets**

MGE currently funds its liabilities related to employee benefits through trust funds. These funds, which include investments in debt and equity securities, are managed by various third-party investment managers. Changes in the market value of these investments can have an impact on the future expenses related to these liabilities. Holding other assumptions constant, for every 1% reduction in the expected rate of return on plan assets, annual pension and other postretirement cost would increase by approximately \$4.3 million, before taxes. MGE's risk of expense and annuity payments, as a result of changes in the market value of the trust funds, is mitigated in part through future rate actions by the PSCW. The value of employee benefit plans trusts' assets have increased in value by approximately 16% and 24% during the years ended December 31, 2020 and 2019, respectively.

#### **Credit Risk - Counterparty**

Credit risk is the loss that may result from counterparty nonperformance. MGE is exposed to credit risk primarily through its merchant energy business. MGE uses credit policies to manage credit risk, which include an established credit approval process, counterparty limits, credit mitigation measures such as collateral or prepayment arrangements, and using netting agreements.

Due to the possibility of extreme volatility in the prices of energy commodities and derivatives, the market value of contractual positions with individual counterparties could exceed established credit limits or collateral provided by those counterparties. If such a counterparty were then to fail to perform its obligations under its contract (for example, fail to deliver the electricity MGE originally contracted for), MGE could sustain a loss that could have a material impact on its financial results.

Additionally, if a counterparty were to default and MGE were to liquidate all contracts with that entity, MGE's credit loss could include the loss in value of mark-to-market contracts, the amount owed for settled transactions, and additional payments to settle unrealized losses. As of December 31, 2020, no counterparties had defaulted.

MGE is obligated to provide service to all electric and gas customers within its franchised territories. MGE's franchised electric territory includes a 264 square-mile area in Dane County, Wisconsin, and MGE's franchised gas territory includes a service area covering 1,684 square miles in Wisconsin. Based on results for the year ended December 31, 2020, no one customer constituted more than 10% of total operating revenues for MGE Energy and MGE. Credit risk for electric and gas is managed by MGE's credit and collection policies, which are consistent with state regulatory requirements.

Cash, cash equivalents, and customer accounts receivable are the financial instruments that potentially subject MGE Energy and MGE to concentrations of credit risk. MGE Energy and MGE place their cash and cash equivalents with high credit-quality financial institutions. MGE has limited concentrations of credit risk from customer accounts receivable because of the large number of customers and relatively strong economy in its service territory.



## **Item 8. Financial Statements and Supplementary Data.**

### **MGE Energy**

#### ***Management's Report on Internal Control Over Financial Reporting***

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an assessment of the effectiveness of our internal control over financial reporting based on the framework in the Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment under the framework in the Internal Control - Integrated Framework (2013), our management concluded that our internal control over financial reporting was effective as of December 31, 2020.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The effectiveness of MGE Energy's internal control over financial reporting as of December 31, 2020, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

February 24, 2021

### **MGE**

#### ***Management's Report on Internal Control Over Financial Reporting***

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an assessment of the effectiveness of our internal control over financial reporting based on the framework in the Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment under the framework in the Internal Control - Integrated Framework (2013), our management concluded that our internal control over financial reporting was effective as of December 31, 2020.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

February 24, 2021

## **Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of MGE Energy, Inc.

### ***Opinions on the Financial Statements and Internal Control over Financial Reporting***

We have audited the accompanying consolidated balance sheets of MGE Energy, Inc. and its subsidiaries (the "Company") as of December 31, 2020 and 2019, and the related consolidated statements of income, of common equity and of cash flows for each of the three years in the period ended December 31, 2020, including the related notes and financial statement schedules listed in the index appearing under Item 15(a)(2) (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

### ***Basis for Opinions***

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 8. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

### ***Definition and Limitations of Internal Control over Financial Reporting***

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable

assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

### ***Critical Audit Matters***

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

#### ***Accounting for Rate Regulation***

As described in Notes 1 and 8 to the consolidated financial statements, the Company applies the authoritative guidance for accounting for certain types of regulation, which requires the Company to record regulatory assets and regulatory liabilities. Regulatory assets represent costs which are deferred due to the probable future recovery from customers through regulated rates while regulatory liabilities represent the excess recovery of costs or accrued credits which were deferred because management believes it is probable such amounts will be returned to customers through future regulated rates. As disclosed by management, management continually assesses whether the regulatory assets and liabilities meet the criteria for probability of future recovery or deferral. This assessment considers factors such as changes in the regulatory environment, recent rate orders to other regulated entities under the same jurisdiction, and the status of any pending or potential deregulation legislation. Regulatory assets and liabilities are amortized in the consolidated statements of income consistent with the recovery or refund included in customer rates. As of December 31, 2020, there was \$157.3 million of deferred costs in regulatory assets and \$183.9 million of accrued credits within regulatory liabilities.

The principal considerations for our determination that performing procedures relating to the Company's accounting for the effects of rate regulation is a critical audit matter are the significant judgment by management in estimating the probability of future recovery of regulatory assets and refunds of regulatory liabilities; this in turn led to a high degree of auditor judgment, subjectivity, and effort in performing procedures and evaluating audit evidence related to the recoverability of regulatory assets and the refund of regulatory liabilities.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to management's assessment of the probability of recoverability of regulatory assets and refunds of regulatory liabilities. These procedures also included, among others, evaluating (i) management's assessment of correspondence with regulators, (ii) the reasonableness of management's judgments regarding the probability of recovery of regulatory assets and refund of regulatory liabilities, and (iii) the application of the impacts of changes to new or existing commission orders.

/s/ PricewaterhouseCoopers LLP  
Chicago, Illinois  
February 24, 2021

We have served as the Company's auditor since 1993.

## **Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholder of Madison Gas and Electric Company

### ***Opinion on the Financial Statements***

We have audited the accompanying consolidated balance sheets of Madison Gas and Electric Company and its subsidiaries (the "Company") as of December 31, 2020 and 2019, and the related consolidated statements of income, of equity and of cash flows for each of the three years in the period ended December 31, 2020, including the related notes and financial statement schedules listed in the index appearing under Item 15(a)(2) (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020 in conformity with accounting principles generally accepted in the United States of America.

### ***Basis for Opinion***

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these consolidated financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

### ***Critical Audit Matters***

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

### ***Accounting for Rate Regulation***

As described in Notes 1 and 8 to the consolidated financial statements, the Company applies the authoritative guidance for accounting for certain types of regulation, which requires the Company to record regulatory assets and regulatory liabilities. Regulatory assets represent costs which are deferred due to the probable future recovery from customers through regulated rates while regulatory liabilities represent the excess recovery of costs or accrued credits which were deferred because management believes it is probable such amounts will be returned to customers through future regulated rates. As disclosed by management, management continually assesses whether the regulatory assets and liabilities meet the criteria for probability of future recovery or deferral. This assessment considers factors such as changes in the regulatory environment, recent rate orders to other regulated entities under the same jurisdiction, and the status of any pending or potential deregulation legislation. Regulatory

assets and liabilities are amortized in the consolidated statements of income consistent with the recovery or refund included in customer rates. As of December 31, 2020, there was \$157.3 million of deferred costs in regulatory assets and \$183.9 million of accrued credits within regulatory liabilities.

The principal considerations for our determination that performing procedures relating to the Company's accounting for the effects of rate regulation is a critical audit matter are the significant judgment by management in estimating the probability of future recovery of regulatory assets and refunds of regulatory liabilities; this in turn led to a high degree of auditor judgment, subjectivity, and effort in performing procedures and evaluating audit evidence related to the recoverability of regulatory assets and the refund of regulatory liabilities.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to management's assessment of the probability of recoverability of regulatory assets and refunds of regulatory liabilities. These procedures also included, among others, evaluating (i) management's assessment of correspondence with regulators, (ii) the reasonableness of management's judgments regarding the probability of recovery of regulatory assets and refund of regulatory liabilities, and (iii) the application of the impacts of changes to new or existing commission orders.

/s/ PricewaterhouseCoopers LLP  
Chicago, Illinois  
February 24, 2021

We have served as the Company's auditor since 1993.

**MGE Energy, Inc.**  
**Consolidated Statements of Income**  
*(In thousands, except per share amounts)*

	For the Years Ended December 31,		
	2020	2019	2018
<b>Operating Revenues:</b>			
Electric revenues	\$ 394,372	\$ 408,980	\$ 402,001
Gas revenues	144,261	159,875	157,767
<i>Total Operating Revenues</i>	<u>538,633</u>	<u>568,855</u>	<u>559,768</u>
<b>Operating Expenses:</b>			
Fuel for electric generation	41,684	51,954	56,141
Purchased power	42,883	41,474	50,807
Cost of gas sold	63,697	79,775	84,968
Other operations and maintenance	186,430	193,322	177,823
Depreciation and amortization	74,188	71,562	56,412
Other general taxes	19,754	19,858	19,410
<i>Total Operating Expenses</i>	<u>428,636</u>	<u>457,945</u>	<u>445,561</u>
<b>Operating Income</b>	<u>109,997</u>	<u>110,910</u>	<u>114,207</u>
Other income, net	25,365	18,811	17,055
Interest expense, net	(23,521)	(23,063)	(19,609)
Income before income taxes	111,841	106,658	111,653
Income tax provision	(19,423)	(19,784)	(27,434)
<b>Net Income</b>	<u>\$ 92,418</u>	<u>\$ 86,874</u>	<u>\$ 84,219</u>
<b>Earnings Per Share of Common Stock</b> (basic and diluted)	<u>\$ 2.60</u>	<u>\$ 2.51</u>	<u>\$ 2.43</u>
Dividends per share of common stock	<u>\$ 1.45</u>	<u>\$ 1.38</u>	<u>\$ 1.32</u>
<b>Weighted Average Shares Outstanding</b> (basic and diluted)	35,612	34,668	34,668

*The accompanying notes are an integral part of the above consolidated financial statements.*

**MGE Energy, Inc.**  
**Consolidated Statements of Cash Flows**  
*(In thousands)*

	For the Years Ended December 31,		
	2020	2019	2018
<b>Operating Activities:</b>			
Net income	\$ 92,418	\$ 86,874	\$ 84,219
Items not affecting cash:			
Depreciation and amortization	74,188	71,562	56,412
Deferred income taxes	10,363	7,212	3,749
Provision for doubtful receivables	1,415	1,615	1,366
Employee benefit plan (credit) cost	(3,716)	(3,813)	(2,002)
Equity earnings in investments	(10,221)	(9,889)	(8,821)
Other items	(2,750)	163	(814)
Changes in working capital items:			
Trade and other receivables	(3,838)	(1,285)	(2,235)
Inventories	(842)	(3,420)	2,724
Unbilled revenues	(1,613)	2,345	3,157
Prepaid taxes	1,713	(677)	10,320
Other current assets	(1,057)	29	251
Accounts payable	14,353	(7,432)	(4,855)
Other current liabilities	(5,635)	(10,264)	11,957
Dividends from investments	8,998	7,347	6,958
Cash contributions to pension and other postretirement plans	(6,296)	(5,714)	(5,584)
Other noncurrent items, net	4,963	(4,178)	(3,762)
<i>Cash Provided by Operating Activities</i>	<u>172,443</u>	<u>130,475</u>	<u>153,040</u>
<b>Investing Activities:</b>			
Capital expenditures	(203,139)	(164,036)	(212,197)
Capital contributions to investments	(5,601)	(7,813)	(5,926)
Other	(1,672)	(508)	(205)
<i>Cash Used for Investing Activities</i>	<u>(210,412)</u>	<u>(172,357)</u>	<u>(218,328)</u>
<b>Financing Activities:</b>			
Issuance of common stock, net	79,635	-	-
Cash dividends paid on common stock	(51,729)	(47,842)	(45,762)
Repayment of long-term debt	(38,959)	(4,553)	(24,453)
Issuance of long-term debt	19,300	50,000	100,000
Proceeds from (repayments of) short-term debt	52,500	(13,000)	9,000
Other	(1,553)	(1,838)	(662)
<i>Cash Provided by (Used for) Financing Activities</i>	<u>59,194</u>	<u>(17,233)</u>	<u>38,123</u>
Change in cash, cash equivalents, and restricted cash	21,225	(59,115)	(27,165)
Cash, cash equivalents, and restricted cash at beginning of period	25,814	84,929	112,094
<b>Cash, cash equivalents, and restricted cash at end of period</b>	<u>\$ 47,039</u>	<u>\$ 25,814</u>	<u>\$ 84,929</u>
<b>Supplemental Disclosures of Cash Flow Information:</b>			
Interest paid	\$ 23,898	\$ 23,171	\$ 20,018
Income taxes paid	\$ 8,127	\$ 14,617	\$ 12,597
Income taxes received	\$ -	\$ (255)	\$ (59)
Significant noncash investing activities:			
Accrued capital expenditures	\$ 5,719	\$ 26,697	\$ 11,129

*The accompanying notes are an integral part of the above consolidated financial statements.*

**MGE Energy, Inc.**  
**Consolidated Balance Sheets**  
*(In thousands)*

	<b>As of December 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 44,738	\$ 23,481
Accounts receivable, less reserves of \$5,787 and \$2,820, respectively	41,384	40,482
Other accounts receivable, less reserves of \$1,290 and \$438, respectively	7,300	7,940
Unbilled revenues	27,511	25,899
Materials and supplies, at average cost	32,513	26,287
Fuel for electric generation, at average cost	6,356	8,358
Stored natural gas, at average cost	8,396	10,637
Prepaid taxes	15,179	16,892
Regulatory assets - current	14,748	11,432
Other current assets	11,394	10,233
<i>Total Current Assets</i>	<u>209,519</u>	<u>181,641</u>
Other long-term receivables	1,435	1,811
Regulatory assets	142,504	134,314
Pension and other postretirement benefit asset	13,873	13,630
Other deferred assets and other	22,259	19,093
<b>Property, Plant, and Equipment:</b>		
Property, plant, and equipment, net	1,630,286	1,530,199
Construction work in progress	139,099	112,484
<i>Total Property, Plant, and Equipment</i>	<u>1,769,385</u>	<u>1,642,683</u>
<b>Investments</b>	<u>94,676</u>	<u>88,492</u>
<b>Total Assets</b>	<u><u>\$ 2,253,651</u></u>	<u><u>\$ 2,081,664</u></u>
<b>LIABILITIES AND CAPITALIZATION</b>		
<b>Current Liabilities:</b>		
Long-term debt due within one year	\$ 4,771	\$ 19,659
Short-term debt	52,500	-
Accounts payable	54,642	55,161
Accrued interest and taxes	8,539	7,244
Accrued payroll related items	12,635	12,752
Regulatory liabilities - current	41,664	9,228
Derivative liabilities	10,160	10,100
Other current liabilities	6,015	14,676
<i>Total Current Liabilities</i>	<u>190,926</u>	<u>128,820</u>
<b>Other Credits:</b>		
Deferred income taxes	231,471	243,302
Investment tax credit - deferred	21,821	763
Regulatory liabilities	142,239	164,965
Accrued pension and other postretirement benefits	78,168	68,665
Derivative liabilities	3,980	15,340
Finance lease liabilities	17,532	17,379
Other deferred liabilities and other	72,211	63,013
<i>Total Other Credits</i>	<u>567,422</u>	<u>573,427</u>
<b>Capitalization:</b>		
Common shareholders' equity:		
Common Stock - \$1 par value - 75,000 shares authorized; 36,163 and 34,668 shares issued and outstanding, respectively	36,163	34,668
Additional paid-in capital	394,408	316,268
Retained earnings	545,429	504,740
<i>Total Common Shareholders' Equity</i>	<u>976,000</u>	<u>855,676</u>
Long-term debt	<u>519,303</u>	<u>523,741</u>
<i>Total Capitalization</i>	<u>1,495,303</u>	<u>1,379,417</u>
Commitments and contingencies (see Footnote 16)		
<b>Total Liabilities and Capitalization</b>	<u><u>\$ 2,253,651</u></u>	<u><u>\$ 2,081,664</u></u>

*The accompanying notes are an integral part of the above consolidated financial statements.*



**MGE Energy, Inc.**  
**Consolidated Statements of Common Equity**  
*(In thousands, except per share amounts)*

	Common Stock			Additional		Retained	Accumulated	
	Shares	Value		Paid-in		Earnings	Other	
				Capital			Comprehensive	Total
							Income/(Loss)	
2018								
Beginning balance - December 31, 2017	34,668	\$ 34,668	\$	316,268	\$	426,874	\$ 377	\$ 778,187
Cumulative effect of new accounting principle						377	(377)	-
Beginning balance - adjusted						427,251	-	778,187
Net income						84,219		84,219
Common stock dividends declared								
(\$1.32 per share)						(45,762)		(45,762)
Ending balance - December 31, 2018	34,668	\$ 34,668	\$	316,268	\$	465,708	\$ -	\$ 816,644
2019								
Net income						86,874		86,874
Common stock dividends declared								
(\$1.38 per share)						(47,842)		(47,842)
Ending balance - December 31, 2019	34,668	\$ 34,668	\$	316,268	\$	504,740	\$ -	\$ 855,676
2020								
Net income						92,418		92,418
Common stock dividends declared								
(\$1.45 per share)						(51,729)		(51,729)
Common stock issued, net	1,495	1,495		78,140				79,635
Ending balance - December 31, 2020	36,163	\$ 36,163	\$	394,408	\$	545,429	\$ -	\$ 976,000

*The accompanying notes are an integral part of the above consolidated financial statements.*

**Madison Gas and Electric Company**  
**Consolidated Statements of Income**  
*(In thousands)*

	For the Years Ended December 31,		
	2020	2019	2018
<b>Operating Revenues:</b>			
Electric revenues	\$ 394,372	\$ 408,980	\$ 402,001
Gas revenues	144,261	159,875	157,767
<i>Total Operating Revenues</i>	<u>538,633</u>	<u>568,855</u>	<u>559,768</u>
<b>Operating Expenses:</b>			
Fuel for electric generation	41,684	51,954	56,141
Purchased power	42,883	41,474	50,807
Cost of gas sold	63,697	79,775	84,968
Other operations and maintenance	185,450	192,440	176,762
Depreciation and amortization	74,188	71,562	56,412
Other general taxes	19,750	19,858	19,410
<i>Total Operating Expenses</i>	<u>427,652</u>	<u>457,063</u>	<u>444,500</u>
<b>Operating Income</b>	<u>110,981</u>	<u>111,792</u>	<u>115,268</u>
Other income, net	15,019	10,703	10,426
Interest expense, net	(23,642)	(24,298)	(21,197)
Income before income taxes	<u>102,358</u>	<u>98,197</u>	<u>104,497</u>
Income tax provision	(16,835)	(17,418)	(25,461)
<b>Net Income</b>	<u>\$ 85,523</u>	<u>\$ 80,779</u>	<u>\$ 79,036</u>
Less Net Income Attributable to Noncontrolling Interest, net of tax	(22,393)	(22,349)	(22,552)
<b>Net Income Attributable to MGE</b>	<u>\$ 63,130</u>	<u>\$ 58,430</u>	<u>\$ 56,484</u>

*The accompanying notes are an integral part of the above consolidated financial statements.*

**Madison Gas and Electric Company**  
**Consolidated Statements of Cash Flows**  
*(In thousands)*

	For the Years Ended December 31,		
	2020	2019	2018
<b>Operating Activities:</b>			
Net income	\$ 85,523	\$ 80,779	\$ 79,036
Items not affecting cash:			
Depreciation and amortization	74,188	71,562	56,412
Deferred income taxes	8,543	5,286	(69)
Provision for doubtful receivables	1,415	1,615	1,366
Employee benefit plan (credit) cost	(3,716)	(3,813)	(2,002)
Other items	(1,828)	1,256	(107)
Changes in working capital items:			
Trade and other receivables	(3,840)	(1,285)	(2,160)
Inventories	(842)	(3,420)	2,724
Unbilled revenues	(1,613)	2,345	3,157
Prepaid taxes	616	327	9,283
Other current assets	(1,157)	147	255
Accounts payable	14,603	(7,754)	(4,817)
Accrued interest and taxes	1,651	(1,565)	4,761
Other current liabilities	(4,909)	(9,618)	9,685
Cash contributions to pension and other postretirement plans	(6,296)	(5,714)	(5,584)
Other noncurrent items, net	3,980	(4,278)	(3,946)
<i>Cash Provided by Operating Activities</i>	<u>166,318</u>	<u>125,870</u>	<u>147,994</u>
<b>Investing Activities:</b>			
Capital expenditures	(203,139)	(164,036)	(212,197)
Other	(2,122)	(782)	(1,105)
<i>Cash Used for Investing Activities</i>	<u>(205,261)</u>	<u>(164,818)</u>	<u>(213,302)</u>
<b>Financing Activities:</b>			
Distributions to parent from noncontrolling interest	(21,500)	(23,500)	(22,000)
Capital contribution from parent	30,000	30,500	-
Repayment of long-term debt	(38,959)	(4,553)	(24,453)
Issuance of long-term debt	19,300	50,000	100,000
Proceeds from (repayments of) short-term debt	52,500	(13,000)	9,000
Other	(1,523)	(1,640)	(662)
<i>Cash Provided by Financing Activities</i>	<u>39,818</u>	<u>37,807</u>	<u>61,885</u>
Change in cash, cash equivalents, and restricted cash	875	(1,141)	(3,423)
Cash, cash equivalents, and restricted cash at beginning of period	5,529	6,670	10,093
<b>Cash, cash equivalents, and restricted cash at end of period</b>	<u><u>\$ 6,404</u></u>	<u><u>\$ 5,529</u></u>	<u><u>\$ 6,670</u></u>
<b>Supplemental disclosures of cash flow information:</b>			
Interest paid	\$ 23,898	\$ 23,171	\$ 20,018
Income taxes paid	\$ -	\$ 95	\$ -
Income taxes received	\$ -	\$ (249)	\$ (59)
Significant noncash investing activities:			
Accrued capital expenditures	\$ 5,719	\$ 26,697	\$ 11,129

*The accompanying notes are an integral part of the above consolidated financial statements.*

**Madison Gas and Electric Company**  
**Consolidated Balance Sheets**  
*(In thousands)*

	<b>As of December 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 4,103	\$ 3,196
Accounts receivable, less reserves of \$5,787 and \$2,820, respectively	41,384	40,482
Affiliate receivables	532	530
Other accounts receivable, less reserves of \$1,290 and \$438, respectively	7,295	7,936
Unbilled revenues	27,511	25,899
Materials and supplies, at average cost	32,513	26,287
Fuel for electric generation, at average cost	6,356	8,358
Stored natural gas, at average cost	8,396	10,637
Prepaid taxes	14,848	15,463
Regulatory assets - current	14,748	11,432
Other current assets	11,326	10,065
<i>Total Current Assets</i>	<u>169,012</u>	<u>160,285</u>
Affiliate receivable long-term	2,118	2,648
Regulatory assets	142,504	134,314
Pension and other postretirement benefit asset	13,873	13,630
Other deferred assets and other	22,448	19,680
<b>Property, Plant, and Equipment:</b>		
Property, plant, and equipment, net	1,630,314	1,530,227
Construction work in progress	139,099	112,484
<i>Total Property, Plant, and Equipment</i>	<u>1,769,413</u>	<u>1,642,711</u>
<b>Investments</b>	<u>603</u>	<u>209</u>
<b>Total Assets</b>	<u><u>\$ 2,119,971</u></u>	<u><u>\$ 1,973,477</u></u>
<b>LIABILITIES AND CAPITALIZATION</b>		
<b>Current Liabilities:</b>		
Long-term debt due within one year	\$ 4,771	\$ 19,659
Short-term debt	52,500	-
Accounts payable	54,576	54,845
Accrued interest and taxes	10,405	8,754
Accrued payroll related items	12,635	12,752
Regulatory liabilities - current	41,664	9,228
Derivative liabilities	10,160	10,100
Other current liabilities	6,042	12,683
<i>Total Current Liabilities</i>	<u>192,753</u>	<u>128,021</u>
<b>Other Credits:</b>		
Deferred income taxes	200,390	214,041
Investment tax credit - deferred	21,821	763
Regulatory liabilities	142,239	164,965
Accrued pension and other postretirement benefits	78,168	68,665
Derivative liabilities	3,980	15,340
Finance lease liabilities	17,532	17,379
Other deferred liabilities and other	72,173	62,973
<i>Total Other Credits</i>	<u>536,303</u>	<u>544,126</u>
<b>Capitalization:</b>		
Common shareholder's equity:		
Common Stock - \$1 par value - 50,000 shares authorized; 17,348 shares outstanding	17,348	17,348
Additional paid-in capital	252,917	222,917
Retained earnings	460,151	397,021
<i>Total Common Shareholder's Equity</i>	<u>730,416</u>	<u>637,286</u>
Noncontrolling interest	141,196	140,303
<i>Total Equity</i>	<u>871,612</u>	<u>777,589</u>
Long-term debt	519,303	523,741
<i>Total Capitalization</i>	<u>1,390,915</u>	<u>1,301,330</u>
Commitments and contingencies (see Footnote 16)		
<b>Total Liabilities and Capitalization</b>	<u><u>\$ 2,119,971</u></u>	<u><u>\$ 1,973,477</u></u>

*The accompanying notes are an integral part of the above consolidated financial statements.*

**Madison Gas and Electric Company**  
**Consolidated Statements of Equity**  
*(In thousands)*

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Non- Controlling Interest	Total
	Shares	Value					
<b>2018</b>							
Beginning balance - December 31, 2017	17,348	\$ 17,348	\$ 192,417	\$ 282,135	\$ (28)	\$ 140,902	\$ 632,774
Cumulative effect of new accounting principle				(28)	28		-
Beginning balance - adjusted				282,107	-		632,774
Net income				56,484		22,552	79,036
Distributions to parent from noncontrolling interest						(22,000)	(22,000)
Ending balance - December 31, 2018	17,348	\$ 17,348	\$ 192,417	\$ 338,591	\$ -	\$ 141,454	\$ 689,810
<b>2019</b>							
Net income				58,430		22,349	80,779
Capital contributions from parent			30,500				30,500
Distributions to parent from noncontrolling interest						(23,500)	(23,500)
Ending balance - December 31, 2019	17,348	\$ 17,348	\$ 222,917	\$ 397,021	\$ -	\$ 140,303	\$ 777,589
<b>2020</b>							
Net income				63,130		22,393	85,523
Capital contributions from parent			30,000				30,000
Distributions to parent from noncontrolling interest						(21,500)	(21,500)
Ending balance - December 31, 2020	17,348	\$ 17,348	\$ 252,917	\$ 460,151	\$ -	\$ 141,196	\$ 871,612

*The accompanying notes are an integral part of the above consolidated financial statements.*

**Notes to Consolidated Financial Statements**  
**December 31, 2020, 2019, and 2018**

This report is a combined report of MGE Energy and MGE. The notes to the consolidated financial statements that follow include consolidated MGE Energy footnotes and certain footnotes related to MGE as signified below.

**1. Summary of Significant Accounting Policies.**

**a. Basis of Presentation - MGE Energy and MGE.**

The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), which give recognition to the rate making accounting policies for regulated operations prescribed by the regulatory authorities having jurisdiction, principally the PSCW and FERC. MGE's accounting records conform to the FERC uniform system of accounts.

**b. Principles of Consolidation - MGE Energy and MGE.**

MGE, a wholly owned subsidiary of MGE Energy, is a regulated electric and gas utility headquartered in Madison, Wisconsin. MGE Energy and MGE consolidate all majority owned subsidiaries in which they have a controlling influence.

Additional wholly owned subsidiaries of MGE Energy include CWDC, MAGAEL, MGE Power, MGE State Energy Services, MGE Services, MGE Transco, and MGEE Transco. CWDC owns 100% of North Mendota, a subsidiary created to serve as a development entity for property. MGE Power owns 100% of MGE Power Elm Road and MGE Power West Campus. MGE Power and its subsidiaries are part of MGE Energy's nonregulated energy operations, which were formed to own and lease electric generation projects to assist MGE. MGE Transco and MGEE Transco are nonregulated entities formed to own the investments in ATC and ATC Holdco, respectively. MGE did not own any subsidiaries as of December 31, 2020.

MGE Energy and MGE consolidate variable interest entities (VIEs) for which it is the primary beneficiary. Variable interest entities are legal entities that possess any of the following characteristics: equity investors who have an insufficient amount of equity at risk to finance their activities, equity owners who do not have the power to direct the significant activities of the entity (or have voting rights that are disproportionate to their ownership interest), or equity holders who do not receive expected losses or returns significant to the VIE. If MGE Energy or MGE is not the primary beneficiary and an ownership interest is held, the VIE is accounted for under the equity method of accounting. When assessing the determination of the primary beneficiary, all relevant facts and circumstances are considered, including: the power, through voting or similar rights, to direct the activities of the VIE that most significantly impact the VIE's economic performance and the obligation to absorb the expected losses and/or the right to receive the expected returns of the VIE. Ongoing reassessments of all VIEs are performed to determine if the primary beneficiary status has changed. MGE has consolidated MGE Power Elm Road and MGE Power West Campus. Both entities are VIEs. MGE is considered the primary beneficiary of these entities as a result of contractual agreements. See Footnote 3 for more discussion of these entities.

The consolidated financial statements reflect the application of certain accounting policies described in this note. All intercompany accounts and transactions have been eliminated in consolidation.

**c. Use of Estimates - MGE Energy and MGE.**

In order to prepare consolidated financial statements in conformity with GAAP, management must make estimates and assumptions. These estimates could affect reported amounts of assets, liabilities, and disclosures at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from management's estimates.

With the global outbreak of the Coronavirus Disease 2019 (COVID-19) and the declaration of a

pandemic by the World Health Organization on March 11, 2020, U.S. governmental authorities have deemed electric and gas utilities to be critical infrastructure. MGE Energy therefore has an obligation to keep operating and maintaining our critical electric and gas infrastructure. Since then, MGE Energy has been subject to, and is following, local, state and federal public health and safety regulations and guidance to control the pandemic. MGE Energy and MGE considered the impact of COVID-19 developments on the assumptions and estimates used in the preparation of these financial statements.

**d. Cash, Cash Equivalents, and Restricted Cash – MGE Energy and MGE.**

The following table presents the components of total cash, cash equivalents, and restricted cash on the consolidated balance sheets.

<i>(In thousands)</i> <b>As of December 31,</b>	MGE Energy		MGE	
	2020	2019	2020	2019
Cash and cash equivalents	\$ 44,738	\$ 23,481	\$ 4,103	\$ 3,196
Restricted cash	644	619	644	619
Receivable - margin account	1,657	1,714	1,657	1,714
Cash, cash equivalents, and restricted cash	<u>\$ 47,039</u>	<u>\$ 25,814</u>	<u>\$ 6,404</u>	<u>\$ 5,529</u>

*Cash Equivalents*

All highly liquid investments purchased with an original maturity of three months or less are considered to be cash equivalents.

*Restricted Cash*

MGE has certain cash accounts that are restricted to uses other than current operations and designated for a specific purpose. MGE's restricted cash accounts include cash held by trustees for certain employee benefits and cash deposits held by third parties. These are included in "Other current assets" on the consolidated balance sheets.

*Receivable – Margin Account*

Cash amounts held by counterparties as margin collateral for certain financial transactions are recorded as Receivable – margin account in "Other current assets" on the consolidated balance sheets. The costs being hedged are fuel for electric generation, purchased power, and cost of gas sold.

**e. Trade Receivables, Allowance for Doubtful Accounts, and Concentration Risk - MGE Energy and MGE.**

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. A 1% late payment charge is recorded on all receivables unpaid after the due date. In late March 2020, the 1% late payment charge was suspended in response to the PSCW's COVID-19 order. The order also suspended disconnection or refusal of services to any customer, with limited exceptions. The PSCW order was lifted on July 25, 2020; however, as permitted by regulatory action, MGE notified the PSCW of its election to continue to waive late fees until April 1, 2021. See Footnote 9.c. for further information.

The allowance for credit losses associated with these receivables represents MGE's best estimate of the amount of probable credit losses for existing accounts receivable. MGE manages concentration of credit risk through its credit and collection policies, which are consistent with state regulatory requirements. The allowance for credit losses is estimated based on historical write-off experience, regional economic data, review of the accounts receivable aging, and reasonable and supportable forecasts that affect the collectability of the reported amount. MGE has considered the effects of COVID-19 developments and associated governmental regulations, including suspension of disconnections for non-payment, in its estimate of allowance for credit losses by applying data from historical recessions and other significant economic downturns.

As of December 31, 2020, MGE had a reserve balance of \$7.1 million against accounts receivable. During the year ended December 31, 2020, MGE recorded \$1.4 million in write-offs. During the year ended December 31, 2020, MGE recorded \$5.2 million of additional reserves, which included estimated impacts of COVID-19. The PSCW issued a deferral accounting order for deferral of incremental COVID-

19-related costs. Recovery of these costs are expected to be addressed in future rate proceedings. As of December 31, 2020, MGE had deferred \$3.8 million of incremental COVID-19-related costs as a regulatory asset. See Footnote 8 for further information.

**f. Inventories - MGE Energy and MGE.**

Inventories consist of natural gas in storage, fuel for electric generation, materials and supplies, and renewable energy credits (RECs). MGE values natural gas in storage, fuel for electric generation, and materials and supplies using average cost.

REC allowances are included in "Materials and supplies" on the consolidated balance sheets and are recorded based on specific identification. These allowances are charged to purchase power expense as they are used in operations. MGE's REC allowance balance as of December 31, 2020 and 2019, was \$0.8 million and \$0.6 million, respectively.

**g. Chattel Paper Agreements - MGE Energy and MGE.**

MGE makes available to qualifying customers a financing program for the purchase and installation of energy-related equipment that will provide more efficient use of utility service at the customer's property. The energy-related equipment installed at the customer sites is used to secure the customer loans. MGE is a party to a chattel paper purchase agreement with a financial institution under which MGE can sell, transfer, and assign to the financial institution an undivided interest with recourse, in up to \$1.5 million of the financing program receivables, until July 31, 2021. The length of the MGE guarantee to the financial institution varies from one to ten years depending on the term of the underlying customer loan. The loan balances outstanding as of December 31, 2020, approximates the fair value of the energy-related equipment acting as collateral. MGE accounts for these agreements as secured borrowings. As of December 31, 2020, there were \$0.7 million of loans outstanding related to this program.

**h. Regulatory Assets and Liabilities - MGE Energy and MGE.**

Regulatory assets and regulatory liabilities are recorded consistent with regulatory treatment. Regulatory assets represent costs which are deferred due to the probable future recovery from customers through regulated rates. Regulatory liabilities represent the excess recovery of costs or accrued credits which were deferred because MGE believes it is probable such amounts will be returned to customers through future regulated rates. Regulatory assets and liabilities are amortized in the consolidated statements of income consistent with the recovery or refund included in customer rates. MGE believes it is probable that its recorded regulatory assets and liabilities will be recovered and refunded, respectively, in future rates. See Footnote 8 for further information.

**i. Debt Issuance Costs - MGE Energy and MGE.**

Premiums, discounts, and expenses incurred with the issuance of outstanding long-term debt are amortized over the life of the debt issue. Any call premiums or unamortized expenses associated with refinancing higher-cost debt obligations used to finance utility-regulated assets and operations are amortized consistent with regulatory treatment of those items. These costs are included as a direct reduction to the related debt liability on the consolidated balance sheets.

**j. Property, Plant, and Equipment - MGE Energy and MGE.**

Property, plant, and equipment is recorded at original cost. Cost includes indirect costs consisting of payroll taxes, pensions, postretirement benefits, other fringe benefits, and administrative and general costs. Also, included in the cost is AFUDC for utility property and capitalized interest for nonregulated property. Additions for significant replacements of property are charged to property, plant, and equipment at cost; and minor items are charged to maintenance expense. Depreciation rates on utility property are approved by the PSCW, based on the estimated economic lives of property, and include estimates for salvage value and removal costs. Removal costs of utility property, less any salvage value,



are adjusted through regulatory liabilities. Depreciation rates on nonregulated property are based on the estimated economic lives of the property. See Footnote 4 for further information.

Provisions at composite straight-line depreciation rates approximate the following percentages for the cost of depreciable property:

	2020	2019	2018
Electric <sup>(a)</sup>	3.5 %	3.6 %	2.9 %
Gas	2.2 %	2.1 %	2.1 %
Nonregulated	2.3 %	2.3 %	2.3 %

(a) In the December 2018 rate settlement, the PSCW approved new depreciation rates for Columbia effective January 1, 2019.

**k. Asset Retirement Obligations - MGE Energy and MGE.**

A liability is recorded for the fair value of an asset retirement obligation (ARO) to be recognized in the period in which it is incurred if it can be reasonably estimated. The offsetting associated asset retirement costs are capitalized as a long-lived asset and depreciated over the asset's useful life. The expected present value technique used to calculate the fair value of ARO liabilities includes assumptions about costs, probabilities, settlement dates, interest accretion, and inflation. Revisions to the assumptions, including the timing or amount of expected asset retirement costs, could result in increases or decreases to the AROs. All asset retirement obligations are recorded as "Other long-term liabilities" on the consolidated balance sheets. MGE has regulatory treatment and recognizes regulatory assets or liabilities for the timing differences between when it recovers legal AROs in rates and when it would recognize these costs. See Footnote 17 for further information.

**l. Repairs and Maintenance Expense - MGE Energy and MGE.**

MGE utilizes the direct expensing method for planned major maintenance projects. Under this method, MGE expenses all costs associated with major planned maintenance activities as incurred.

**m. Purchased Gas Adjustment Clause - MGE Energy and MGE.**

MGE's natural gas rates are subject to a fuel adjustment clause designed to recover or refund the difference between the actual cost of purchased gas and the amount included in rates. Differences between the amounts billed to customers and the actual costs recoverable are deferred and recovered or refunded in future periods by means of prospective monthly adjustments to rates. As of December 31, 2020 and 2019, MGE had over collected \$1.8 million and \$1.9 million, respectively. These amounts are included in "Regulatory liabilities – current" on the consolidated balance sheets.

**n. Revenue Recognition - MGE Energy and MGE.**

Operating revenues are recorded as service is rendered or energy is delivered to customers. Meters are read on a systematic basis throughout the month based on established meter-reading schedules. At the end of the month, MGE accrues an estimate for the unbilled amount of energy delivered to customers. The unbilled revenue estimate is based on daily system demand volumes, weather factors, estimated line losses, estimated customer usage by class, and applicable customer rates. See Footnote 20 for further information.

**o. Utility Cost Recovery - MGE Energy and MGE.**

MGE's tariff rates include a provision for fuel cost recovery. The PSCW allows Wisconsin utilities to defer electric fuel-related costs, less excess revenues, that fall outside a symmetrical cost tolerance band around the amount approved for a utility in its annual fuel proceedings. Any over- or under-recovery of the actual costs in a given year is determined in the following year and is then reflected in future billings to electric retail customers. Over-collection of fuel-related costs that are outside the approved range will be recognized as a reduction of revenue. Under-collection of these costs will be recognized in "Purchased power" expense in the consolidated statements of income. The cumulative

effects of these deferred amounts will be recorded as a regulatory asset or regulatory liability until they are reflected in future billings to customers. See Footnote 9.b. for further information.

**p. Regional Transmission Organizations - MGE Energy and MGE.**

MGE reports on a net basis transactions on the MISO markets in which it buys and sells power within the same hour to meet electric energy delivery requirements. This treatment resulted in a \$61.8 million, a \$75.6 million, and a \$90.3 million reduction to sales to the market and purchase power expense for MISO markets for the years ended December 31, 2020, 2019, and 2018, respectively.

**q. Allowance for Funds Used During Construction - MGE Energy and MGE.**

Allowance for funds used during construction is included in utility plant accounts and represents the cost of borrowed funds used during plant construction and a return on shareholder's capital used for construction purposes. In the consolidated income statements, the cost of borrowed funds (AFUDC-debt) is presented as an offset to "Interest expense" and the return on shareholder's capital (AFUDC-equity funds) is shown as an item within "Other income." For 2020, 2019 and 2018, as approved by the PSCW, MGE capitalized AFUDC-debt and equity on 50% of applicable average construction work in progress at 7.03%, 7.0%, and 7.87%, respectively. MGE received specific approval to recover 100% AFUDC on certain costs for Saratoga, Two Creeks, Badger Hollow I and II, its customer information and billing project, and on certain environmental costs for Columbia. These amounts are recovered under the ratemaking process over the service lives of the related properties. During 2020, 2019, and 2018, MGE recorded \$2.1 million, \$0.8 million, and \$1.1 million, respectively, of AFUDC-debt. During 2020, 2019, and 2018, MGE recorded \$5.9 million, \$2.3 million, and \$3.3 million, respectively, of AFUDC-equity.

**r. Investments - MGE Energy and MGE.**

Investments in limited liability companies that have specific ownership accounts in which MGE Energy or MGE's ownership interest is more than minor and are considered to have significant influence are accounted for using the equity method. For equity security investments without readily determinable fair values, MGE Energy and MGE have elected to use the practicability exception to measure these investments, defined as cost adjusted for changes from observable transactions for identical or similar investments of the same issuer, less impairment. Changes in measurement are reported in earnings. Equity security investments with readily determinable fair values are carried at fair value. Realized and unrealized gains and losses are included in earnings. See Footnote 7 for further information on investments and Footnote 19 for further information on fair value of investments.

**s. Capitalized Software Costs - MGE Energy and MGE.**

The net book value of capitalized costs of internal use software included in property, plant, and equipment was \$20.4 million and \$24.6 million as of December 31, 2020 and 2019, respectively. As of December 31, 2020 and 2019, accumulated amortization was \$36.9 million and \$31.8 million, respectively. During 2020 and 2019, MGE recorded \$5.1 million of amortization expense. During 2018, MGE recorded \$4.7 million of amortization expense. Capitalized software costs are amortized on a straight-line basis over the estimated useful lives of the assets. The useful lives range from five to fifteen years.

**t. Capitalized Software Assets – Hosting Arrangements – MGE Energy and MGE.**

The net book value of capitalized costs of internal use software incurred in a hosting arrangement was \$14.8 million and \$13.6 million as of December 31, 2020 and 2019, respectively. As of December 31, 2020 and 2019, accumulated amortization was \$3.2 million and \$1.4 million, respectively. Capitalized software assets for hosted arrangements and the related accumulated amortization expense are recorded in "Other deferred assets and other" on the consolidated balance sheets.

During 2020, 2019, and 2018, MGE recorded \$1.8 million, \$1.4 million, and \$0.1 million, respectively, of

amortization expense related to software assets for hosted arrangements. These costs are recognized in "Other operations and maintenance" expense in the consolidated statements of income and are amortized on a straight-line basis over the term of the hosted contract, which includes renewable option periods. Software assets for hosted arrangements have terms ranging from five to ten years.

**u. Impairment of Long-Lived Assets - MGE Energy and MGE.**

MGE reviews plant and equipment and other property for impairment when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. MGE's policy for determining when long-lived assets are impaired is to recognize an impairment loss if the sum of the expected future cash flows (undiscounted and without interest charges) from an asset are less than the carrying amount of that asset. If an impairment loss is recognized, the amount that will be recorded will be measured as the amount by which the carrying amount of the asset exceeds the fair value of the asset. There was no impairment of long-lived assets during 2020, 2019, and 2018.

**v. Income Taxes and Excise Taxes - MGE Energy and MGE.**

*Income taxes*

Under the liability method, income taxes are deferred for all temporary differences between pretax financial and taxable income and between the book and tax basis of assets and liabilities using the tax rates scheduled by law to be in effect when the temporary differences reverse. Future tax benefits are recognized to the extent that realization of such benefits is more likely than not. A valuation allowance is recorded for those benefits that do not meet this criterion.

Accounting for uncertainty in income taxes applies to all tax positions and requires a recognition threshold and measurement standard for the financial statement recognition and measurement of a tax position taken, or expected to be taken, in an income tax return. The threshold is defined for recognizing tax return positions in the financial statements as "more likely than not" that the position is sustainable, based on its merits. Subsequent recognition, derecognition, and measurement is based on management's best judgment given the facts, circumstances, and information available at the reporting date.

Regulatory and accounting principles have resulted in a regulatory liability related to income taxes. Excess deferred income taxes result from past taxes provided at customer rates higher than current rates. The income tax regulatory liability and deferred investment tax credit reflect the revenue requirement associated with the return of these tax benefits to customers.

Investment tax credits from regulated operations are amortized over related property service lives.

*Excise taxes*

MGE Energy, through its utility operations, pays a state license fee tax in lieu of property taxes on property used in utility operations. License fee tax is calculated as a percentage of adjusted operating revenues of the prior year. The electric tax rate is 3.19% for retail sales and 1.59% for sales of electricity for resale by the purchaser. The tax rate on sales of natural gas is 0.97%. The tax is required to be estimated and prepaid in the year prior to its computation and expensing. License fee tax expense, included in "Other general taxes," was \$14.1 million, \$13.9 million, and \$14.4 million for the years ended December 31, 2020, 2019, and 2018, respectively.

Operating income taxes, including tax credits and license fee tax, are included in rates for utility related items.

**w. Share-Based Compensation - MGE Energy and MGE.**

The 2020 Performance Unit Plan (the 2020 Plan) was adopted in February 2020 for eligible employees. Plan participants may receive awards of performance units, restricted units, or both. Prior to the adoption of the 2020 Plan, eligible employees received awards of performance units under the 2006 Performance Unit Plan. Under the 2013 Director Incentive Plan, eligible non-employee directors may

receive awards of performance units.

Under the incentive plans, eligible participants, including employees and non-employee directors, may receive performance or restricted units that entitle the holder to receive a cash payment equal to the value of a designated number of shares of MGE Energy's common stock, plus dividend equivalent payments thereon, at the end of a performance period set in the award. Under the plans, these awards are subject to a prescribed vesting schedule and must be settled in cash. Accordingly, no new shares of common stock are issued in connection with the plans.

On the grant date, the cost of the employee or director services received in exchange for a performance or restricted unit award is measured based on the current market value of MGE Energy common stock. The fair value of the awards is re-measured quarterly through the settlement date. Changes in fair value as well as the original grant are recognized as compensation cost.

See Footnote 12 for additional information regarding the plans.

**x. Derivative and Hedging Instruments - MGE Energy and MGE.**

As part of regular operations, MGE enters into contracts, including options, swaps, futures, forwards, and other contractual commitments, to manage its exposure to commodity prices. MGE recognizes derivatives, excluding those that qualify for the normal purchases or normal sales exclusion, in the consolidated balance sheets at fair value, with changes in the fair value of derivative instruments to be recorded in current earnings or deferred in accumulated other comprehensive income (loss), depending on whether a derivative is designated as, and is effective as, a hedge and on the type of hedge transaction. Derivative activities are in accordance with the company's risk management policy.

If the derivative qualifies for regulatory deferral, the derivatives are marked to fair value and are offset with a corresponding regulatory asset or liability depending on whether the derivative is in a net loss or net gain position, respectively. Cash flows from such derivative instruments are classified on a basis consistent with the nature of the underlying hedged item.

**2. New Accounting Standards - MGE Energy and MGE.**

**Recently Adopted**

***Credit Losses.***

In June 2016, the Financial Accounting Standards Board issued authoritative guidance within the codification's Credit Losses topic, which introduced a new model for recognizing credit losses on financial instruments based on an estimate of current expected credit losses. The authoritative guidance became effective January 1, 2020. MGE adopted the standard on the effective date. The adoption of this standard did not have a material impact on MGE Energy's and MGE's financial statements. New disclosures are required under the new standard. See Footnote 1.e. for allowance for credit loss disclosures.

**3. Variable Interest Entities - MGE Energy and MGE.**

**a. Consolidated Variable Interest Entities.**

MGE Power Elm Road and MGE Power West Campus are not subsidiaries of MGE, but they have been consolidated in the financial statements of MGE. MGE Power Elm Road and MGE Power West Campus were created for the purpose of owning new generating assets and leasing those assets to MGE. MGE Power Elm Road's sole principal asset is an undivided ownership interest in two coal-fired generating plants (the Elm Road Units) located in Oak Creek, Wisconsin, which it leases to MGE pursuant to long-term leases. MGE Power West Campus's sole principal asset is the WCCF, which it leases to MGE pursuant to a long-term lease. Based on the nature and terms of the contractual agreements, MGE is expected to absorb a majority of the expected losses or residual value associated with the ownership of the generation assets by MGE Power Elm Road and Power West Campus and therefore MGE holds a

variable interest despite the absence of an equity interest.

In accordance with applicable accounting guidance, MGE Energy and MGE consolidate VIEs of which they are the primary beneficiary. MGE has the power to direct the activities that most significantly impact both the Elm Road Units' and the WCCF's economic performance and is also the party most closely associated with MGE Power Elm Road and MGE Power West Campus. As a result, MGE is the primary beneficiary.

As of December 31, MGE has included the following significant accounts on its consolidated balance sheets related to its interest in these VIEs:

<i>(In thousands)</i>	MGE Power Elm Road		MGE Power West Campus	
	2020	2019	2020	2019
Property, plant, and equipment, net	\$ 166,883	\$ 170,763	\$ 79,077	\$ 79,473
Construction work in progress	697	468	677	309
Affiliate receivables	-	-	2,803	3,600
Accrued interest and accrued (prepaid) taxes	2,701	1,364	671	(160)
Deferred income taxes	30,646	30,621	14,521	14,363
Long-term debt <sup>(a)</sup>	51,590	54,207	37,652	39,627
Noncontrolling interest	96,856	97,172	44,340	43,131

(a) MGE Power Elm Road's long-term debt includes debt issuance costs of \$0.4 million as of December 31, 2020 and 2019. The debt is secured by a collateral assignment of lease payments that MGE makes to MGE Power Elm Road for use of the Elm Road Units pursuant to the related long-term leases. MGE Power West Campus's long-term debt includes debt issuance costs of \$0.1 million as of December 31, 2020 and 2019. The debt is secured by a collateral assignment of lease payments that MGE makes to MGE Power West Campus for use of the cogeneration facility pursuant to the long-term lease. See Footnote 14 for further information on the long-term debt securities.

MGE is permitted by PSCW order to recover lease payments made to MGE Power Elm Road and MGE Power West Campus in customer rates.

#### **b. Other Variable Interest Entities.**

MGE has a variable interest in entities through purchase power agreements relating to purchased energy from the facilities covered by the agreements. As of December 31, 2020 and 2019, MGE had 13 megawatts of capacity available under these agreements. MGE evaluated the variable interest entities for possible consolidation. The interest holder is considered the primary beneficiary of the entity and is required to consolidate the entity if the interest holder has the power to direct the activities that most significantly impact the economics of the variable interest entity. MGE examined qualitative factors such as the length of the remaining term of the contracts compared with the remaining lives of the plants, who has the power to direct the operations and maintenance of the facilities, and other factors, and determined MGE is not the primary beneficiary of the variable interest entities. There is no significant potential exposure to loss as a result of involvement with these variable interest entities.

#### **4. Property, Plant, and Equipment - MGE Energy and MGE.**

Property, plant, and equipment consisted of the following as of December 31:

<i>(In thousands)</i>	MGE Energy		MGE	
	2020	2019	2020	2019
<b>Utility:</b>				
Electric <sup>(a)</sup>	\$ 1,608,658	\$ 1,480,684	\$ 1,608,675	\$ 1,480,701
Gas	496,450	472,123	496,461	472,134
Total utility plant	2,105,108	1,952,807	2,105,136	1,952,835
Less: Accumulated depreciation and amortization	721,382	674,251	721,382	674,251
In-service utility plant, net	1,383,726	1,278,556	1,383,754	1,278,584
<b>Nonregulated:</b>				
Nonregulated	320,691	323,266	320,691	323,266
Less: Accumulated depreciation and amortization	74,131	71,623	74,131	71,623
In-service nonregulated plant, net	246,560	251,643	246,560	251,643

**Construction work in progress:**

Utility construction work in progress <sup>(b)</sup>	137,725	111,707	137,725	111,707
Nonregulated construction work in progress	1,374	777	1,374	777
Total property, plant, and equipment	<u>\$ 1,769,385</u>	<u>\$ 1,642,683</u>	<u>\$ 1,769,413</u>	<u>\$ 1,642,711</u>

- (a) In 2019, the PSCW authorized construction of Two Creeks. The project was placed in service in November 2020. Total capital expenditures for the project were \$62.9 million, excluding AFUDC. After tax, MGE recognized \$2.4 million and \$1.0 million, respectively, of AFUDC equity for the years ended December 31, 2020 and 2019. MGE received specific approval to recover 100% AFUDC on the project.
- (b) In 2019, the PSCW authorized construction of Badger Hollow I. Construction of the project is expected to be completed in April 2021. As of December 31, 2020, and 2019, MGE had \$54.7 million and \$18.7 million (excluding AFUDC), respectively, in construction work in progress. After tax, MGE recognized \$2.0 million and \$0.2 million, respectively, of AFUDC equity related to Badger Hollow I for the years ended December 31, 2020 and 2019. Phase II of the project was authorized by the PSCW in 2020. Construction of Badger Hollow II is expected to be completed in December 2022. As of December 31, 2020, MGE had \$5.2 million (excluding AFUDC) in construction work in progress. After tax, MGE recognized \$0.2 million of AFUDC equity related to Badger Hollow II for the year ended December 31, 2020. MGE received specific approval to recover 100% AFUDC on these projects.

MGE's utility plant is subject to the lien of its Indenture of Mortgage and Deed of Trust. As of December 31, 2020 and 2019, there was \$1.2 million of first mortgage bonds outstanding under that indenture. See Footnote 14 for further discussion of the mortgage indenture and the entitlement of certain senior notes to be equally and ratably secured if MGE issues additional first mortgage bonds.

## 5. Leases - MGE Energy and MGE.

As part of its regular operations, MGE enters into various contracts related to IT equipment, substations, cell towers, land, wind easements, and other property in use for operations. A contract is or contains a lease if the contract conveys the right to control the use of identified property, plant, or equipment for a period of time in exchange for consideration. Determination as to whether an arrangement is or contains a lease is completed at inception. Leases with an initial term of 12 months or less are not recorded on the consolidated balance sheets; lease expense for these leases are recognized on a straight-line basis over the lease term. Leases with initial terms in excess of 12 months are recorded as operating or financing leases on the consolidated balance sheets.

Operating lease assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. For leases that do not provide an implicit rate, a collateralized incremental borrowing rate based on the information available at commencement date, including lease term, is used in determining the present value of future payments. The operating lease asset also includes any lease payments made and excludes lease incentives and initial direct costs incurred. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the option will be exercised. Operating lease expense is recognized on a straight-line basis over the lease term. MGE has regulatory treatment and recognizes regulatory assets or liabilities for timing differences between when net lease costs are recorded and when costs are recognized. As of December 31, 2020, MGE had no significant leases not yet commenced that would create significant future rights and obligations.

The following table shows lease expense for the years ended December 31:

<i>(In thousands)</i>	2020	2019	Income Statement Location
Finance lease expense:			
Amortization of leased assets	\$ 1,694	\$ 1,524	Depreciation and amortization
Interest on lease liabilities	784	792	Interest expense, net
Operating lease expense	319	144	Other operations and maintenance
Total lease expense	<u>\$ 2,797</u>	<u>\$ 2,460</u>	

The following table shows the lease assets and liabilities on the consolidated balance sheets as of December 31:

<i>(In thousands)</i>	2020	2019	Balance Sheet Location
Lease assets:			
Finance lease assets	\$ 15,682	\$ 15,895	Property, plant, and equipment, net
Operating lease assets <sup>(a)</sup>	5,988	671	Other deferred assets and other
Total lease assets	<u>\$ 21,670</u>	<u>\$ 16,566</u>	
Lease liabilities:			
Finance lease liabilities - current	\$ 1,066	\$ 888	Other current liabilities
Finance lease liabilities - long-term	17,532	17,379	Finance lease liabilities
Operating lease liabilities - current	171	203	Other current liabilities
Operating lease liabilities - long-term <sup>(a)</sup>	5,840	496	Other deferred liabilities and other
Total lease liabilities	<u>\$ 24,609</u>	<u>\$ 18,966</u>	

(a) Increase in operating lease assets and long-term operating lease liabilities related to land leases for new solar farms in 2020.

The following table shows other lease information for the years ended December 31:

<i>(In thousands)</i>	2020	2019
Cash paid for amounts included in the measurement of lease liabilities:		
Finance leases - Financing cash flows	\$ 1,149	\$ 945
Finance leases - Operating cash flows	784	792
Operating leases - Operating cash flows	319	134
Lease assets obtained in exchange for lease liabilities:		
Finance leases	1,480	12,101
Operating leases	5,791	657

The following table shows the weighted average remaining lease terms and discounts as of December 31:

Weighted-average remaining lease terms (in years):	2020	2019
Finance leases	37	39
Operating leases	34	15
Weighted-average discount rates:		
Finance leases	4.32 %	4.37 %
Operating leases	2.84 %	3.32 %

The following table shows maturities of lease liabilities as of December 31:

<i>(In thousands)</i>	Finance	Operating
2021	\$ 1,820	\$ 338
2022	1,700	274
2023	1,520	203
2024	959	207
2025	774	211
Thereafter	39,787	8,636
Subtotal	46,560	9,869
Less: Present value discount	(27,962)	(3,858)
Lease Liability	<u>\$ 18,598</u>	<u>\$ 6,011</u>

## 6. Joint Plant Ownership - MGE Energy and MGE.

MGE has undivided ownership interests in jointly owned facilities. Generation and operating expenses are primarily divided between the joint owners under the same method as ownership. MGE provides its own financing and the respective portion of facilities and costs are included in the corresponding operating expenses (fuel for electric generation, purchased power, other operations and maintenance, etc.) in the consolidated statements of income.

The following table shows MGE's interest in utility plant in service, and the related accumulated depreciation reserves and other information related to MGE's jointly owned facilities:

<i>(In thousands, except for percentages and MW)</i>	Columbia <sup>(a)</sup>	Elm Road <sup>(b)</sup>	West Campus <sup>(c)</sup>	Forward Wind <sup>(d)</sup>	Two Creeks <sup>(e)</sup>	Badger Hollow I & II <sup>(f)</sup>
Ownership interest	19 %	8.33 %	55 %	12.8 %	33 %	33 %
Share of generation (MW)	211 MW	106 MW	157 MW	18 MW	50 MW	100 MW
<b>For the year ended December 31,</b>						
Operating expense - 2020	\$ 27,127	\$ 17,259	\$ (g)	\$ 664	\$ 118	\$ -
Operating expense - 2019	32,604	19,661	(g)	642	-	-
Operating expense - 2018	36,517	17,555	(g)	600 <sup>(h)</sup>	-	-
<b>As of December 31, 2020</b>						
Utility plant	\$ 289,597	\$ 203,847	\$ 115,657	\$ 34,028	\$ 67,577	\$ -
Accumulated depreciation	(118,742)	(36,964)	(36,580)	(14,092)	(225)	-
Construction work in progress	997	697	677	-	-	63,140
<b>As of December 31, 2019</b>						
Utility plant	\$ 291,997	\$ 207,834	\$ 113,259	\$ 34,054	\$ -	\$ -
Accumulated depreciation	(105,778)	(37,071)	(33,786)	(13,413)	-	-
Construction work in progress	1,777	468	309	45	45,286	18,953

- (a) In February 2021, MGE and the other co-owners announced plans to retire Columbia, a two unit coal-fired generation facility located in Portage, Wisconsin. The co-owners intend to retire Unit 1 by the end of 2023 and Unit 2 by the end of 2024. Final timing and retirement dates for Units 1 and 2 are subject to PSCW and regional regulatory reviews, including identification and approval of energy and capacity resources to replace Columbia.
- (b) Two coal-fired generating units in Oak Creek, Wisconsin.
- (c) MGE Power West Campus and the UW jointly own the West Campus Cogeneration Facility (WCCF) located on the UW campus in Madison, Wisconsin. The UW owns a controlling interest in the chilled-water and steam plants, which are used to meet the needs for air-conditioning and steam-heat capacity for the UW campus. MGE Power West Campus owns a controlling interest in the electric generation plant, which is leased and operated by MGE.
- (d) The Forward Wind Energy Center (Forward Wind) consists of 86 wind turbines located near Brownsville, Wisconsin.
- (e) The Two Creeks solar generation array is located in the Town of Two Creeks and the City of Two Rivers in Manitowoc and Kewaunee Counties, Wisconsin. Date of commercial operation of the solar array was November 2020.
- (f) The Badger Hollow I and II solar farm is located in southwestern Wisconsin in Iowa County, near the villages of Montfort and Cobb. Badger Hollow I and II estimated commercial operation dates are April 2021 and December 2022, respectively.
- (g) Operating charges are allocated to the UW based on formulas contained in the operating agreement. Under the provisions of this arrangement, the UW is required to reimburse MGE for their allocated portion of fuel and operating expenses. For the years ended December 31, 2020, 2019, and 2018, the UW's allocated share of fuel and operating costs was \$5.2 million, \$6.6 million, and \$6.3 million, respectively.
- (h) Amount was deferred as a regulatory asset in 2018. This amount was recovered in rates and recognized as operating and maintenance expense in 2019.

## 7. Investments - MGE Energy and MGE.

### a. Equity Securities, Equity Method Investments, and Other Investments.

<i>(In thousands)</i>	MGE Energy		MGE	
	2020	2019	2020	2019
Equity securities	\$ 17,906	\$ 14,546	\$ 603	\$ 209
Equity method investments:				
ATC and ATC Holdco	74,423	71,609	-	-
Other	39	39	-	-
Total equity method investments	74,462	71,648	-	-
Other investments	2,308	2,298	-	-
Total	\$ 94,676	\$ 88,492	\$ 603	\$ 209



Equity securities represent publicly traded securities and private equity investments in common stock of companies in various industries.

During the years ended December 31, 2020, 2019, and 2018, certain investments were liquidated. As a result of these liquidations, the following was received:

(In thousands)	MGE Energy			MGE		
	2020	2019	2018	2020	2019	2018
Cash proceeds	\$ 622	\$ 216	\$ 960	\$ -	\$ 2	\$ 3
Gain (loss) on sale	379	580	476	-	(343)	3

**b. ATC and ATC Holdco.**

ATC owns and operates electric transmission facilities primarily in Wisconsin. MGE received an interest in ATC when it, like other Wisconsin electric utilities, contributed its electric transmission facilities to ATC as required by Wisconsin law. That interest is presently held by MGE Transco, which, since December 1, 2016, is owned by MGE Energy. ATC Holdco was formed by several members of ATC, including MGE Energy, to pursue electric transmission development and investments outside of Wisconsin. The ownership interest in ATC Holdco is held by MGEE Transco, a wholly-owned subsidiary of MGE Energy.

As of December 31, 2020 and 2019, MGE Transco held a 3.6% ownership interest in ATC. As of December 31, 2020 and 2019, MGEE Transco held a 4.4% ownership interest in ATC Holdco.

MGE Transco and MGEE Transco have accounted for their investment in ATC and ATC Holdco, respectively, under the equity method of accounting. Equity earnings from investments are recorded as "Other income" on the consolidated statements of income of MGE Energy. For the years ended December 31, MGE Transco recorded the following:

(In thousands)	2020	2019	2018
Equity earnings from investment in ATC	\$ 10,167	\$ 9,889	\$ 8,821
Dividends received from ATC <sup>(a)</sup>	8,633	7,347	4,611
Capital contributions to ATC	1,249	3,018	2,841

(a) MGE Transco recorded a \$2.3 million dividend receivable from ATC as of December 31, 2017. A cash dividend was received in January of 2018.

ATC Holdco was formed in December 2016. ATC Holdco's future transmission development activities have been suspended for the near term. In 2020, 2019, and 2018, MGEE Transco recorded capital contributions of \$0.3 million, \$0.1 million, and \$0.3 million, respectively, to ATC Holdco.

ATC's summarized financial data is as follows:

(In thousands)

<b>Income statement data for the year ended December 31,</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Operating revenues	\$ 758,117	\$ 744,371	\$ 690,510
Operating expenses	(372,463)	(373,527)	(358,703)
Other income	1,922	48	2,405
Interest expense, net	(112,818)	(110,490)	(110,725)
Earnings before members' income taxes	<u>\$ 274,758</u>	<u>\$ 260,402</u>	<u>\$ 223,487</u>

<b>Balance sheet data as of December 31,</b>	<b>2020</b>	<b>2019</b>
Current assets	\$ 92,735	\$ 84,635
Noncurrent assets	5,400,538	5,244,220
Total assets	<u>\$ 5,493,273</u>	<u>\$ 5,328,855</u>
Current liabilities	\$ 310,749	\$ 502,601
Long-term debt	2,512,246	2,312,799
Other noncurrent liabilities	378,205	298,828
Members' equity	2,292,073	2,214,627
Total members' equity and liabilities	<u>\$ 5,493,273</u>	<u>\$ 5,328,855</u>

MGE receives transmission and other services from ATC. During 2020, 2019, and 2018, MGE recorded \$30.7 million, \$30.4 million, and \$29.0 million, respectively, for transmission services received from ATC. MGE also provides a variety of operational, maintenance, and project management work for ATC, which is reimbursed by ATC. As of December 31, 2020 and 2019, MGE had a receivable due from ATC of \$2.6 million (related primarily to Badger Hollow I and II) and \$1.6 million (related primarily to Two Creeks and Badger Hollow I and II), respectively. MGE is reimbursed for these costs after the new generation assets are placed into service.

## 8. Regulatory Assets and Liabilities - MGE Energy and MGE.

The following regulatory assets and liabilities are reflected in MGE's consolidated balance sheets as of December 31:

(In thousands)	<b>2020</b>	<b>2019</b>
<b>Regulatory Assets</b>		
Asset retirement obligation	\$ 11,935	\$ 10,756
COVID-19 costs	3,933	-
Debt related costs	8,586	8,885
Deferred pension and other postretirement costs	5,280	6,216
Derivatives	13,989	26,875
Leases	2,748	2,400
Tax recovery related to AFUDC equity	8,952	7,060
Unfunded pension and other postretirement liability	101,594	83,214
Other	235	340
<b>Total Regulatory Assets</b>	<u>\$ 157,252</u>	<u>\$ 145,746</u>
<b>Regulatory Liabilities</b>		
Deferred fuel savings	\$ 5,047	\$ 1,794
Elm Road	1,957	2,322
Income taxes	129,856	129,528
Non-ARO removal costs	28,197	26,543
Pension and other postretirement service costs	7,524	4,499
Purchased gas adjustment	1,832	1,864
Renewable energy credits	802	558
Transmission	7,669	6,019
Other	1,019	1,066
<b>Total Regulatory Liabilities</b>	<u>\$ 183,903</u>	<u>\$ 174,193</u>

MGE expects to recover its regulatory assets and return its regulatory liabilities through rates charged to

customers based on PSCW decisions made during the ratemaking process or based on PSCW long-standing policies and guidelines. The adjustments to rates for these regulatory assets and liabilities will occur over the periods either specified by the PSCW or over the corresponding period related to the asset or liability. Management believes it is probable that MGE will continue to recover from customers the regulatory assets described above based on prior and current ratemaking treatment for such costs. All regulatory assets for which a cash outflow had been made are earning a return except for COVID-19 costs.

#### ***Asset Retirement Obligation***

See Footnote 17 for a discussion of asset retirement obligations.

#### ***COVID-19 Costs***

In March 2020, the PSCW issued an order authorizing deferral of expenditures incurred to ensure the provision of safe, reliable, and affordable access to utility services during the COVID-19 pandemic and late payment charges. Expenditures include items such as bad debt expense and personal protective equipment. Foregone revenue from late payment charges and the potential delay in payments from customers is expected to impact the timing of cash inflows. Subject to PSCW approval of recovery, foregone late payment charges are expected to be recognized as revenue when it is collected from customers, and deferred expenditures are expected to be recognized as a regulatory asset as costs are incurred (meaning that those expenditures will affect cash flows when paid but will not affect income until recovery is permitted by the PSCW). Recovery of expenditures and late payment charges is expected to be addressed in future rate proceedings. While management believes that cost recovery is probable, the timing of collection from customers cannot be estimated at this time. Management will continue to assess the probability of recovery of deferred costs as the COVID-19 pandemic progresses.

#### ***Debt Related Costs***

This balance includes debt issuance costs of extinguished debt and other debt related expenses, including make-whole premiums paid on redemptions of long-term debt. The PSCW has allowed rate recovery on unamortized issuance costs for extinguished debt facilities. When the facility replacing the old facility is deemed by the PSCW to be more favorable for the ratepayers, the PSCW will allow rate recovery of any unamortized issuance costs related to the old facility. These amounts are recovered over the term of the new facility.

#### ***Deferred Pension and Other Postretirement Costs***

As a result of lower investment returns in the fourth quarter of 2018, pension and postretirement benefit costs increased in 2019. In August 2019, the PSCW approved MGE's request to defer the difference between estimated pension and other postretirement costs included in the 2019 and 2020 rate settlement and actual expense incurred. The deferred cost for employee benefit plans was factored into future rate actions starting in 2021.

#### ***Derivatives***

MGE has physical and financial contracts that are accounted for as derivatives. The amounts recorded for the net mark-to-market value of the commodity based contracts is offset with a corresponding regulatory asset or liability because these transactions are part of the PGA or fuel rules clause authorized by the PSCW. A significant portion of the recorded amount is related to a purchased power agreement that provides MGE with firm capacity and energy during a base term that began on June 1, 2012, and ends on May 31, 2022. See Footnote 18 for further discussion.

#### ***Leases***

As part of its regular operations, MGE enters into various contracts related to IT equipment, substations, cell towers, land, wind easements, and other property in use for operations. Leases with initial terms in excess of 12 months are recorded as operating or financing leases on the consolidated balance sheets. MGE has regulatory treatment and recognizes regulatory assets or liabilities for timing differences between when net lease costs are recorded and when costs are recognized. See Footnote 5 for further information.

#### ***Tax Recovery Related to AFUDC Equity***

AFUDC equity represents the after-tax equity cost associated with utility plant construction and results in a temporary difference between the book and tax basis of such plant. It is probable under PSCW regulation

that MGE will recover in future rates the future increase in taxes payable represented by the deferred income tax liability. The amounts will be recovered in rates over the depreciable life of the asset for which AFUDC was applied. Tax recovery related to AFUDC equity represents the revenue requirement related to recovery of these future taxes payable, calculated at current statutory tax rates.

#### ***Unfunded Pension and Other Postretirement Liability***

MGE is required to recognize the unfunded or funded status of defined benefit pension and other postretirement pension plans as a net liability or asset on the balance sheet with an offset to a regulatory asset or liability. The unfunded status represents future expenses that are expected to be recovered in rates. See Footnote 11 for further discussion.

#### ***Deferred Fuel Savings***

The fuel rules require the PSCW and Wisconsin utilities to defer electric fuel-related costs that fall outside a symmetrical cost tolerance band. Any over- or under-recovery of the actual costs is determined on an annual basis and is adjusted in future billings to electric retail customers. See Footnote 9.b. for further discussion.

#### ***Elm Road***

Costs associated with Elm Road are estimated in MGE's rates and include costs for lease payments, management fees, community impact mitigation, and operating costs. Costs are collected in rates over a one to two-year period. The current accounting treatment for these costs allows MGE to reflect any differential between costs reflected in rates and actual costs incurred in its next rate filing.

#### ***Income Taxes***

Excess deferred income taxes result from a decrease in tax rates subsequent to ratemaking settlements. The settlements were reached using tax rates that are higher than the currently applicable rates, and MGE is required to return these tax benefits to customers. The regulatory liability and deferred investment tax credit reflects the revenue requirement associated with the return of these tax benefits to customers.

Changes in income taxes are generally passed through in customer rates for the regulated utility. The one-time 2017 impact on timing differences related to income taxes passed through to customer rates of the 2017 Tax Act was recorded as a regulatory liability. The amount and timing of the cash impacts will depend on the period over which certain income tax benefits are provided to customers, which will be subject to review by the PSCW. A portion of the regulatory liability will be returned to customers based on a mandated timeframe dictated by applicable tax laws. The 2021 rate settlement includes a one-time \$18.2 million return to customers of the portion of electric excess deferred taxes related to the 2017 Tax Act not governed by IRS normalization rules.

#### ***Non-ARO Removal Costs***

In connection with accounting for asset retirement obligations, companies are required to reclassify cumulative collections for non-ARO removal costs as a regulatory liability, with an offsetting entry to accumulated depreciation. Under the current rate structure, these removal costs are being recovered as a component of depreciation expense.

#### ***Pension and Other Postretirement Service Costs***

The FASB issued authoritative guidance within the codification's Compensation-Retirement Benefits topic that only allows the service cost component of net periodic benefit cost to be eligible for capitalization within the consolidated balance sheets. Under the current rate structure, non-service cost components of net periodic benefit cost are being recovered as a component of depreciation expense. MGE has regulatory treatment and recognizes regulatory assets or liabilities for timing differences between when net periodic benefit costs are recovered and when costs are recognized. See Footnote 11 for further discussion.

#### ***Purchased Gas Adjustment***

MGE's natural gas rates are subject to a fuel adjustment clause designed to recover or refund the difference between the actual cost of purchased gas and the amount included in rates. Differences between the amounts billed to customers and the actual costs recoverable are deferred and recovered or refunded in future periods by means of prospective monthly adjustments to rates.

### ***Renewable Energy Credits***

MGE receives renewable energy credits from certain purchase power agreements. The value of the credits are recorded as inventory and expensed when the credit is redeemed or expired. A regulatory liability has been established for the value of the renewable energy credits included in inventory. In Wisconsin, renewable energy credits expire four years after the year of acquisition.

### ***Transmission Costs***

The current accounting treatment for transmission costs allows MGE to reflect any differential between transmission costs reflected in rates and actual costs incurred in its next rate filing.

## **9. Rate Matters - MGE Energy and MGE.**

### **a. Rate Proceedings.**

In December 2020, the PSCW approved a settlement agreement for MGE's 2021 rate case. The settlement agreement provides for a zero percent increase for electric rates and an approximately 4.0% increase for gas rates in 2021. The electric rate settlement includes an increase in rate base but the associated rate increase is primarily offset by lower fuel and purchase power costs and a one-time \$18.2 million return to customers of the portion of excess deferred taxes related to the 2017 Tax Act not governed by IRS normalization rules. As part of the settlement, the fuel rules bandwidth will be set at plus or minus 1% for 2021. When compared to the 2020 rate case, the settlement includes lower forecasted electric sales for 2021 to reflect changes to customer usage during the COVID-19 pandemic. The gas rate increase covers infrastructure costs and technology improvements. The settlement agreement also includes escrow accounting treatment for pension and other postretirement benefit costs, bad debt expense, and customer credit card fees. Escrow accounting treatment allows MGE to defer any difference between estimated costs in rates and actual costs incurred until its next rate filing. Any difference would be recorded as a regulatory asset or regulatory liability. The return on common stock equity for 2021 is 9.8% based on a capital structure of 55.8% common equity in 2021.

On January 27, 2021, Sierra Club and Vote Solar filed a Petition for Judicial Review of Agency Action (the Petition) in Dane County Circuit Court. The Petition challenges the final decision issued by the PSCW approving the rate settlement in MGE's 2021 rate case. The PSCW is named as the respondent in the Petition; MGE is not named as a party. The remedies sought in the Petition are unclear. The PSCW is expected to vigorously defend its final decision to approve the settlement agreement in the rate case, and MGE has intervened in the Petition in cooperation with the PSCW.

In December 2018, the PSCW approved a settlement agreement between MGE and intervening parties in the then pending rate case. The settlement decreased electric rates by 2.24%, or \$9.2 million, in 2019. The decrease in electric rates reflected the ongoing impacts of the 2017 Tax Act. Lower fuel costs and an increase in rate base from renewable generation assets further impacted the rate change. In 2020, electric rates decreased a further 0.84%, or \$3.4 million, as approved by the PSCW in December 2019 in MGE's 2020 Fuel Cost Plan, which reflected lower fuel costs. The settlement agreement increased gas rates by 1.06%, or \$1.7 million, in 2019 and 1.46%, or \$2.4 million, in 2020. The gas increase covered infrastructure costs. It also reflected the impacts of the 2017 Tax Act. The return on common stock equity for 2019 and 2020 was 9.8% based on a capital structure consisting of 56.6% common equity in 2019 and 56.1% common equity in 2020.

### **b. Fuel Rules.**

Fuel rules require Wisconsin utilities to defer electric fuel-related costs that fall outside a symmetrical cost tolerance band around the amount approved for a utility in its annual fuel proceedings. Any over- or under-recovery of the actual costs is determined in the following year and is then reflected in future billings to electric retail customers. In 2020 the fuel rules bandwidth was set at plus or minus 2%. Under fuel rules, MGE deferred costs, less any excess revenues, if its actual electric fuel costs exceeded 102% of the electric fuel costs allowed in its latest rate order. Excess revenues are defined as revenues in the year in question that provide MGE with a greater return on common equity than authorized by the

PSCW in MGE's latest rate order. Conversely, MGE is required to defer the benefit of lower costs if actual electric fuel costs were less than 98% of the electric fuel costs allowed in that order. The fuel rules bandwidth is set at plus or minus 1% in 2021. These costs are subject to the PSCW's annual review of fuel costs completed in the year following the deferral.

The PSCW issued final decisions in the 2018 and 2017 fuel rules proceedings for MGE to refund additional fuel savings realized to its retail electric customers over a one-month period. MGE returned \$9.5 million and \$4.2 million of electric fuel-related savings in October 2019 and 2018, respectively. There was no change to the refund in the fuel rules proceedings from the amount MGE deferred in the previous year.

The PSCW issued a final decision in the 2019 fuel rules proceedings regarding \$1.5 million of deferred savings giving MGE the option either to use the \$1.5 million as part of the settlement to MGE's 2021 rate case or to refund the balance to customers in October 2020. MGE elected to include the savings as part of the 2021 rate change settlement as described above, reducing electric retail rates as opposed to a one-time credit back to retail customers. There was no change to the refund in the fuel rules proceedings from the amount MGE deferred in the previous year.

As of December 31, 2020, MGE has deferred \$3.2 million of 2020 fuel-related savings. These costs will be subject to the PSCW's annual review of 2020 fuel costs, expected to be completed in 2021.

**c. COVID-19.**

On March 24, 2020, the PSCW ordered changes to the tariff provisions of all public utilities in Wisconsin in response to the COVID-19 pandemic. The order prohibited late payment charges, service disconnections, service refusals, and cash deposits as a condition of service. The order also required utilities to offer deferred payment arrangements to customers. The order resulted in increased bad debt expense and foregone revenue from late payment charges. This order, as it pertained to the prohibitions on service disconnections for residential customers, was in effect until November 1, 2020, at which time the annual winter disconnection moratorium began and continues until April 15, 2021. All other restrictions were lifted in July 2020. As permitted by regulatory action, MGE notified the PSCW of its election to continue to waive late fees until April 1, 2021 for all customer classes and seek recovery in a future period.

On March 24, 2020, the PSCW issued a further order authorizing deferral of expenditures incurred to ensure the provision of safe, reliable, and affordable access to utility services during the COVID-19 pandemic and late payment charges. See Footnote 8 for further discussion of the COVID-19 deferral expenditures.

**d. 2018 Tax Reform.**

Customer rates approved for 2018 reflected an income tax rate of 35 percent. In January 2018, the PSCW issued an order directing Wisconsin investor-owned utilities to defer the over-collection of income tax expense as a result of the decrease in tax rate to 21 percent.

The PSCW issued an order in May 2018 to return to customers the estimated 2018 over-collection of income tax expense. The decision included a one-time credit on customer bills to reflect the estimate of the over-collection for January through June 2018, along with a volumetric credit which began in July 2018 and continued through the remainder of 2018 for the estimated remaining annual amount. MGE returned \$8.2 million to customers through bill credits as of December 31, 2018.

In August 2019, the PSCW issued a decision on the 2018 tax reform proceedings for MGE to refund the remaining 2018 overcollection of income tax expense to its retail customers as a one-time bill credit. MGE returned \$3.2 million in September 2019. There was no change to the refund order from the amount MGE deferred as of December 31, 2018.

## 10. Income Taxes.

### a. MGE Energy and MGE Income Taxes.

MGE Energy files a consolidated federal income tax return that includes the operations of all subsidiary companies. The subsidiaries calculate their respective federal income tax provisions as if they were separate taxable entities.

On a consolidated and separate company basis, the income tax provision consists of the following provision (benefit) components for the years ended December 31:

(In thousands)	MGE Energy			MGE		
	2020	2019	2018	2020	2019	2018
Current payable:						
Federal	\$ 4,179	\$ 8,017	\$ 18,622	\$ 3,716	\$ 7,616	\$ 19,926
State	5,095	4,647	5,163	4,790	4,608	5,704
Net-deferred:						
Federal	6,181	3,510	120	4,756	2,242	(2,563)
State	4,182	3,702	3,629	3,787	3,044	2,494
Amortized investment tax credits	(214)	(92)	(100)	(214)	(92)	(100)
Total income tax provision	<u>\$ 19,423</u>	<u>\$ 19,784</u>	<u>\$ 27,434</u>	<u>\$ 16,835</u>	<u>\$ 17,418</u>	<u>\$ 25,461</u>

The consolidated income tax provision differs from the amount computed by applying the statutory federal income tax rate to income before income taxes, as follows:

	MGE Energy			MGE		
	2020	2019	2018	2020	2019	2018
Statutory federal income tax rate	21.0 %	21.0 %	21.0 %	21.0 %	21.0 %	21.0 %
State income taxes, net of federal benefit	6.3	6.2	6.3	6.3	6.1	6.2
Amortized investment tax credits	(0.2)	(0.1)	(0.1)	(0.2)	(0.1)	(0.1)
Credit for electricity from wind energy <sup>(a)</sup>	(6.2)	(5.7)	(0.3)	(6.8)	(6.2)	(0.4)
AFUDC equity, net	(1.2)	(0.3)	(0.6)	(1.4)	(0.3)	(0.5)
Amortization of utility excess deferred tax <sup>(b)</sup>	(2.0)	(2.4)	(1.8)	(2.2)	(2.7)	(2.0)
Other, net, individually insignificant	(0.3)	(0.1)	0.1	(0.3)	(0.1)	0.2
Effective income tax rate	<u>17.4 %</u>	<u>18.6 %</u>	<u>24.6 %</u>	<u>16.4 %</u>	<u>17.7 %</u>	<u>24.4 %</u>

(a) Saratoga became operational in February 2019.

(b) Included are impacts of the Tax Cuts and Jobs Act for the regulated utility for excess deferred taxes recognized using a normalization method of accounting. For the years ended December 31, 2020, 2019, and 2018, MGE recognized \$2.2 million, \$2.6 million, and \$2.1 million, respectively. The amount and timing of the cash impacts will depend on the period over which certain income tax benefits are provided to customers, as determined by the PSCW.

The significant components of deferred tax assets and liabilities that appear on the consolidated balance sheets as of December 31 are as follows:

(In thousands)	MGE Energy		MGE	
	2020	2019	2020	2019
Deferred tax assets				
Investment in ATC	\$ 21,688	\$ 22,576	\$ -	\$ -
Federal tax credits	19,199	-	20,080	-
Accrued expenses	11,115	15,901	11,105	15,890
Pension and other postretirement benefits	35,446	30,968	35,446	30,968
Deferred tax regulatory account	41,318	35,493	41,318	35,493
Derivatives	3,852	7,351	3,852	7,351
Leases	6,704	5,167	6,704	5,167
Other	14,073	12,540	14,125	12,593
Gross deferred income tax assets	<u>153,395</u>	<u>129,996</u>	<u>132,630</u>	<u>107,462</u>
Less valuation allowance	<u>(38)</u>	<u>(86)</u>	<u>(38)</u>	<u>(86)</u>
Net deferred income tax assets	<u>\$ 153,357</u>	<u>\$ 129,910</u>	<u>\$ 132,592</u>	<u>\$ 107,376</u>

Deferred tax liabilities				
Property-related	\$ 257,397	\$ 245,083	\$ 257,397	\$ 245,083
Investment in ATC	51,518	51,569	-	-
Bond transactions	595	657	595	657
Pension and other postretirement benefits	45,658	45,683	45,658	45,683
Derivatives	3,852	7,351	3,852	7,351
Tax deductible prepayments	9,059	9,078	9,059	9,051
Leases	6,704	5,167	6,704	5,167
Other	10,045	8,624	9,717	8,425
Gross deferred income tax liabilities	<u>384,828</u>	<u>373,212</u>	<u>332,982</u>	<u>321,417</u>
Deferred income taxes	<u>\$ 231,471</u>	<u>\$ 243,302</u>	<u>\$ 200,390</u>	<u>\$ 214,041</u>

The components of federal and state tax benefit carryovers as of December 31, are as follows:

(In thousands)	MGE Energy		MGE	
	2020	2019	2020	2019
Federal tax credits	\$ 19,199	\$ -	\$ 20,080	\$ -
State net operating losses	621	1,406	621	1,406
Valuation allowances for state net operating losses	(621)	(1,406)	(621)	(1,406)

Federal tax credit carryovers expire in 2040 and state net operating loss carryforwards expire between 2021 and 2023. Federal tax credits represent the deferred tax asset and net operating loss amounts represent the tax loss that is carried forward. The state valuation allowance reduces MGE Energy's and MGE's state carryforward losses to estimated realizable value due to the uncertainty of future income in various state tax jurisdictions.

#### b. Accounting for Uncertainty in Income Taxes - MGE Energy and MGE.

The difference between the tax benefit amount taken on prior year tax returns, or expected to be taken on a current year tax return, and the tax benefit amount recognized in the financial statements is accounted for as an unrecognized tax benefit.

A tabular reconciliation of unrecognized tax benefits and interest is as follows:

(In thousands)

##### Unrecognized Tax Benefits:

	2020	2019	2018
Unrecognized tax benefits, January 1,	\$ 2,093	\$ 1,949	\$ 1,924
Additions based on tax positions related to the current year	796	741	425
Additions based on tax positions related to the prior years	-	84	272
Reductions based on tax positions related to the prior years	(608)	(681)	(672)
Unrecognized tax benefits, December 31,	<u>\$ 2,281</u>	<u>\$ 2,093</u>	<u>\$ 1,949</u>

(In thousands)

##### Interest on Unrecognized Tax Benefits:

	2020	2019	2018
Accrued interest on unrecognized tax benefits, January 1,	\$ 176	\$ 191	\$ 165
Reduction in interest expense on uncertain tax positions	(124)	(137)	(136)
Interest expense on uncertain tax positions	102	122	162
Accrued interest on unrecognized tax benefits, December 31,	<u>\$ 154</u>	<u>\$ 176</u>	<u>\$ 191</u>

Unrecognized tax benefits are classified with "Other deferred liabilities" on the consolidated balance sheets. The interest component recoverable in rates is offset by a regulatory asset.

As of December 31, 2020, 2019, and 2018, unrecognized tax benefits primarily related to temporary tax differences associated with the change in income tax method of accounting for electric generation and electric and gas distribution repairs. In addition, as of December 31, 2019 and 2018, unrecognized tax benefits relating to permanent differences and tax credits was less than \$0.1 million and \$0.3 million, respectively. As of December 31, 2020, there were no unrecognized tax benefits relating to permanent differences and tax credits.



The unrecognized tax benefits as of December 31, 2020, are not expected to significantly increase or decrease within the next twelve months. In addition, statutes of limitations will expire for MGE Energy and MGE tax returns. The impact of the statutes of limitations expiring is not anticipated to be material. The following table shows tax years that remain subject to examination by major jurisdiction:

<b>Taxpayer</b>	<b>Open Years</b>
MGE Energy and consolidated subsidiaries in federal return	2017 through 2020
MGE Energy Wisconsin combined reporting corporation return	2017 through 2020

#### 11. Pension Plans and Other Postretirement Benefits - MGE Energy and MGE.

MGE maintains qualified and nonqualified pension plans, health care, and life insurance benefits, and defined contribution 401(k) benefit plans for its employees and retirees. MGE's costs for the 401(k) plans were \$4.7 million, \$4.4 million, and \$3.9 million for the years ended December 31, 2020, 2019, and 2018, respectively. A measurement date of December 31 is utilized for all pension and postretirement benefit plans.

All employees hired after December 31, 2006, have been enrolled in the defined contribution pension plan rather than the defined benefit pension plan previously in place.

##### a. Benefit Obligations and Plan Assets.

<i>(In thousands)</i>	Pension Benefits		Other Postretirement Benefits	
	2020	2019	2020	2019
<b>Change in Benefit Obligations:</b>				
Net benefit obligation as of January 1,	\$ 410,651	\$ 360,288	\$ 80,901	\$ 75,161
Service cost	5,296	4,692	1,264	1,110
Interest cost	12,210	14,302	2,278	2,893
Plan participants' contributions	-	-	1,009	969
Actuarial loss <sup>(a)</sup>	50,325	47,671	5,907	5,045
Gross benefits paid	(17,267)	(16,302)	(5,245)	(4,497)
Less: federal subsidy on benefits paid <sup>(b)</sup>	-	-	246	220
Benefit obligation as of December 31,	\$ 461,215	\$ 410,651	\$ 86,360	\$ 80,901
<b>Change in Plan Assets:</b>				
Fair value of plan assets as of January 1,	\$ 386,033	\$ 323,780	\$ 48,889	\$ 42,521
Actual return on plan assets	58,935	76,766	6,514	9,277
Employer contributions	1,837	1,789	568	619
Plan participants' contributions	-	-	1,009	969
Gross benefits paid	(17,267)	(16,302)	(5,245)	(4,497)
Fair value of plan assets at end of year	429,538	386,033	51,735	48,889
Funded Status as of December 31,	\$ (31,677)	\$ (24,618)	\$ (34,625)	\$ (32,012)

(a) In 2020 and 2019, lower discount rates were the primary driver of the actuarial loss.

(b) In 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 was signed into law authorizing Medicare to provide prescription drug benefits to retirees. For the years ended December 31, 2020 and 2019, the subsidy due to MGE was \$0.2 million.

The accumulated benefit obligation for the defined benefit pension plans as of December 31, 2020 and 2019, was \$430.3 million and \$383.0 million, respectively.

The amounts recognized in the consolidated balance sheets to reflect the funded status of the plans as of December 31 are as follows:

	Pension Benefits		Other Postretirement Benefits	
	2020	2019	2020	2019
<i>(In thousands)</i>				
Long-term asset	\$ 13,873	\$ 13,630	\$ -	\$ -
Current liability	(2,139)	(1,688)	-	-
Long-term liability	(43,411)	(36,560)	(34,625)	(32,012)
Net liability	<u>\$ (31,677)</u>	<u>\$ (24,618)</u>	<u>\$ (34,625)</u>	<u>\$ (32,012)</u>

The following table shows the amounts that have not yet been recognized in our net periodic benefit cost as of December 31 and are recorded as regulatory assets in the consolidated balance sheets:

	Pension Benefits		Other Postretirement Benefits	
	2020	2019	2020	2019
<i>(In thousands)</i>				
Net actuarial loss	\$ 92,553	\$ 79,290	\$ 10,986	\$ 8,659
Prior service benefit	(144)	(268)	(1,816)	(4,484)
Transition obligation	-	-	15	17
Total	<u>\$ 92,409</u>	<u>\$ 79,022</u>	<u>\$ 9,185</u>	<u>\$ 4,192</u>

The projected benefit obligation and fair value of plan assets for pension plans with a projected benefit obligation in excess of plan assets were as follows:

	Pension Benefits	
	2020	2019
<i>(In thousands)</i>		
<b>Projected Benefit Obligation in Excess of Plan Assets</b>		
Projected benefit obligation, end of year	\$ 45,550	\$ 38,247
Fair value of plan assets, end of year	-	-

The accumulated benefit obligation and fair value of plan assets with an accumulated benefit obligation in excess of plan assets were as follows:

	Pension Benefits		Other Postretirement Benefits	
	2020	2019	2020	2019
<i>(In thousands)</i>				
<b>Accumulated Benefit Obligation in Excess of Plan Assets</b>				
Accumulated benefit obligation, end of year	\$ 43,384	\$ 35,798	\$ 86,360	\$ 80,901
Fair value of plan assets, end of year	-	-	51,735	48,889

## b. Net Periodic Benefit Cost.

(In thousands)

Components of Net Periodic Benefit Cost:	Pension Benefits			Other Postretirement Benefits		
	2020 <sup>(a)</sup>	2019 <sup>(a)</sup>	2018	2020 <sup>(a)</sup>	2019 <sup>(a)</sup>	2018
Service cost	\$ 5,296	\$ 4,692	\$ 5,723	\$ 1,264	\$ 1,110	\$ 1,283
Interest cost	12,210	14,302	12,859	2,278	2,893	2,612
Expected return on assets	(27,229)	(22,786)	(26,241)	(3,154)	(2,723)	(3,232)
Amortization of:						
Transition obligation	-	-	-	3	3	3
Prior service (credit) cost	(114)	(117)	(44)	(2,669)	(2,669)	(2,669)
Actuarial loss	5,357	7,379	5,278	217	401	488
Net periodic benefit cost (credit)	<u>\$ (4,480)</u>	<u>\$ 3,470</u>	<u>\$ (2,425)</u>	<u>\$ (2,061)</u>	<u>\$ (985)</u>	<u>\$ (1,515)</u>

(a) During 2019, MGE deferred approximately \$6.2 million of pension and other postretirement costs. During 2020, MGE collected approximately \$0.9 million of pension and other postretirement costs, which reduced the amount deferred in 2019. The impact of the deferral has not been reflected in the table above. See Footnote 8 for further information.

The components of net periodic benefit cost, other than the service cost component, are recorded in "Other income, net" on the consolidated statements of income. The service cost component is recorded in "Other operations and maintenance" on the consolidated statements of income. MGE has regulatory treatment and recognizes regulatory assets or liabilities for timing differences between when net periodic benefit costs are recovered and when costs are recognized.

## c. Plan Assumptions.

The weighted-average assumptions used to determine the benefit obligations were as follows for the years ended December 31:

	Pension Benefits		Other Postretirement Benefits	
	2020	2019	2020	2019
Discount rate	2.70 %	3.42 %	2.52 %	3.30 %
Rate of compensation increase	3.22 %	3.21 %	N/A	N/A
Assumed health care cost trend rates:				
Health care cost trend rate assumed for next year	N/A	N/A	5.75 %	6.00 %
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	N/A	N/A	4.75 %	5.00 %
Year that the rate reaches the ultimate trend rate	N/A	N/A	2027	2024

MGE uses individual spot rates, instead of a weighted average of the yield curve spot rates, for measuring the service cost and interest cost components of net periodic benefit cost.

The weighted-average assumptions used to determine the net periodic cost were as follows for the years ended December 31:

	Pension Benefits			Other Postretirement Benefits		
	2020	2019	2018	2020	2019	2018
Discount rate	3.42 %	4.32 %	3.73 %	3.30 %	4.24 %	3.60 %
Expected rate of return on plan assets	7.20 %	7.20 %	7.40 %	6.75 %	6.72 %	6.94 %
Rate of compensation increase	3.26 %	3.25 %	3.72 %	N/A	N/A	N/A

MGE employs a building-block approach in determining the expected long-term rate of return for asset classes. Historical markets are studied and long-term historical relationships among asset classes are analyzed, consistent with the widely accepted capital market principle that assets with higher volatility generate a greater return over the long run. Current market factors, such as interest rates and dividend yields, are evaluated before long-term capital market assumptions are determined.

The expected long-term nominal rate of return for plan assets is primarily a function of expected long-term real rates of return for component asset classes and the plan's target asset allocation in conjunction with an inflation assumption. Peer data and historical returns are reviewed to check for appropriateness.

**d. Investment Strategy.**

MGE employs a total return investment approach whereby a mix of equities, fixed income, and real estate investments are used to maximize the expected long-term return of plan assets for a prudent level of risk. Risk tolerance is established through careful consideration of plan liabilities, plan-funded status, and corporate financial condition. The investment portfolio contains a diversified blend of equity, fixed income, and real estate investments. Investment risk is measured and monitored on an ongoing basis through periodic investment portfolio reviews and liability measurements.

The asset allocation for MGE's pension plans as of December 31, 2020 and 2019, and the target allocation for 2021, by asset category, follows:

	Target Allocation	Percentage of Plan Assets at Year End	
		2020	2019
Equity securities <sup>(a)</sup>	63.0 %	69.0 %	64.0 %
Fixed income securities	30.0 %	25.0 %	29.0 %
Real estate	7.0 %	6.0 %	7.0 %
Total	100.0 %	100.0 %	100.0 %

(a) Target allocations for equity securities are broken out as follows: 45.5% United States equity and 17.5% non-United States equity.

The fair value of plan assets for the postretirement benefit plans is \$51.7 million and \$48.9 million as of December 31, 2020 and 2019, respectively. Of this amount, \$45.6 million and \$42.8 million as of December 31, 2020 and 2019, respectively, were held in the master pension trust and are allocable to postretirement health expenses. The target asset allocation and investment strategy for the portion of assets held in the master pension trust are the same as that explained for MGE's pension plans. The remainder of postretirement benefit assets are held either in an insurance continuance fund for the payment of retiree life benefits or health benefit trusts for payment of retiree health premiums. The asset allocation for the insurance continuance fund is determined by the life insurer. The target asset allocation for the health benefit trusts are established based on a similar investment strategy as assets held in the master pension trust, with consideration for liquidity needs in the health benefit trusts.

**e. Concentrations of Credit Risk.**

MGE evaluated its pension and other postretirement benefit plans' asset portfolios for the existence of significant concentrations of credit risk as of December 31, 2020. Types of concentrations that were evaluated include, but are not limited to, investment concentrations in a single entity, type of industry, and foreign country. As of December 31, 2020, there were no significant concentrations (defined as greater than 10 percent of plan assets) of risk in MGE pension and postretirement benefit plan assets.

**f. Fair Value Measurements of Plan Assets.**

Pension and other postretirement benefit plan investments are recorded at fair value. See Footnote 19 for more information regarding the fair value hierarchy.

The following descriptions are the categories of underlying plan assets held within the pension and other postretirement benefit plans as of December 31, 2020:

Cash and Cash Equivalents – This category includes highly liquid investments with maturities of less than three months which are traded in active markets.

Equity Securities – These securities consist of U.S. and international stock funds. The U.S. stock funds are primarily invested in domestic equities. Securities in these funds are typically priced using the closing price from the applicable exchange, NYSE, Nasdaq, etc. The international funds are composed of international equities. Securities are priced using the closing price from the appropriate local stock

exchange.

Fixed Income Securities – These securities consist of U.S. bond funds and short-term funds. U.S. bond funds are priced by a pricing agent using inputs such as benchmark yields, reported trades, broker/dealer quotes, and issuer spreads. The short-term funds are valued initially at cost and adjusted for amortization of any discount or premium.

Real Estate – Real estate funds are funds with a direct investment in pools of real estate properties. These funds are valued by investment managers on a periodic basis using pricing models that use independent appraisals. The fair value of real estate investments is determined using net asset value.

Insurance Continuance Fund (ICF) – The ICF is a supplemental retirement plan that includes assets that have been segregated and restricted to pay retiree term life insurance premiums.

Fixed Rate Fund – The Fixed Rate fund is supported by an underlying portfolio of fixed income securities, including public bonds, commercial mortgages, and private placement bonds. Public market data and GAAP reported market values are used when available to determine fair value.

All of the fair values of MGE's plan assets are measured using net asset value, except for cash and cash equivalents which are considered level 1 investments.

The fair values of MGE's plan assets by asset category as of December 31 are as follows:

<i>(In thousands)</i>	2020	2019
Cash and Cash Equivalents	\$ 1,180	\$ 964
Equity Securities:		
U.S. Large Cap	151,218	134,458
U.S. Mid Cap	37,389	31,288
U.S. Small Cap	50,456	36,495
International Blend	87,461	76,293
Fixed Income Securities:		
Short-Term Fund	4,215	7,449
High Yield Bond	22,683	21,276
Long Duration Bond	92,657	92,642
Real Estate	30,005	29,671
Insurance Continuance Fund	1,506	1,530
Fixed Rate Fund	2,503	2,856
Total	<u>\$ 481,273</u>	<u>\$ 434,922</u>

**g. Expected Cash Flows.**

MGE does not expect to need to make any required contributions to the qualified plans for 2021. The contributions for years after 2021 are not yet currently estimated. MGE has adopted the asset smoothing as permitted in accordance with the Pension Protection Act of 2006, including modifications made by WRERA.

Due to uncertainties in the future economic performance of plan assets, discount rates, and other key assumptions, estimated contributions are subject to change. MGE may also elect to make additional discretionary contributions.

In 2020, MGE made \$6.3 million in employer contributions to its pension and postretirement plans.

**h. Benefit Payments.**

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

(In thousands)	Pension	Other Postretirement Benefits		
	Pension Benefits	Gross Postretirement Benefits	Expected Medicare Part D Subsidy	Net Postretirement Benefits
2021	\$ 18,493	\$ 4,696	\$ (250)	\$ 4,446
2022	19,508	4,859	(277)	4,582
2023	20,353	5,145	(302)	4,843
2024	21,007	5,443	(327)	5,116
2025	21,678	5,529	(354)	5,175
2026 - 2030	114,762	27,163	(2,148)	25,015

**12. Share-Based Compensation - MGE Energy and MGE.**

In 2020, MGE Energy shareholders approved the 2021 Long-Term Incentive Plan (the 2021 Incentive Plan). It provides for the issuance of up to 500,000 shares of MGE Energy common stock in connection with awards made under the 2021 Incentive Plan. The 2021 Incentive Plan authorizes awards of restricted stock, restricted stock units, performance units, and dividend equivalents, or any combination of the foregoing. As of December 31, 2020, no awards were issued under the 2021 Incentive Plan. In February 2021, 16,267 restricted stock units and 10,187 performance units were issued under the 2021 Incentive Plan. The 2020 Performance Unit Plan (the 2020 Plan) was adopted in February 2020 for eligible employees. Plan participants may receive awards of performance units, restricted units, or both. Prior to the adoption of the 2020 plan, eligible employees could receive awards of performance units under the 2006 Performance Unit Plan. Under the 2013 Director Incentive Plan, eligible non-employee directors could receive awards of performance units. During the years ended December 31, 2020, 2019 and 2018, MGE recorded \$1.3 million, \$3.0 million, and \$1.1 million, respectively, in compensation expense as a result of awards under the 2006 Performance Unit Plan, the 2020 Plan, and the 2013 Director Incentive Plan in "Other operations and maintenance" on the consolidated statements of income.

**a. 2013 Director Incentive Plan and 2006 Performance Unit Plan**

Under MGE Energy's 2013 Director Incentive Plan and its 2006 Performance Unit Plan, non-employee directors and eligible employees, respectively, could receive performance units that entitled the holder to receive a cash payment equal to the value of a designated number of shares of MGE Energy's common stock, plus dividend equivalent payments thereon, at the end of the performance period set in the award. In accordance with the plans' provisions, these awards are subject to prescribed vesting schedules and must be settled in cash. Accordingly, no shares of common stock will be issued in connection with the plans.

On the grant date, the cost of the director or employee services received in exchange for a performance unit award is measured based on the current market value of MGE Energy common stock. The fair value

of the awards is remeasured quarterly, including as of December 31, 2020, as required by applicable accounting standards. Changes in fair value as well as the original grant are recognized as compensation cost. Since this amount is remeasured throughout the vesting period, the compensation cost is subject to variability. For nonretirement eligible employees under the 2006 Performance Unit Plan, stock-based compensation costs are accrued and recognized using the graded vesting method. Compensation cost for retirement eligible employees or employees that will become retirement eligible during the vesting schedule are recognized on an abridged horizon as retirement eligibility accelerates vesting.

Payouts under the 2013 Director Incentive Plan are subject to a three-year vesting schedule. Payouts under the 2006 Performance Unit Plan are subject to a five-year vesting schedule. The following activity occurred during 2020:

	2020	
	Director Incentive Plan	Performance Unit Plan
Nonvested awards January 1,	4,611	26,468
Granted	5,048	-
Vested	(5,373)	(9,048)
Nonvested awards December 31,	4,286	17,420

No cash settlements have occurred on the awards shown in the table above as cash payments are only made at the end of the period covered by the awards. In January 2020, cash payments of \$2.0 million were distributed relating to awards that were granted under the plans in 2017, for the 2013 Director Incentive Plan, and in 2015, for the 2006 Performance Unit Plan.

**b. 2020 Performance Unit Plan**

Performance units under the 2020 Performance Unit Plan (the 2020 Plan) entitle the holder to receive a cash payment equal to the value of a designated number of shares of MGE Energy's common stock, plus dividend-equivalent payments thereon, based upon achievement of specified performance goals during a performance period set by the Compensation Committee of MGE Energy's Board of Directors. Restricted units entitle the holder to receive a cash payment equal to the value of a designated number of shares of MGE Energy's common stock, plus dividend-equivalent payments thereon, at the end of a defined time period. Awards are subject to vesting provisions providing for 100% vesting at the end of the performance period, in the case of performance units, and at the end of the defined time period in the case of restricted units. The performance units and restricted units will be paid out in cash and are accounted for as a liability award. No shares of common stock will be issued in connection with the 2020 Plan. Compensation cost for retirement eligible employees or employees that will become retirement eligible during the vesting schedule are recognized on an abridged horizon as retirement eligibility accelerates vesting.

The 2020 performance units contain market and performance conditions. The market condition is based on total shareowner return relative to an investor-owned utility peer group. The performance condition is based on achievement of targets specified in the award agreement (such as an earnings growth target). The fair value of each performance unit is based on the fair value of the underlying common stock on the grant date and the probability of satisfying the market and performance conditions contained in the award agreement during the three-year performance period. The actual payments upon vesting depends upon actual performance and may range from zero to 200% of the granted number of performance units. The 2020 restricted units will vest based on a three-year cliff vesting schedule. The following activity occurred during 2020:

	2020	
	Performance	Restricted
Nonvested awards January 1,	-	-
Granted	9,822	9,822
Vested	(2,666)	(2,666)
Forfeited	(153)	(153)
Nonvested awards December 31,	<u>7,003</u>	<u>7,003</u>
Fair Value of each nonvested award	\$ 89.13	N/A
Estimated payout % based on performance criteria	100 %	N/A

### 13. Notes Payable to Banks, Commercial Paper, and Lines of Credit.

#### a. MGE Energy.

As of December 31, 2020, MGE Energy had an unsecured, committed revolving line of credit of \$50 million expiring February 7, 2024. As of December 31, 2020, no borrowings were outstanding under this facility.

The credit agreement requires MGE Energy to maintain a ratio of its consolidated indebtedness to consolidated total capitalization not to exceed a maximum of 65%. A change in control constitutes a default under the agreement. Change in control events are defined as (i) a failure by MGE Energy to hold 100% of the outstanding voting equity interest in MGE or (ii) the acquisition of beneficial ownership of 30% or more of the outstanding voting stock of MGE Energy by one person or two or more persons acting in concert. As of December 31, 2020, MGE Energy was in compliance with the covenant requirements of the credit agreement.

#### b. MGE.

For short-term borrowings, MGE generally issues commercial paper (issued at the prevailing discount rate at the time of issuance), which is supported by unused committed bank lines of credit. As of December 31, 2020, MGE had two unsecured, committed revolving lines of credit for a total of \$100 million expiring February 7, 2024. As of December 31, 2020, no borrowings were outstanding under these facilities; however, there was \$52.5 million in commercial paper outstanding.

The credit agreements require MGE to maintain a ratio of consolidated debt to consolidated total capitalization not to exceed a maximum of 65%. The ratio calculation excludes assets, liabilities, revenues, and expenses included in MGE's financial statements as the result of the consolidation of VIEs, such as MGE Power West Campus and MGE Power Elm Road. A change in control constitutes a default under the agreements. Change in control events are defined as (i) a failure by MGE Energy to hold 100% of the outstanding voting equity interest in MGE or (ii) the acquisition of beneficial ownership of 30% or more of the outstanding voting stock of MGE Energy by one person or two or more persons acting in concert. As of December 31, 2020, MGE was in compliance with the covenant requirements of the credit agreements.

#### c. Short-Term Borrowings - MGE Energy and MGE.

Information concerning short-term borrowings is shown below:



<i>(In thousands)</i>		<b>MGE Energy<sup>(a)</sup></b>		<b>MGE</b>	
<b>As of December 31,</b>		2020	2019	2020	2019
Available capacity under line of credit	\$	96,815	\$ 150,000	\$ 46,815	\$ 100,000
Short-term debt outstanding	\$	52,500	\$ -	\$ 52,500	\$ -
Letters of credit issued inside credit facilities	\$	685	\$ -	\$ 685	\$ -
Weighted-average interest rate		0.15 %	- %	0.15 %	- %
<b>Year Ended December 31,</b>					
Maximum short-term borrowings	\$	52,500	\$ 56,000	\$ 52,500	\$ 56,000
Average short-term borrowings	\$	6,393	\$ 18,364	\$ 6,393	\$ 18,364
Weighted-average interest rate		0.43 %	2.16 %	0.43 %	2.16 %

(a) MGE Energy short-term borrowings include MGE Energy and MGE lines of credit and MGE commercial paper.

#### 14. Long-Term Debt - MGE Energy and MGE.

##### a. Long-Term Debt.

<i>(In thousands)</i>		December 31,	
		2020	2019
<b>First Mortgage Bonds:<sup>(a)</sup></b>			
7.70%, 2028 Series	\$	1,200	\$ 1,200
<b>Tax Exempt Debt:</b>			
3.45%, 2027 Series, Industrial Development Revenue Bonds <sup>(b)</sup>		-	19,300
2.05%, 2023 Series, Industrial Development Revenue Bonds <sup>(b)</sup>		19,300	-
<b>Medium-Term Notes:<sup>(c)</sup></b>			
6.12%, due 2028		20,000	20,000
7.12%, due 2032		25,000	25,000
6.247%, due 2037		25,000	25,000
<i>Total Medium-Term Notes</i>		<u>70,000</u>	<u>70,000</u>
<b>Other Long-Term Debt:<sup>(d)</sup></b>			
3.38%, retired 2020 <sup>(e)</sup>		-	15,000
3.09%, due 2023 <sup>(e)</sup>		30,000	30,000
3.29%, due 2026 <sup>(e)</sup>		15,000	15,000
3.11%, due 2027 <sup>(e)</sup>		30,000	30,000
2.94%, due 2029 <sup>(e)</sup>		50,000	50,000
5.68%, due 2033 <sup>(f)</sup>		22,762	23,946
5.19%, due 2033 <sup>(f)</sup>		14,985	15,794
5.26%, due 2040 <sup>(e)</sup>		15,000	15,000
5.04%, due 2040 <sup>(g)</sup>		31,806	33,472
4.74%, due 2041 <sup>(g)</sup>		20,167	21,167
4.38%, due 2042 <sup>(e)</sup>		28,000	28,000
4.42%, due 2043 <sup>(e)</sup>		20,000	20,000
4.47%, due 2048 <sup>(e)</sup>		20,000	20,000
3.76%, due 2052 <sup>(e)</sup>		40,000	40,000
4.19%, due 2048 <sup>(e)</sup>		60,000	60,000
4.24%, due 2053 <sup>(e)</sup>		20,000	20,000
4.34%, due 2058 <sup>(e)</sup>		20,000	20,000
<i>Total Other Long-Term Debt</i>		<u>437,720</u>	<u>457,379</u>
Long-term debt due within one year		(4,771)	(19,659)
Unamortized discount and debt issuance costs		(4,146)	(4,479)
<i>Total Long-Term Debt</i>	\$	<u><u>519,303</u></u>	<u><u>523,741</u></u>

(a) MGE's utility plant is subject to the lien of its Indenture of Mortgage and Deed of Trust, under which its first mortgage bonds are issued. The Mortgage Indenture provides that dividends or any other distribution or purchase of MGE shares may not be made if the aggregate amount thereof since December 31, 1945, would exceed the earned surplus (retained earnings) accumulated subsequent to December 31, 1945. As of December 31, 2020, approximately \$529.9 million was available for the payment of dividends under this covenant.

(b) In April 2020, MGE borrowed \$19.3 million from the City of Madison, Wisconsin's issuance of Industrial Development Revenue Refunding Bonds (Madison Gas and Electric Company Project), Series 2020A. The bonds carry an interest rate of 2.05% per annum with interest payable semi-annually on April 1 and October 1 of each year, which commenced on October

1, 2020. The bonds require their holder to tender them on April 30, 2023, at which time the bonds will either be repriced and remarketed or redeemed and retired. MGE used the proceeds to redeem at par \$19.3 million of existing Industrial Development Revenue Refunding Bonds (Madison Gas and Electric Company Project), Series 2002B due October 1, 2027.

- (c) The indenture under which MGE's Medium-Term notes are issued provides that those notes will be entitled to be equally and ratably secured in the event that MGE issues any additional first mortgage bonds.
- (d) Unsecured notes issued pursuant to various Note Purchase Agreements with one or more purchasers. The notes are not issued under, or governed by, MGE's Indenture dated as of September 1, 1998, which governs MGE's Medium-Term Notes.
- (e) Issued by MGE. Under that Note Purchase Agreement: (i) note holders have the right to require MGE to repurchase their notes at par in the event of an acquisition of beneficial ownership of 30% or more of the outstanding voting stock of MGE Energy, (ii) MGE must maintain a ratio of its consolidated indebtedness to consolidated total capitalization not to exceed a maximum of 65%, and (iii) MGE cannot issue "Priority Debt" in an amount exceeding 20% of its consolidated assets. Priority Debt is defined as any indebtedness of MGE secured by liens other than specified liens permitted by the Note Purchase Agreement and certain unsecured indebtedness of certain subsidiaries. As of December 31, 2020, MGE was in compliance with the covenant requirements.
- (f) Issued by MGE Power West Campus. The Note Purchase Agreements require MGE Power West Campus to maintain a projected debt service coverage ratio of not less than 1.25 to 1.00, and debt to total capitalization ratio of not more than 0.65 to 1.00. The notes are secured by a collateral assignment of lease payments that MGE is making to MGE Power West Campus for use of the WCCF pursuant to a long-term lease. As of December 31, 2020, MGE Power West Campus was in compliance with the covenant requirements.
- (g) Issued by MGE Power Elm Road. The Note Purchase Agreement requires MGE Power Elm Road to maintain a projected and actual debt service coverage ratio at the end of any calendar quarter of not less than 1.25 to 1.00 for the trailing 12-month period. The notes are secured by a collateral assignment of lease payments that MGE is making to MGE Power Elm Road for use of the Elm Road Units pursuant to a long-term lease. As of December 31, 2020, MGE Power Elm Road was in compliance with the covenant requirements.

#### **b. Long-Term Debt Maturities.**

Below is MGE Energy's and MGE's aggregate maturities for all long-term debt for years following December 31, 2020.

<i>(In thousands)</i>	2021	2022	2023	2024	2025	Thereafter
Long-term debt maturities	\$ 4,771	\$ 4,889	\$ 54,314	\$ 5,146	\$ 5,285	\$ 453,815

MGE includes long-term debt held by MGE Power Elm Road and MGE Power West Campus in the consolidated financial statements (see Footnote 3 for further information regarding these VIEs).

### **15. Common Equity.**

#### **a. Common Stock - MGE Energy and MGE.**

MGE Energy sells shares of its common stock through its Direct Stock Purchase and Dividend Reinvestment Plan (the Stock Plan). Those shares may be newly issued shares or shares that are purchased in the open market by an independent agent for participants in the Stock Plan. The volume and timing of share repurchases in the open market depends upon the level of dividend reinvestment and optional share purchases made by plan participants. As a result, there is no specific maximum number of shares to be repurchased and no specified termination date for the repurchases. All sales under the Stock Plan are covered by a shelf registration statement that MGE Energy filed with the SEC. For the years ended December 31, 2020 and 2019, MGE Energy issued no new shares of common stock under the Stock Plan.

In May 2020, MGE Energy issued 1.5 million shares of its common stock in an underwritten offering. MGE Energy received proceeds, net of underwriter fees and issuance costs, of \$79.6 million from the issuance and sale of those shares. The net proceeds are being used for general corporate purposes, including funding capital expenditures being made by MGE.

During the years ended December 31, 2020 and 2019, MGE Energy paid \$51.7 million (or \$1.45 per share) and \$47.8 million (or \$1.38 per share), respectively, in cash dividends on its common stock. Dividend payments by MGE to MGE Energy are subject to restrictions arising under a PSCW rate order

and, to a lesser degree, MGE's first mortgage bonds. The PSCW order restricts any dividends, above the PSCW authorized amount that MGE may pay MGE Energy if MGE's common equity ratio, calculated in the manner used in the rate proceeding, is less than 55%. This restriction did not restrict MGE's payment of dividends in 2020. See Footnote 14 for further discussion of the mortgage indenture covenants regarding the payment of dividends. During the years ended December 31, 2020 and 2019, MGE paid no dividends to MGE Energy.

**b. Dilutive Shares Calculation - MGE Energy.**

MGE Energy has no dilutive securities issued.

**16. Commitments and Contingencies.**

**a. Environmental - MGE Energy and MGE.**

**Columbia**

In February 2021, MGE and the other co-owners of Columbia announced plans to retire that facility. The co-owners intend to retire Unit 1 by the end of 2023 and Unit 2 by the end of 2024. Final timing and retirement dates for Units 1 and 2 are subject to PSCW and regional regulatory reviews, including identification and approval of energy and capacity resources to replace Columbia. Effects of environmental compliance discussed below will depend upon the final retirement dates approved and compliance requirement dates.

**Water Quality**

Water quality regulations promulgated by the EPA and WDNR in accordance with the Federal Water Pollution Control Act, commonly known as the Clean Water Act (CWA), impose restrictions on discharges of various pollutants into surface waters. The CWA also regulates surface water quality issues that affect aquatic life, such as water temperatures, chemical concentrations, intake structures, and wetlands filling. The CWA also includes discharge standards, which require the use of effluent-treatment processes equivalent to categorical "best practicable" or "best available" technologies. The CWA regulates discharges from "point sources," such as power plants, by establishing discharge limits via water discharge permits. MGE's power plants operate under Wisconsin Pollution Discharge Elimination System (WPDES) permits issued by the WDNR to ensure compliance with these discharge limits. Permits are subject to periodic renewal.

**EPA's Effluent Limitations Guidelines and Standards for Steam Electric Power Generating Point Source Category**

In August 2020, the EPA finalized rule modifications to the Effluent Limitations Guidelines (ELG) for the steam electric power generating industry. The ELG rule establishes federal limits on the amount of metals and other pollutants that can be discharged in wastewater from new and existing steam electric generation plants. The rule will be applied to Wisconsin-based power plants as they renew their WPDES permits, but no later than December 31, 2023. The operators of the Columbia and Elm Road Units have indicated that equipment upgrades may be necessary to comply with the current discharge standards.

In February 2021, MGE and the other owners of Columbia filed a Certificate of Authority (CA) application with the PSCW. The CA application commits to close Columbia's wet pond system to comply with the Coal Combustion Residuals (CCR) Rule as described in further detail in the solid waste section below. By committing to close the wet pond system, Columbia will be in compliance with ELG requirements.

The operator of the Elm Road Units has been evaluating the rule impacts and has conducted an analysis of compliance obligations, pollution prevention technologies, and their associated costs. In February 2021, MGE and its co-owner filed a CA application with the PSCW. If approved, MGE's share of the estimated costs to comply with the rule is estimated to be approximately \$4 million. Pending approval from the PSCW, construction is expected to begin in 2022. MGE will continue to work with the Elm

Road operator to determine the final costs and timing of compliance.

Management believes that any compliance costs will be recovered in future rates based on previous treatment of environmental compliance projects.

#### *EPA Cooling Water Intake Rules (Section 316(b))*

Section 316(b) of the Clean Water Act requires that the cooling water intake structures at electric power plants meet best available technology standards to reduce mortality from entrainment (drawing aquatic life into a plant's cooling system) and impingement (trapping aquatic life on screens). The EPA finalized its Section 316(b) rule for existing facilities in 2014. Section 316(b) requirements are implemented in Wisconsin through modifications to plants' WPDES permits, which govern plant wastewater discharges.

WCCF, Blount, and Columbia are considered existing plants under this rule. WCCF employs a system that meets the Section 316(b) rule. Blount's WPDES permit assumes that the plant meets best technology available (BTA) for the duration of the permit, which expires in 2023. However, MGE must perform an entrainment study by the end of 2021 to determine future BTA, which will be included with the next permit renewal. Section 316(b) applies to river intakes at the Columbia plant. Columbia's operator received a permit in 2019 requiring studies of intake structures to help determine BTA. BTA improvements may not be required given that Columbia could be fully retired before the issuance of the next permit, which is expected to be issued in 2023 or later. MGE will continue to work with Columbia's operator to evaluate all regulatory requirements applicable to the planned retirements. Management believes that the Section 316(b) rule will not have a material effect on its existing plants and that any compliance costs will be recovered in future rates based on previous treatment of environmental compliance projects.

#### **Air Quality**

Federal and state air quality regulations impose restrictions on various emissions, including emissions of particulate matter (PM), sulfur dioxide (SO<sub>2</sub>), nitrogen oxides (NO<sub>x</sub>), and other pollutants, and require permits for operation of emission sources. These permits have been obtained by MGE and must be renewed periodically. Current EPA initiatives under the Clean Air Act, including the Cross-State Air Pollution Rule (CSAPR) and National Ambient Air Quality Standards (NAAQS), have the potential to result in additional operating and capital expenditure costs for MGE.

#### *EPA's Greenhouse Gas (GHG) Reduction Guidelines under the Clean Air Act 111(d) Rule*

In January 2021, the U.S. Court of Appeals for the District of Columbia Circuit (D.C. Circuit) vacated and remanded to the EPA the Affordable Clean Energy Rule (ACE Rule) and the repeal of the predecessor Clean Power Plan Rule (CPP Rule), both of which regulated greenhouse gas emissions from existing electric generation units pursuant to Section 111(d) of the Clean Air Act. MGE is still evaluating this D.C. Circuit decision for what impacts it may have on MGE operations. MGE will continue to evaluate the rule development and monitor ongoing and potential legal proceedings.

#### *National Ambient Air Quality Standards (NAAQS) and Related Rules*

The EPA's NAAQS regulations have been developed to set ambient levels of six pollutants to protect sensitive human populations (primary NAAQS) and the environment (secondary NAAQS) from the negative effects of exposure to these pollutants at higher levels. The Clean Air Act requires that the EPA periodically review, and adjust as necessary, the NAAQS for these six air pollutants. The EPA's NAAQS review can result in a lowering of the allowed ambient levels of a pollutant, a change in how the pollutant is monitored, and/or a change in which sources of that pollutant are regulated. States implement any necessary monitoring and measurement changes and recommend areas for attainment (meets the ambient requirements) or nonattainment (does not meet these standards). The EPA makes final attainment and nonattainment determinations. States must come up with a state implementation plan (SIP) to get nonattainment areas into attainment and maintain air quality in attainment areas. A company with facilities located in a nonattainment area will be most affected. Its facilities may be subject to additional data submission and measurement requirements during permitting renewals, its facilities may need to meet new emission limitations set by the SIP (which could result in significant

capital expenditures), and it may have additional expenses and/or difficulties expanding existing facilities or building new facilities. The process, which starts with determining acceptable primary and/or secondary NAAQS and ends with executing SIPs can take years. Since the NAAQS regulations have the potential to affect both existing and new facilities, MGE continuously monitors changes to these rules to evaluate whether changes could impact its operations. In addition, the EPA has adopted interstate transport rules, such as the CSAPR, to address contributions to NAAQS nonattainment from upwind sources in neighboring states. In the following paragraphs we discuss specific NAAQS and transport rule developments that may affect MGE.

#### Ozone NAAQS

In May 2018, the EPA issued a final rule designating the northeast portion of Milwaukee County as being in nonattainment with Ozone NAAQS. The Elm Road Units are located in Milwaukee County, outside the designated nonattainment area. In August 2018, several environmental groups, the City of Chicago, and the State of Illinois filed federal lawsuits challenging several of the EPA's attainment designation decisions, including the partial Milwaukee County designation as being too narrow and not sufficiently protective. In July 2020, the U.S. District Court of the District of Columbia remanded the partial Milwaukee County attainment designation back to the EPA for further explanation. If the entire county were to be considered in nonattainment, the State of Wisconsin would need to develop an implementation plan that addressed emissions that contribute to Ozone (NO<sub>x</sub> and Volatile Organic Compound emissions) for the county, which could affect operations and emissions control obligations of the Elm Road units. MGE is monitoring the outcome of the EPA's remand analysis and how it may affect the Elm Road Units in Milwaukee County. At this time, MGE expects that the 2015 Ozone NAAQS will not have a material effect on its existing plants based on final designations.

#### EPA's Cross-State Air Pollution Rule

The EPA's CSAPR and its progeny are a suite of interstate air pollution transport rules designed to reduce ozone and fine particulate (PM<sub>2.5</sub>) air levels in areas that the EPA has determined as being significantly impacted by pollution from upwind states. This is accomplished in the CSAPR through a reduction in SO<sub>2</sub> and NO<sub>x</sub> from qualifying fossil-fuel fired power plants in upwind "contributing" states. NO<sub>x</sub> and SO<sub>2</sub> contribute to fine particulate pollution and NO<sub>x</sub> contributes to ozone formation in downwind areas. Reductions are achieved through a cap and trade system. Individual plants can meet their caps through modifications and/or buying allowances on the market.

In 2016 the EPA finalized a CSAPR Update Rule to address pollution transport related to an updated ozone NAAQS. In September 2019, the D.C. Circuit remanded the rule to the EPA holding that the rule improperly provided only a partial remedy for addressing interstate transport of pollutants from upwind to downwind states. In October 2020 the EPA published a proposed CSAPR Update Rule to address the remand which explicitly excludes Wisconsin. The EPA is under court order to finalize this update by March 2021. If the proposed rule is finalized as written, Wisconsin will not be subject to the emissions reductions included in the CSAPR Update Rule but will remain subject to the reductions required by the original CSAPR.

MGE has met its current obligations through a combination of reduced emissions through pollution control (e.g., SCR installation at Columbia), as well as owned, received, and purchased allowances. While uncertainty remains around CSAPR due to legal challenges, MGE expects to meet ongoing CSAPR obligations for the foreseeable future. MGE will continue to monitor developments to this rule.

#### Clean Air Visibility Rule (CAVR)

Columbia is subject to the best available retrofit technology (BART) regulations, a subsection of the EPA's CAVR, which may require pollution control retrofits. Columbia's existing pollution control upgrades, and the EPA's stance that compliance with the CSAPR equals compliance with BART, should mean that Columbia will not need to do additional work to meet BART requirements. At this time, however, the BART regulatory obligations, compliance strategies, and costs remain uncertain in Wisconsin due to the continued legal challenges surrounding CSAPR and CAVR. MGE will continue to monitor developments to this rule.

#### Columbia Clean Air Act Litigation

Columbia is a coal-fired generating station operated by WPL and in which WPL, WPSC, and MGE have ownership interests. In December 2009, the EPA sent a Notice of Violation (NOV) to the co-owners, including MGE. The NOV alleged that WPL and the Columbia co-owners failed to comply with appropriate pre-construction review and permitting requirements and, as a result, violated the Prevention of Significant Deterioration program requirements, Title V Operating Permit requirements of the CAA, and the Wisconsin SIP. In June 2013, the court approved and entered a consent decree entered by the EPA, Sierra Club, and the co-owners of Columbia. One of the requirements of the consent decree required installation of an SCR system at Columbia Unit 2 by December 31, 2018. Installation of the SCR was approved by the PSCW and the SCR was placed in service in 2018. The consent decree remains open for compliance monitoring, but significant additional operating and capital expenditures are not expected.

### **Solid Waste**

#### **EPA's Coal Combustion Residuals Rule**

The EPA's 2015 Coal Combustion Residuals Rule (CCR) regulates coal ash from burning coal for the purpose of generating electricity as a solid waste and defines what ash use activities would be considered generally exempt beneficial reuse of coal ash. The CCR rule also regulates landfills, ash ponds, and other surface impoundments used for coal combustion residuals by regulating their design, location, monitoring, and operation.

In July 2018, the EPA published a final rule that included amendments to the CCR. The amendments include the allowance of alternative performance standards for landfills and surface impoundments, revised risk-based groundwater protection standards, and an extension of the deadline by which certain facilities must cease the placement of waste in CCR units. In August 2018, the D.C. Circuit vacated parts of the 2015 CCR for not being sufficiently protective of the environment. In August 2020, the EPA revised the CCR rule to require owners or operators of coal-fired power plants to stop transporting CCR and non-CCR wastewater (a process known as "sluicing") to unlined surface impoundments. In addition, regulated entities must initiate impoundment closure as soon as feasible and in no event later than April 2021, unless the EPA grants an extension. Columbia requested an extension to comply by October 2022. The EPA will address the remaining issues on remand in a subsequent action.

Review of the Elm Road Units has indicated that the costs to comply with the CCR rule are not expected to be significant. Columbia's operator has completed a review of its system and has developed a compliance plan. In February 2021, a CA application was filed with the PSCW for approval to install technology required to cease bottom ash transport water discharges rather than extend the longevity of the ash ponds. If approved, MGE's share of the estimated costs of the project would be approximately \$4 million. Construction is expected to be completed by the end of 2022.

In 2015, MGE recorded an asset retirement obligation for its share of the legal liability associated with the effect of the CCR rule. Actual costs of compliance may be different than the amount recorded due to potential changes in compliance strategies that will be used, as well as other potential cost estimate changes. MGE will continue to monitor final rule modifications to assess potential impacts on our operations.

### **b. Legal Matters - MGE Energy and MGE.**

MGE is involved in various legal matters that are being defended and handled in the normal course of business. MGE maintains accruals for such costs that are probable of being incurred and subject to reasonable estimation. The accrued amount for these matters is not material to the financial statements. MGE does not expect the resolution of these matters to have a material adverse effect on its consolidated results of operations, financial condition, or cash flows.

In January 2021, certain environmental groups filed a petition against the PSCW regarding MGE's 2021 rate settlement. MGE has intervened in the petition in cooperation with the PSCW. See Footnote 9.a. for more information regarding this matter.

**c. Purchase Contracts - MGE Energy and MGE.**

MGE Energy and MGE have entered into various commodity supply, transportation, and storage contracts to meet their obligations to deliver electricity and natural gas to customers. Management expects to recover these costs in future customer rates.

As of December 31, 2020, the future minimum commitments related to these purchase contracts were as follows:

<i>(In thousands)</i>	2021	2022	2023	2024	2025	Thereafter
Coal <sup>(a)</sup>	\$ 11,399	\$ 5,249	\$ 1,515	\$ -	\$ -	\$ -
Natural gas						
Transportation and storage <sup>(b)</sup>	21,851	22,120	22,553	22,553	22,553	18,316
Supply <sup>(c)</sup>	9,527	-	-	-	-	-
Purchase power <sup>(d)</sup>	27,017	15,399	5,856	5,458	5,567	11,717
Renewable energy <sup>(e)</sup>	6,663	2,862	1,245	759	776	30,939
Other	2,833	2,044	1,711	776	104	892
	<u>\$ 79,290</u>	<u>\$ 47,674</u>	<u>\$ 32,880</u>	<u>\$ 29,546</u>	<u>\$ 29,000</u>	<u>\$ 61,864</u>

(a) Total coal commitments for the Columbia and Elm Road Units, including transportation. Fuel procurement for MGE's jointly owned Columbia and Elm Road Units is handled by WPL and WEPCO, respectively, who are the operators of those facilities.

(b) MGE's natural gas transportation and storage contracts require fixed monthly payments for firm supply pipeline transportation and storage capacity. The pricing components of the fixed monthly payments for the transportation and storage contracts are approved by FERC but may be subject to change.

(c) These commitments include market-based pricing.

(d) MGE has several purchase power agreements to help meet future electric supply requirements.

(e) Operational commitments for solar and wind facilities.

**d. Other Commitments.**

MGE Energy holds investments in nonpublic venture capital funds. From time to time, these entities require additional capital infusions from their investors. MGE Energy has committed to contribute \$13.6 million in capital for such infusions. The timing of these infusions is dependent on the needs of the investee and is therefore uncertain at this time.

In addition, MGE Energy has a three-year agreement with a venture debt fund expiring in December 2022. MGE Energy has committed to invest up to a total of \$1.5 million into this fund. As of December 31, 2020, MGE Energy has \$0.4 million remaining in commitments. The timing of infusions is dependent on the needs of the fund and is therefore uncertain at this time.

MGE has several other commitments related to various projects. Payments for these commitments are expected to be as follows:

<i>(In thousands)</i>	2021	2022	2023	2024	2025	Thereafter
Other commitments	\$ 333	\$ 333	\$ 333	\$ 333	\$ 333	\$ 2,999

**17. Asset Retirement Obligations - MGE Energy and MGE.**

MGE recorded an obligation for the fair value of its legal liability for asset retirement obligations (AROs) associated with removal of the West Campus Cogeneration Facility and the Elm Road Units, electric substations, combustion turbine generating units, wind generating facilities, and photovoltaic generating facilities, all of which are located on property not owned by MGE Energy and MGE and would need to be removed upon the ultimate end of the associated leases. The significant conditional AROs identified by MGE included the costs of abandoning in place gas services and mains, the abatement and disposal of equipment and buildings contaminated with asbestos and PCBs, and the proper disposal and removal of tanks,

batteries, and underground cable. Changes in management's assumptions regarding settlement dates, settlement methods, or assigned probabilities could have a material effect on the liabilities and the associated regulatory asset recorded as of December 31, 2020.

MGE also may have AROs relating to the removal of various assets, such as certain electric and gas distribution facilities. These facilities are generally located on property owned by third parties, on which MGE is permitted to operate by lease, permit, easement, license, or service agreement. The asset retirement obligations associated with these facilities cannot be reasonably determined due to the indeterminate life of the related agreements.

The following table summarizes the change in AROs. Amounts include conditional AROs.

<i>(In thousands)</i>	2020	2019
Balance as of January 1,	\$ 28,355	\$ 29,980
Liabilities incurred <sup>(a)</sup>	3,503	1,586
Accretion expense	1,366	1,574
Liabilities settled	(372)	(323)
Revisions in estimated cash flows <sup>(b)</sup>	(1,656)	(4,462)
Balance as of December 31,	<u>\$ 31,196</u>	<u>\$ 28,355</u>

(a) In 2020, MGE recorded an obligation of \$3.2 million for the fair value of its legal liability for AROs associated with Two Creeks. See Footnote 6 for additional information on Two Creeks. In 2019, MGE recorded an obligation of \$1.5 million for the fair value of its legal liability for AROs associated with Saratoga. Construction of Saratoga was completed in February 2019.

(b) In 2019, MGE revised the AROs associated with certain wind farms based on updated estimated decommissioning costs.

## 18. Derivative and Hedging Instruments - MGE Energy and MGE.

### a. Purpose.

As part of its regular operations, MGE enters into contracts, including options, swaps, futures, forwards, and other contractual commitments, to manage its exposure to commodity prices. To the extent that these contracts are derivatives, MGE assesses whether or not the normal purchases or normal sales exclusion applies. For contracts to which this exclusion cannot be applied, the derivatives are recognized in the consolidated balance sheets at fair value. MGE's financial commodity derivative activities are conducted in accordance with its electric and gas risk management program, which is approved by the PSCW and limits the volume MGE can hedge with specific risk management strategies. The maximum length of time over which cash flows related to energy commodities can be hedged is four years. If the derivative qualifies for regulatory deferral, the derivatives are marked to fair value and are offset with a corresponding regulatory asset or liability depending on whether the derivative is in a net loss or net gain position, respectively. The deferred gain or loss is recognized in earnings in the delivery month applicable to the instrument. Gains and losses related to hedges qualifying for regulatory treatment are recoverable in gas rates through the PGA or in electric rates as a component of the fuel rules mechanism.

### b. Notional Amounts.

The gross notional volume of open derivatives is as follows:

	December 31, 2020	December 31, 2019
Commodity derivative contracts	259,080 MWh	417,840 MWh
Commodity derivative contracts	6,030,000 Dth	6,605,000 Dth
FTRs	2,869 MW	2,750 MW
PPA	850 MW	1,450 MW

### c. Financial Statement Presentation.

MGE purchases and sells exchange-traded and over-the-counter options, swaps, and future contracts. These arrangements are primarily entered into to help stabilize the price risk associated with gas or



power purchases. These transactions are employed by both MGE's gas and electric segments. Additionally, as a result of the firm transmission agreements that MGE holds on electricity transmission paths in the MISO market, MGE holds financial transmission rights (FTRs). An FTR is a financial instrument that entitles the holder to a stream of revenues or charges based on the differences in hourly day-ahead energy prices between two points on the transmission grid. The fair values of these instruments are offset with a corresponding regulatory asset/liability depending on whether they are in a net loss/gain position. Depending on the nature of the instrument, the gain or loss associated with these transactions will be reflected as cost of gas sold, fuel for electric generation, or purchased power expense in the delivery month applicable to the instrument. As of December 31, 2020, the fair value of exchange traded derivatives and FTRs exceeded their cost basis by \$0.2 million. As of December 31, 2019, the cost basis of exchange traded derivatives and FTRs exceeded their fair value by \$1.4 million.

MGE is a party to a purchased power agreement that provides MGE with firm capacity and energy during a base term from June 1, 2012, through May 31, 2022. The agreement also allows MGE an option to extend the contract after the base term. The agreement is accounted for as a derivative contract and is recognized at its fair value on the consolidated balance sheets. However, the derivative qualifies for regulatory deferral and is recognized with a corresponding regulatory asset or liability depending on whether the fair value is in a loss or gain position. The fair value of the contract as of December 31, 2020 and 2019, reflected a loss position of \$14.1 million and \$25.4 million, respectively. The actual cost will be recognized in purchased power expense in the month of purchase.

The following table summarizes the fair value of the derivative instruments on the consolidated balance sheets. All derivative instruments in this table are presented on a gross basis and are calculated prior to the netting of instruments with the same counterparty under a master netting agreement as well as the netting of collateral. For financial statement purposes, instruments are netted with the same counterparty under a master netting agreement as well as the netting of collateral.

<i>(In thousands)</i>		Derivative Assets	Derivative Liabilities	Balance Sheet Location
<b>December 31, 2020</b>				
Commodity derivative contracts <sup>(a)</sup>	\$	617	\$ 593	Other current assets
Commodity derivative contracts <sup>(a)</sup>		189	39	Other deferred charges
FTRs		-	23	Other current liabilities
PPA		N/A	10,160	Derivative liability (current)
PPA		N/A	3,980	Derivative liability (long-term)
<b>December 31, 2019</b>				
Commodity derivative contracts <sup>(a)</sup>	\$	157	\$ 1,521	Derivative liability (current) <sup>(b)</sup>
Commodity derivative contracts <sup>(a)</sup>		73	217	Derivative liability (long-term)
FTRs		73	-	Other current assets
PPA		N/A	10,100	Derivative liability (current)
PPA		N/A	15,340	Derivative liability (long-term)

(a) As of December 31, 2019, collateral of \$1.5 million was posted against and netted with derivative liability positions on the consolidated balance sheets. No collateral was posted against derivative positions as of December 31, 2020.

(b) As of December 31, 2019, MGE posted \$0.1 million as other current assets on the consolidated balance sheets.

The following tables show the effect of netting arrangements for recognized derivative assets and liabilities that are subject to a master netting arrangement or similar arrangement on the consolidated balance sheets.

## Offsetting of Derivative Assets

<i>(In thousands)</i>	<u>Gross Amounts</u>	<u>Gross Amounts Offset in Balance Sheets</u>	<u>Collateral Posted Against Derivative Positions</u>	<u>Net Amount Presented in Balance Sheets</u>
<b>December 31, 2020</b>				
Commodity derivative contracts	\$ 806	\$ (632)	\$ -	\$ 174
<b>December 31, 2019</b>				
Commodity derivative contracts	\$ 230	\$ (192)	\$ -	\$ 38
FTRs	73	-	-	73

## Offsetting of Derivative Liabilities

<i>(In thousands)</i>	<u>Gross Amounts</u>	<u>Gross Amounts Offset in Balance Sheets</u>	<u>Collateral Posted Against Derivative Positions</u>	<u>Net Amount Presented in Balance Sheets</u>
<b>December 31, 2020</b>				
Commodity derivative contracts	\$ 632	\$ (632)	\$ -	\$ -
FTRs	23	-	-	23
PPA	14,140	-	-	14,140
<b>December 31, 2019</b>				
Commodity derivative contracts	\$ 1,738	\$ (192)	\$ (1,546)	\$ -
PPA	25,440	-	-	25,440

The following tables summarize the unrealized and realized gains/losses related to the derivative instruments on the consolidated balance sheets and the consolidated statements of income.

	<u>2020</u>		<u>2019</u>	
<i>(In thousands)</i>	<u>Current and Long-Term Regulatory Asset</u>	<u>Other Current Assets</u>	<u>Current and Long-Term Regulatory Asset</u>	<u>Other Current Assets</u>
Balance as of January 1,	\$ 26,875	\$ 1,100	\$ 31,830	\$ 377
Unrealized gain	(4,895)	-	(5,493)	-
Realized (loss) gain reclassified to a deferred account	(2,232)	2,232	(1,896)	1,896
Realized (loss) gain reclassified to income statement	(5,759)	(2,170)	2,434	(1,173)
Balance as of December 31,	<u>\$ 13,989</u>	<u>\$ 1,162</u>	<u>\$ 26,875</u>	<u>\$ 1,100</u>

	<u>Realized Losses (Gains)</u>			
	<u>2020</u>		<u>2019</u>	
<i>(In thousands)</i>	<u>Fuel for Electric Generation/ Purchased Power</u>	<u>Cost of Gas Sold</u>	<u>Fuel for Electric Generation/ Purchased Power</u>	<u>Cost of Gas Sold</u>
<b>Year Ended December 31:</b>				
Commodity derivative contracts	\$ 2,566	\$ 1,729	\$ 1,258	\$ 863
FTRs	63	-	(574)	-
PPA	3,571	-	(2,808)	-

MGE's commodity derivative contracts, FTRs, and PPA are subject to regulatory deferral. These derivatives are marked to fair value and are offset with a corresponding regulatory asset or liability. Realized gains and losses are deferred on the consolidated balance sheets and are recognized in earnings in the delivery month applicable to the instrument. As a result of the above described treatment, there are no unrealized gains or losses that flow through earnings.

The PPA has a provision that may require MGE to post collateral if MGE's debt rating falls below investment grade (i.e., below BBB-). The amount of collateral that it may be required to post varies from \$20.0 million to \$40.0 million, depending on MGE's nominated capacity amount. As of December 31, 2020, no collateral is required to be, or has been, posted. Certain counterparties extend MGE a

credit limit. If MGE exceeds these limits, the counterparties may require collateral to be posted. As of December 31, 2020 and 2019, no counterparties were in a net liability position.

Nonperformance of counterparties to the non-exchange traded derivatives could expose MGE to credit loss. However, MGE enters into transactions only with companies that meet or exceed strict credit guidelines, and it monitors these counterparties on an ongoing basis to mitigate nonperformance risk in its portfolio. As of December 31, 2020, no counterparties had defaulted.

## 19. Fair Value of Financial Instruments - MGE Energy and MGE.

Fair value is defined as the price that would be received to sell an asset or would be paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. The accounting standard clarifies that fair value should be based on the assumptions market participants would use when pricing the asset or liability including assumptions about risk. The standard also establishes a three level fair value hierarchy based upon the observability of the assumptions used and requires the use of observable market data when available. The levels are:

Level 1 - Pricing inputs are quoted prices within active markets for identical assets or liabilities.

Level 2 - Pricing inputs are quoted prices within active markets for similar assets or liabilities; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations that are correlated with or otherwise verifiable by observable market data.

Level 3 - Pricing inputs are unobservable and reflect management's best estimate of what market participants would use in pricing the asset or liability.

### a. Fair Value of Financial Assets and Liabilities Recorded at the Carrying Amount.

The carrying amount of cash, cash equivalents, and outstanding commercial paper approximates fair market value due to the short maturity of those investments and obligations. The estimated fair market value of long-term debt is based on quoted market prices for similar financial instruments. Since long-term debt is not traded in an active market, it is classified as Level 2. The estimated fair market value of financial instruments are as follows:

	December 31, 2020		December 31, 2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<i>(In thousands)</i>				
<b>MGE Energy</b>				
<i>Assets:</i>				
Cash and cash equivalents	\$ 44,738	\$ 44,738	\$ 23,481	\$ 23,481
<i>Liabilities:</i>				
Short-term debt - commercial paper	52,500	52,500	-	-
Long-term debt <sup>(a)</sup>	528,220	639,271	547,879	611,909
<b>MGE</b>				
<i>Assets:</i>				
Cash and cash equivalents	\$ 4,103	\$ 4,103	\$ 3,196	\$ 3,196
<i>Liabilities:</i>				
Short-term debt - commercial paper	52,500	52,500	-	-
Long-term debt <sup>(a)</sup>	528,220	639,271	547,879	611,909

(a) Includes long-term debt due within one year. Excludes debt issuance costs and unamortized discount of \$4.1 million and \$4.5 million as of December 31, 2020 and 2019, respectively.

### b. Recurring Fair Value Measurements.

The following table presents the balances of assets and liabilities measured at fair value on a recurring basis.

(In thousands)	Fair Value as of December 31, 2020			
	Total	Level 1	Level 2	Level 3
<b>MGE Energy</b>				
Assets:				
Derivatives, net	\$ 806	\$ 436	\$ -	\$ 370
Exchange-traded investments	1,750	1,750	-	-
Total Assets	<u>\$ 2,556</u>	<u>\$ 2,186</u>	<u>\$ -</u>	<u>\$ 370</u>
Liabilities:				
Derivatives, net <sup>(b)</sup>	\$ 14,795	\$ 370	\$ -	\$ 14,425
Deferred compensation	3,509	-	3,509	-
Total Liabilities	<u>\$ 18,304</u>	<u>\$ 370</u>	<u>\$ 3,509</u>	<u>\$ 14,425</u>

#### MGE

Assets:				
Derivatives, net	\$ 806	\$ 436	\$ -	\$ 370
Exchange-traded investments	603	603	-	-
Total Assets	<u>\$ 1,409</u>	<u>\$ 1,039</u>	<u>\$ -</u>	<u>\$ 370</u>
Liabilities:				
Derivatives, net <sup>(b)</sup>	\$ 14,795	\$ 370	\$ -	\$ 14,425
Deferred compensation	3,509	-	3,509	-
Total Liabilities	<u>\$ 18,304</u>	<u>\$ 370</u>	<u>\$ 3,509</u>	<u>\$ 14,425</u>

(In thousands)	Fair Value as of December 31, 2019			
	Total	Level 1	Level 2	Level 3
<b>MGE Energy</b>				
Assets:				
Derivatives, net	\$ 303	\$ 189	\$ -	\$ 114
Exchange-traded investments	1,271	1,271	-	-
Total Assets	<u>\$ 1,574</u>	<u>\$ 1,460</u>	<u>\$ -</u>	<u>\$ 114</u>
Liabilities:				
Derivatives, net <sup>(c)</sup>	\$ 27,178	\$ 608	\$ -	\$ 26,570
Deferred compensation	3,157	-	3,157	-
Total Liabilities	<u>\$ 30,335</u>	<u>\$ 608</u>	<u>\$ 3,157</u>	<u>\$ 26,570</u>

#### MGE

Assets:				
Derivatives, net	\$ 303	\$ 189	\$ -	\$ 114
Exchange-traded investments	209	209	-	-
Total Assets	<u>\$ 512</u>	<u>\$ 398</u>	<u>\$ -</u>	<u>\$ 114</u>
Liabilities:				
Derivatives, net <sup>(c)</sup>	\$ 27,178	\$ 608	\$ -	\$ 26,570
Deferred compensation	3,157	-	3,157	-
Total Liabilities	<u>\$ 30,335</u>	<u>\$ 608</u>	<u>\$ 3,157</u>	<u>\$ 26,570</u>

(b) These amounts are shown gross. No collateral was posted against derivative positions with counterparties as of December 31, 2020.

(c) These amounts are shown gross and exclude \$1.5 million of collateral that was posted against derivative positions with counterparties as of December 31, 2019.

Investments include exchange-traded investment securities valued using quoted prices on active exchanges and are therefore classified as Level 1.

The deferred compensation plan allows participants to defer certain cash compensation into a notional investment account. These amounts are included within other deferred liabilities in the consolidated balance sheets. The notional investments earn interest based upon the semiannual rate of U.S. Treasury Bills having a 26-week maturity increased by 1% compounded monthly with a minimum annual rate of 7%, compounded monthly. The notional investments are based upon observable market data, however, since the deferred compensation obligations themselves are not exchanged in an active market, they are classified as Level 2.

Derivatives include exchange-traded derivative contracts, over-the-counter transactions, a purchased power agreement, and FTRs. Most exchange-traded derivative contracts are valued based on unadjusted quoted prices in active markets and are therefore classified as Level 1. A small number of exchange-traded derivative contracts are valued using quoted market pricing in markets with insufficient volumes and are therefore considered unobservable and classified as Level 3. Transactions done with an over-the-counter party are on inactive markets and are therefore classified as Level 3. These transactions are valued based on quoted prices from markets with similar exchange-traded transactions. FTRs are priced based upon monthly auction results for identical or similar instruments in a closed market with limited data available and are therefore classified as Level 3.

The purchased power agreement (see Footnote 18) was valued using an internal pricing model and therefore is classified as Level 3. The model projects future market energy prices and compares those prices to the projected power costs to be incurred under the contract. Inputs to the model require significant management judgment and estimation. Future energy prices are based on a forward power pricing curve using exchange-traded contracts in the electric futures market. A basis adjustment is applied to the market energy price to reflect the price differential between the market price delivery point and the counterparty delivery point. The historical relationship between the delivery points is reviewed and a discount (below 100%) or premium (above 100%) is derived. This comparison is done for both peak times when demand is high and off peak times when demand is low. If the basis adjustment is lowered, the fair value measurement will decrease, and if the basis adjustment is increased, the fair value measurement will increase.

The projected power costs anticipated to be incurred under the purchased power agreement are determined using many factors, including historical generating costs, future prices, and expected fuel mix of the counterparty. An increase in the projected fuel costs would result in a decrease in the fair value measurement of the purchased power agreement. A significant input that MGE estimates is the counterparty's fuel mix in determining the projected power cost. MGE also considers the assumptions that market participants would use in valuing the asset or liability. This consideration includes assumptions about market risk such as liquidity, volatility, and contract duration. The fair value model uses a discount rate that incorporates discounting, credit, and model risks.

The following table presents the significant unobservable inputs used in the pricing model:

Significant Unobservable Inputs	Model Input	
	2020	2019
Basis adjustment:		
On peak	94.2%	92.1%
Off peak	94.5%	92.7%
Counterparty fuel mix:		
Internal generation - range	46%-65%	40%-60%
Internal generation - weighted average	56.5%	52.2%
Purchased power - range	54%-35%	60%-40%
Purchased power - weighted average	43.5%	47.8%

The following table summarizes the changes in Level 3 commodity derivative assets and liabilities measured at fair value on a recurring basis.

<i>(In thousands)</i>	2020	2019	2018
Balance as of January 1,	\$ (26,456)	\$ (32,002)	\$ (42,026)
Realized and unrealized gains (losses):			
Included in regulatory assets	12,402	5,545	10,024
Included in other comprehensive income	-	-	-
Included in earnings	(6,439)	(3,765)	132
Included in current assets	(87)	(70)	(47)
Purchases	22,232	22,974	23,643
Sales	-	-	-
Issuances	-	-	-
Settlements	(15,707)	(19,138)	(23,728)
Transfers in and/or out of Level 3	-	-	-
Balance as of December 31,	<u>\$ (14,055)</u>	<u>\$ (26,456)</u>	<u>\$ (32,002)</u>
Total gains (losses) included in earnings attributed to the change in unrealized gains (losses) related to assets and liabilities held as of December 31, <sup>(d)</sup>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The following table presents total realized and unrealized gains (losses) included in income for Level 3 assets and liabilities measured at fair value on a recurring basis (d).

<i>(In thousands)</i>	2020	2019	2018
<b>Year Ended December 31,</b>			
Purchased power expense	\$ (5,888)	\$ (3,334)	\$ 355
Cost of gas sold expense	(551)	(431)	(223)
Total	<u>\$ (6,439)</u>	<u>\$ (3,765)</u>	<u>\$ 132</u>

(d) MGE's exchange-traded derivative contracts, over-the-counter party transactions, purchased power agreement, and FTRs are subject to regulatory deferral. These derivatives are therefore marked to fair value and are offset in the financial statements with a corresponding regulatory asset or liability.

## 20. Revenue - MGE Energy and MGE.

Revenues disaggregated by revenue source were as follows:

<i>(In thousands)</i>	Year Ended December 31,		
	2020	2019	2018
<b>Electric revenues</b>			
Residential	\$ 146,431	\$ 140,006	\$ 138,566
Commercial	198,043	213,265	204,683
Industrial	11,514	12,772	13,878
Other-retail/municipal	32,915	35,174	34,023
Total retail	388,903	401,217	391,150
Sales to the market	4,015	5,664	7,438
Other revenues	774	1,404	2,294
Total electric revenues	<u>393,692</u>	<u>408,285</u>	<u>400,882</u>
<b>Gas revenues</b>			
Residential	88,765	95,146	94,017
Commercial/Industrial	49,682	59,051	59,060
Total retail	138,447	154,197	153,077
Gas transportation	5,713	5,293	4,283
Other revenues	101	385	407
Total gas revenues	<u>144,261</u>	<u>159,875</u>	<u>157,767</u>
Non-regulated energy revenues	680	695	1,119
Total Operating Revenue	<u>\$ 538,633</u>	<u>\$ 568,855</u>	<u>\$ 559,768</u>

### ***Performance Obligations***

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. The majority of contracts have a single performance obligation.

### ***Retail Revenue (Residential, Commercial, Industrial, and Other Retail/Municipal)***

Providing electric and gas utility service to retail customers represents MGE's core business activity. Tariffs are approved by the PSCW through a rate order and provide MGE's customers with the standard terms and conditions, including pricing terms. The performance obligation to deliver electricity or gas is satisfied over time as the customer simultaneously receives and consumes the commodities provided by MGE. MGE recognizes revenues as the commodity is delivered to customers. Meters are read on a systematic basis throughout the month based on established meter-reading schedules and customers are subsequently billed for services received. At the end of the month, MGE accrues an estimate for unbilled commodities delivered to customers. The unbilled revenue estimate is based on daily system demand volumes, weather factors, estimated line losses, estimated customer usage by class, and applicable customer rates.

### ***Utility Cost Recovery Mechanisms***

MGE's tariff rates include a provision for fuel cost recovery. The PSCW allows Wisconsin utilities to defer electric fuel-related costs, less excess revenues, that fall outside a symmetrical cost tolerance band. Any over- or under-recovery of the actual costs in a given year is determined in the following year and is then reflected in future billings to electric retail customers. Over-collection of fuel-related costs that are outside the approved range will be recognized as a reduction of revenue. Under-collection of these costs will be recognized in "Purchased power" expense in the consolidated statements of income. The cumulative effects of these deferred amounts will be recorded in "Regulatory assets" or "Regulatory liabilities" on the consolidated balance sheets until they are reflected in future billings to customers. See Footnote 9.b. for further information.

MGE also has other cost recovery mechanisms. For example, any over-collection of the difference between actual costs incurred and the amount of costs collected from customers is recorded as a reduction of revenue in the period incurred.

### ***Sales to the Market***

Sales to the market include energy charges, capacity or demand charges, and ancillary charges represented by wholesale sales of electricity made to third parties who are not ultimate users of the electricity. Most of these sales are spot market transactions on the markets operated by MISO. Each transaction is considered a performance obligation and revenue is recognized in the period in which energy charges, capacity or demand charges, and ancillary services are sold into MISO. MGE reports, on a net basis, transactions on the MISO markets in which it buys and sells power within the same hour to meet electric energy delivery requirements.

### ***Transportation of Gas***

MGE has contracts under which it provides gas transportation services to customers who have elected to purchase gas from a third party. MGE delivers this gas via pipelines within its service territory. Revenue is recognized as service is rendered or gas is delivered to customers. Tariffs are approved by the PSCW through a rate order and provide gas transportation customers with standard terms and conditions, including pricing terms.

## **21. Noncontrolling Interest - MGE.**

The noncontrolling interest on MGE's consolidated balance sheets was as follows:

<i>(In thousands)</i>	As of December 31,	
	2020	2019
MGE Power Elm Road <sup>(a)</sup>	\$ 96,856	\$ 97,172
MGE Power West Campus <sup>(a)</sup>	44,340	43,131
Total Noncontrolling Interest	<u>\$ 141,196</u>	<u>\$ 140,303</u>

The net income attributable to noncontrolling interest, net of tax, was as follows:

(In thousands)	Years ending December 31,		
	2020	2019	2018
MGE Power Elm Road <sup>(a)</sup>	\$ 15,184	\$ 15,153	\$ 15,384
MGE Power West Campus <sup>(a)</sup>	7,209	7,196	7,168
Net Income Attributable to Noncontrolling Interest, Net of Tax	<u>\$ 22,393</u>	<u>\$ 22,349</u>	<u>\$ 22,552</u>

- (a) MGE Power Elm Road and MGE Power West Campus are not subsidiaries of MGE; however, they have been consolidated in the consolidated financial statements of MGE (see Footnote 3). MGE Power Elm Road and MGE Power West Campus are 100% owned by MGE Power, and MGE Power is 100% owned by MGE Energy. MGE Energy's proportionate share of the equity and net income (through its wholly owned subsidiary MGE Power) of MGE Power Elm Road and MGE Power West Campus is classified within the MGE consolidated financial statements as noncontrolling interest.

## 22. Segment Information - MGE Energy and MGE.

The electric utility business purchases, generates and distributes electricity, and contracts for transmission service. The gas utility business purchases and distributes natural gas and contracts for the transportation of natural gas. Both the electric and gas segments operate through MGE Energy's principal subsidiary, MGE.

The nonregulated energy operations are conducted through MGE Energy's subsidiaries: MGE Power, MGE Power Elm Road, and MGE Power West Campus. These subsidiaries own electric generating capacity that they lease to MGE to assist MGE. MGE Power Elm Road has an ownership interest in two coal-fired generating units in Oak Creek, Wisconsin, which are leased to MGE, and MGE Power West Campus owns a controlling interest in the electric generation plant of a natural gas-fired cogeneration facility on the UW campus. MGE Power West Campus's portion is also leased to MGE.

The transmission investment segment invests in ATC, a company that provides electric transmission services primarily in Wisconsin, and ATC Holdco, a company formed to pursue electric transmission development and investments outside of Wisconsin. These investments are held in MGE Transco and MGEE Transco, respectively. See Footnote 7 for further discussion.

The "All Others" segment includes: corporate, CWDC, MAGAEL, MGE State Energy Services, MGE Services, NGV Fueling Services (dissolved in 2018), and North Mendota. These entities' operations consist of investing in companies and property which relate to the regulated operations, financing the regulated operations, or, in the case of NGV Fueling Services, owning and operating natural gas compression equipment.

General corporate expenses include the cost of executive management, corporate accounting and finance, information technology, risk management, human resources and legal functions, and employee benefits that are allocated to electric and gas segments based on formulas prescribed by the PSCW. Identifiable assets are those used in MGE's operations in each segment.

Sales between our electric and gas segments are based on PSCW approved tariffed rates. Additionally, intersegment operations related to the leasing arrangement between our electric segment and MGE Power Elm Road/MGE Power West Campus are based on terms previously approved by the PSCW. Consistent with internal reporting, management has presented the direct financing capital leases between MGE and MGE Power Elm Road/MGE Power West Campus based on actual lease payments included in rates. Lease payments made by MGE to MGE Power Elm Road and MGE Power West Campus are shown as operating expenses. The lease payments received by MGE Power Elm Road and MGE Power West Campus from MGE are shown as lease income in interdepartmental revenues. The depreciation expense associated with the Elm Road Units and WCCF is reflected in the nonregulated energy segment.



The following table shows segment information for MGE Energy's and MGE's operations:

(In thousands)

**MGE Energy**

	Electric	Gas	Non-Regulated Energy	Transmission Investment	All Others	Consolidation/ Elimination Entries	Consolidated Total
<b>Year Ended December 31, 2020</b>							
Operating revenues	\$ 393,692	\$ 144,261	\$ 680	\$ -	\$ -	\$ -	\$ 538,633
Interdepartmental revenues	765	12,157	40,402	-	-	(53,324)	-
Total operating revenues	394,457	156,418	41,082	-	-	(53,324)	538,633
Depreciation and amortization	(54,658)	(12,049)	(7,481)	-	-	-	(74,188)
Operating income (loss)	57,847	19,674	33,460	(1)	(983)	-	109,997
Interest (expense) income, net	(14,446)	(4,370)	(4,826)	-	121	-	(23,521)
Income tax (provision) benefit	(4,230)	(4,805)	(7,800)	(2,786)	198	-	(19,423)
Equity in earnings of investments	-	-	-	10,221	-	-	10,221
Net income (loss)	50,522	14,167	20,834	7,434	(539)	-	92,418
<b>Year Ended December 31, 2019</b>							
Operating revenues	\$ 408,285	\$ 159,875	\$ 695	\$ -	\$ -	\$ -	\$ 568,855
Interdepartmental revenues	806	16,070	40,020	-	-	(56,896)	-
Total operating revenues	409,091	175,945	40,715	-	-	(56,896)	568,855
Depreciation and amortization	(52,755)	(11,320)	(7,487)	-	-	-	(71,562)
Operating income (loss)	59,180	19,528	33,084	-	(882)	-	110,910
Interest (expense) income, net	(14,978)	(4,237)	(5,083)	-	1,235	-	(23,063)
Income tax (provision) benefit	(5,037)	(4,753)	(7,628)	(2,602)	236	-	(19,784)
Equity in earnings of investments	-	-	-	9,547	-	-	9,547
Net income (loss)	46,318	14,088	20,373	6,945	(850)	-	86,874
<b>Year Ended December 31, 2018</b>							
Operating revenues	\$ 400,882	\$ 157,767	\$ 1,119	\$ -	\$ -	\$ -	\$ 559,768
Interdepartmental revenues	(289)	16,076	39,526	-	-	(55,313)	-
Total operating revenues	400,593	173,843	40,645	-	-	(55,313)	559,768
Depreciation and amortization	(38,925)	(10,060)	(7,427)	-	-	-	(56,412)
Operating income (loss)	64,294	17,900	33,074	(16)	(1,045)	-	114,207
Interest (expense) income, net	(12,198)	(3,692)	(5,307)	-	1,588	-	(19,609)
Income tax (provision) benefit	(13,453)	(4,474)	(7,534)	(2,345)	372	-	(27,434)
Equity in earnings of investments	-	-	-	8,602	-	-	8,602
Net income (loss)	45,937	12,866	20,233	6,241	(1,058)	-	84,219

(In thousands)

**MGE**

	Electric	Gas	Non-Regulated Energy	Consolidation/ Elimination Entries	Consolidated Total
<b>Year Ended December 31, 2020</b>					
Operating revenues	\$ 393,692	\$ 144,261	\$ 680	\$ -	\$ 538,633
Interdepartmental revenues	765	12,157	40,402	(53,324)	-
Total operating revenues	394,457	156,418	41,082	(53,324)	538,633
Depreciation and amortization	(54,658)	(12,049)	(7,481)	-	(74,188)
Operating income	57,847	19,674	33,460	-	110,981
Interest expense, net	(14,446)	(4,370)	(4,826)	-	(23,642)
Income tax provision	(4,230)	(4,805)	(7,800)	-	(16,835)
Net income attributable to MGE	50,522	14,167	20,834	(22,393)	63,130
<b>Year Ended December 31, 2019</b>					
Operating revenues	\$ 408,285	\$ 159,875	\$ 695	\$ -	\$ 568,855
Interdepartmental revenues	806	16,070	40,020	(56,896)	-
Total operating revenues	409,091	175,945	40,715	(56,896)	568,855
Depreciation and amortization	(52,755)	(11,320)	(7,487)	-	(71,562)
Operating income	59,180	19,528	33,084	-	111,792
Interest expense, net	(14,978)	(4,237)	(5,083)	-	(24,298)
Income tax provision	(5,037)	(4,753)	(7,628)	-	(17,418)
Net income attributable to MGE	46,318	14,088	20,373	(22,349)	58,430
<b>Year Ended December 31, 2018</b>					
Operating revenues	\$ 400,882	\$ 157,767	\$ 1,119	\$ -	\$ 559,768
Interdepartmental revenues	(289)	16,076	39,526	(55,313)	-
Total operating revenues	400,593	173,843	40,645	(55,313)	559,768
Depreciation and amortization	(38,925)	(10,060)	(7,427)	-	(56,412)
Operating income	64,294	17,900	33,074	-	115,268
Interest expense, net	(12,198)	(3,692)	(5,307)	-	(21,197)
Income tax provision	(13,453)	(4,474)	(7,534)	-	(25,461)
Net income attributable to MGE	45,937	12,866	20,233	(22,552)	56,484

The following table shows segment information for MGE Energy's and MGE's assets and capital expenditures:

(In thousands) MGE Energy	Utility			Consolidated				
	Electric	Gas	Non-regulated Energy	Transmission Investment <sup>(a)</sup>	All Others	Consolidation/ Elimination		Total
						Entries		
Assets:								
December 31, 2020	\$ 1,421,302	\$ 444,702	\$ 254,298	\$ 74,480	\$ 495,483	\$ (436,614)	\$	2,253,651
December 31, 2019	1,308,277	408,001	258,004	71,668	443,278	(407,564)		2,081,664
December 31, 2018	1,193,083	377,005	265,301	66,366	465,661	(378,798)		1,988,618
Capital Expenditures:								
Year ended Dec. 31, 2020	\$ 162,210	\$ 36,906	\$ 4,023	\$ -	\$ -	\$ -	\$	203,139
Year ended Dec. 31, 2019	125,086	36,193	2,757	-	-	-		164,036
Year ended Dec. 31, 2018	176,399	30,497	5,301	-	-	-		212,197

(In thousands) MGE	Utility			Consolidated		
	Electric	Gas	Non-regulated Energy	Consolidation/ Elimination		Total
				Entries		
Assets:						
December 31, 2020	\$ 1,421,302	\$ 444,702	\$ 254,248	\$ (281)	\$	2,119,971
December 31, 2019	1,308,277	408,001	257,954	(755)		1,973,477
December 31, 2018	1,193,083	377,005	265,251	(448)		1,834,891
Capital Expenditures:						
Year ended Dec. 31, 2020	\$ 162,210	\$ 36,906	\$ 4,023	\$ -	\$	203,139
Year ended Dec. 31, 2019	125,086	36,193	2,757	-		164,036
Year ended Dec. 31, 2018	176,399	30,497	5,301	-		212,197

(a) The Transmission Investment segment represents MGE Energy's investment in equity method investees.

## 23. Quarterly Summary of Operations - MGE Energy (unaudited).

(In thousands, except per share amounts)

2020	Quarters Ended			
	March 31	June 30	September 30	December 31
Operating revenues:				
Electric revenues	\$ 93,028	\$ 93,961	\$ 116,568	\$ 90,815
Gas revenues	56,845	23,079	18,643	45,694
Total Operating Revenues	149,873	117,040	135,211	136,509
Operating expenses	118,433	95,520	96,886	117,797
Operating income	31,440	21,520	38,325	18,712
Interest and other income, net	(390)	1,011	769	454
Income tax provision	(5,013)	(3,740)	(7,300)	(3,370)
Earnings on common stock	\$ 26,037	\$ 18,791	\$ 31,794	\$ 15,796
Earnings per common share	\$ 0.75	\$ 0.53	\$ 0.88	\$ 0.44
Dividends per share	\$ 0.353	\$ 0.353	\$ 0.370	\$ 0.370
2019				
Operating revenues:				
Electric revenues	\$ 97,469	\$ 97,077	\$ 120,821	\$ 93,613
Gas revenues	70,100	25,070	17,377	47,328
Total Operating Revenues	167,569	122,147	138,198	140,941
Operating expenses	137,057	102,364	99,460	119,064
Operating income	30,512	19,783	38,738	21,877
Interest and other income, net	(796)	(730)	(627)	(2,099)
Income tax provision	(5,709)	(3,505)	(7,454)	(3,116)
Earnings on common stock	\$ 24,007	\$ 15,548	\$ 30,657	\$ 16,662
Earnings per common share	\$ 0.69	\$ 0.45	\$ 0.88	\$ 0.48
Dividends per share	\$ 0.338	\$ 0.338	\$ 0.353	\$ 0.353

### Notes:

- The quarterly results of operations within a year may not be comparable because of seasonal and other factors.
- The sum of earnings per share of common stock for any four quarters may vary slightly from the earnings per share of common stock for the equivalent twelve-month period due to rounding.
- MGE Energy's operations are based primarily on its utility subsidiary MGE.

## **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

### **MGE Energy and MGE**

None.

## **Item 9A. Controls and Procedures.**

### **MGE Energy and MGE**

#### *Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures*

During the fourth quarter of 2020, each registrant's management, including the principal executive officer and principal financial officer, evaluated its disclosure controls and procedures related to the recording, processing, summarization, and reporting of information in its periodic reports that it files with the SEC. These disclosure controls and procedures have been designed to ensure that material information relating to that registrant, including its subsidiaries, is accumulated and made known to that registrant's management, including these officers, by other employees of that registrant and its subsidiaries as appropriate to allow timely decisions regarding required disclosure, and that this information is recorded, processed, summarized, evaluated, and reported, as applicable, within the time periods specified in the SEC's rules and forms. The evaluations take into account changes in the internal and external operating environments that may impact those controls and procedures. Due to the inherent limitations of control systems, not all misstatements may be detected. These inherent limitations include the realities that judgments in decision making can be faulty and breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. Also, MGE Energy does not control or manage certain of its unconsolidated entities, and thus, its access and ability to apply its procedures to those entities is more limited than is the case for its consolidated subsidiaries.

As of December 31, 2020, each registrant's principal executive officer and principal financial officer concluded that its disclosure controls and procedures were effective. Each registrant intends to strive continually to improve its disclosure controls and procedures to enhance the quality of its financial reporting.

#### *Changes in Internal Control Over Financial Reporting*

During the quarter ended December 31, 2020, there were no changes in either registrant's internal controls over financial reporting that materially affected, or are reasonably likely to affect materially, that registrant's internal control over financial reporting.

### **MGE Energy and MGE**

Management of MGE Energy and MGE are required to assess and report on the effectiveness of its internal control over financial reporting as of December 31, 2020. As a result of that assessment, management determined that there were no material weaknesses as of December 31, 2020 and, therefore, concluded that MGE Energy and MGE's internal control over financial reporting was effective. Management's Report on Internal Control Over Financial Reporting is included in Item 8. Financial Statements and Supplementary Data of this Report.

## **Item 9B. Other Information.**

### **MGE Energy**

None.

## **PART III.**

### **Item 10. Directors, Executive Officers, and Corporate Governance.**

#### **MGE Energy**

The information required by Item 10 relating to directors and nominees for election as directors at MGE Energy's annual meeting of shareholders is incorporated herein by reference to the information under the heading "ELECTION OF DIRECTORS" in MGE Energy's definitive proxy statement (2021 Proxy Statement) to be filed with the SEC before April 30, 2021. Information relating to compliance with Section 16(a) of the Securities Exchange Act of 1934 is incorporated herein by reference to the information under the heading "BENEFICIAL OWNERSHIP – Delinquent Section 16(a) Reports" in the 2021 Proxy Statement.

The information required by Item 10 relating to executive officers is set forth above in Item 1. Business - Executive Officers of the Registrants.

#### **Code of Ethics**

MGE Energy has adopted a Code of Ethics applicable to its directors and all of its employees, including its chief executive officer, chief financial officer, and principal accounting officer. The Code of Ethics is available on MGE Energy's website at [www.mgeenergy.com](http://www.mgeenergy.com). Information contained on MGE Energy's website shall not be deemed incorporated into, or to be a part of, this report.

### **Item 11. Executive Compensation.**

See Item 12.

### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

#### **MGE Energy**

The required information is included in the 2021 Proxy Statement, which will be filed with the SEC before April 30, 2021, for Item 11 under the section "EXECUTIVE COMPENSATION," not including "Compensation Committee Report," and "Cumulative Five-Year Total Return Comparison Graph," and for Item 12 under the section "BENEFICIAL OWNERSHIP," which is incorporated herein by reference.

### **Item 13. Certain Relationships and Related Transactions, and Director Independence.**

#### **MGE Energy**

The information required by Item 13 is incorporated by reference herein from the "BOARD OF DIRECTORS INFORMATION" section in the 2021 Proxy Statement, which will be filed with the SEC before April 30, 2021.

## Item 14. Principal Accounting Fees and Services.

### MGE Energy

The information required by Item 14 is incorporated herein by reference to the information under the heading "RATIFICATION OF PRICEWATERHOUSECOOPERS LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM" in the 2021 Proxy Statement, which will be filed with the SEC before April 30, 2021.

### MGE

#### Independent Registered Public Accounting Firm Fees Disclosure

	2020	2019
Audit fees <sup>(a)</sup>	\$ 1,018,659	\$ 1,256,951
Audit-related fees <sup>(b)</sup>	175,125	162,777
Tax fees <sup>(c)</sup>	76,339	110,909
All other fees <sup>(d)</sup>	843,475	284,101

- (a) Professional services rendered for the audits of the financial statements, review of the interim financial statements, opinion on the effectiveness of our internal control over financial reporting for MGE Energy, and services that generally only the independent auditor can reasonably provide, such as comfort letters, statutory audits, consents, and assistance with and review of documents filed with the SEC. Audit Fees for 2019 include professional services rendered in connection with implementation of a new enterprise resource planning system and the adoption of the new accounting standards.
- (b) Audit-Related Fees for 2020 and 2019 include professional services rendered in connection with utility commission-mandated obligations. Fees for 2020 also include professional services rendered in connection with Enterprise Forward project implementation review that included review of security and internal controls. Enterprise Forward is a strategic information technology management project aimed at transforming MGE into a digital integrated utility and includes replacement of enterprise resource planning and customer information system applications.
- (c) Tax Fees for 2020 and 2019 include review of federal and state income tax returns. Fees also include review of an IRS Private Letter Ruling.
- (d) Other Fees for 2020 and 2019 include advisory services with respect to the Enterprise Forward project.

MGE is a wholly owned subsidiary of MGE Energy and does not have a separate audit committee. Instead, that function is fulfilled for MGE by the MGE Energy Audit Committee. The Audit Committee approves each engagement of the independent registered public accounting firm to render any audit or nonaudit services before the firm is engaged to render those services. The Chair of the Audit Committee or other designated Audit Committee member may represent the entire Audit Committee for purposes of this approval. Any services approved by the Chair or other designated Audit Committee members are reported to the full Audit Committee at the next scheduled Audit Committee meeting. No de minimis exceptions to this approval process are allowed under the Audit Committee Charter; and thus, none of the services described in the preceding table were approved pursuant to Rule 2-01(c)(7)(i)(C) of Regulation S-X.

## PART IV.

### Item 15. Exhibits and Financial Statement Schedules.

#### (a) 1. Financial Statements.

##### **MGE Energy**

Consolidated Statements of Income for the years ended December 31, 2020, 2019, and 2018	62
Consolidated Statements of Cash Flows for the years ended December 31, 2020, 2019, and 2018	63
Consolidated Balance Sheets as of December 31, 2020 and 2019	64
Consolidated Statements of Common Equity as of December 31, 2020, 2019, and 2018	65
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##### **MGE**

Consolidated Statements of Income for the years ended December 31, 2020, 2019, and 2018	66
Consolidated Statements of Cash Flows for the years ended December 31, 2020, 2019, and 2018	67
Consolidated Balance Sheets as of December 31, 2020 and 2019	68
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#### 2. Financial Statement Schedules.

##### **MGE Energy**

Schedule I – Condensed Parent Company Financial Statements as of December 31, 2020 and 2019 and for the years ended December 31, 2020, 2019, and 2018.	123
Schedule II – Valuation and Qualifying Accounts for the years ended December 31, 2020, 2019, and 2018.	126

##### **MGE**

Schedule II – Valuation and Qualifying Accounts for the years ended December 31, 2020, 2019, and 2018.	126
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All other schedules have been omitted because they are not applicable or not required, or because the required information is shown in the consolidated financial statements or notes thereto.

#### 3. All Exhibits Including Those Incorporated by Reference.

Exhibits. Several of the following exhibits are incorporated herein by reference under Rule 12b-32 of the Securities Exchange Act of 1934, as amended. Several other instruments, which would otherwise be required to be listed below, have not been so listed because those instruments do not authorize securities in an amount that exceeds 10% of the total assets of the applicable registrant and its subsidiaries on a consolidated basis. The relevant registrant agrees to furnish a copy of any instrument that was so omitted on that basis to the Commission upon request.

Ex. No.	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit	Date Filed
3.1	Amended and Restated Articles of Incorporation of MGE Energy, Inc.	S-3 Registration Statement	333-197423	4.1	7/15/2014
3.2	Amended and Restated Bylaws of MGE Energy, Inc.	8-K	0-49965	3.2	3/24/2020
3.3	Restated Articles of Incorporation of Madison Gas and Electric Company as in effect at October 25, 2012.	8-K	0-1125	3.1	10/25/2012
3.4	Amended Bylaws of Madison Gas and Electric Company as in effect at October 25, 2012	10-K	0-1125	3.3	3/26/2003
4.1	Indenture of Mortgage and Deed of Trust between Madison Gas and Electric Company and U.S. Bank, N.A. (successor to First Wisconsin Trust Company), as Trustee,	10-Q	0-49965	4.1	8/7/2018
4.2	Supplemental Indenture dated as of February 1, 1993 to aforementioned Indenture of Mortgage and Deed of Trust.	10-Q	0-49965	4.2	5/8/2018
4.3	Indenture between Madison Gas and Electric Company and The Bank of New York Mellon Trust Company, N.A. (as successor to Bank One, N.A.), as Trustee	10-K	0-1125	4B	3/29/2000
4.4	Description of Common Stock	10-K	0-49965	4.4	2/27/2020
10.1	Amended and Restated Credit Agreement dated as of February 7, 2019, among MGE Energy, Inc., the Lenders party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent.	8-K	0-49965	10.1	2/13/2019
10.2	Amended and Restated Credit Agreement dated as of February 7, 2019, among Madison Gas and Electric Company, the Lenders party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent.	8-K	0-1125	10.2	2/13/2019
10.3	Amended and Restated Credit Agreement dated as of February 7, 2019, among Madison Gas and Electric Company, the Lenders party thereto and U.S. Bank National Association, as Administrative Agent.	8-K	0-1125	10.3	2/13/2019
10.4	Joint Power Supply Agreement with Wisconsin Power and Light Company and Wisconsin Public Service Corporation.	10-Q	0-49965	10.4	5/8/2018
10.5	Joint Power Supply Agreement (Exclusive of Exhibits) with Wisconsin Power and Light Company and Wisconsin Public Service Corporation.	10-Q	0-49965	10.5	8/7/2018
10.6	Second Amended and Restated Agreement for Construction and Operation of Columbia Generating Plant.	10-K	0-49965	10.6	2/22/2019
10.7	West Campus Cogeneration Facility Joint Ownership Agreement, dated as of October 13, 2003, among MGE Power West Campus, LLC, The Board of Regents of the University of Wisconsin System, and the State of Wisconsin, as Joint Owners.	10-Q	0-1125	10.19	11/8/2005
10.8	West Campus Cogeneration Facility Operation and Maintenance Agreement, dated as of October 13, 2003, among Madison Gas and Electric Company, as Operator, and the Board of Regents of the University of Wisconsin System, as Joint Owner.	10-Q	0-1125	10.20	11/8/2005
10.9	West Campus Cogeneration Facility Lease Agreement, dated as of March 18, 2004, among MGE Power West Campus, LLC, as Lessor, and Madison Gas and Electric Company, as Lessee.	10-Q	0-1125	10.21	11/8/2005
10.10	West Campus Cogeneration Facility Ground Lease, dated as of July 15, 2002, among MGE Power LLC, as Lessee, and the Board of Regents of the University of Wisconsin System, as Lessor.	10-Q	0-1125	10.22	11/8/2005
10.11	West Campus Cogeneration Facility Amendment of Ground Lease, dated as of March 18, 2004, among MGE Power West Campus, LLC, as Lessee, and the Board of Regents of the University of Wisconsin System, as Lessor.	10-Q	0-1125	10.23	11/8/2005
10.12	West Campus Cogeneration Facility MGE Ground Sublease, dated as of March 18, 2004, among MGE Power West Campus, LLC, as Lessee, and Madison Gas and Electric Company, as Lessor.	10-Q	0-1125	10.24	11/8/2005
10.13	Elm Road Generating Station Common Facilities Operating and Maintenance Agreement, dated as of December 17, 2004, among Madison Gas and Electric Company, Wisconsin Electric Power Company, and Wisconsin Public Power Inc., as Lessee/Owner Parties, and Wisconsin Electric Power Company, as Operating Agent.	10-Q	0-1125	10.7	11/8/2005
10.14	Elm Road Generating Station New Common Facilities Ownership Agreement, dated as of December 17, 2004, among MGE Power Elm Road, LLC, Elm Road Generating Station Supercritical, LLC, and Wisconsin Public Power Inc., as Joint Owners.	10-Q	0-1125	10.8	11/8/2005
10.15	Elm Road Generating Station I Ownership Agreement, dated as of December 17, 2004, among MGE Power Elm Road, LLC, Elm Road Generating Station Supercritical, LLC, and Wisconsin Public Power Inc., as Joint Owners, Elm Road Services, LLC, as Project Manager, and W.E. Power LLC.	10-Q	0-1125	10.9	11/8/2005
10.16	Elm Road Generating Station I Facility Lease Agreement, dated as of November 4, 2005, among MGE Power Elm Road, LLC, as Lessor, and Madison Gas and Electric Company, as Lessee.	10-Q	0-1125	10.10	11/8/2005



Ex. No.	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit	Date Filed
10.17	Elm Road Generating Station I Operating and Maintenance Agreement, dated as of December 17, 2004, among Madison Gas and Electric Company, Wisconsin Electric Power Company, and Wisconsin Public Power Inc., as Lessee/ Owners, and Wisconsin Electric Power Company, as Operating Agent.	10-Q	0-1125	10.11	11/8/2005
10.18	Elm Road Generating Station I Easement and Indemnification Agreement, dated as of December 17, 2004, among MGE Power Elm Road, LLC and Wisconsin Public Power Inc., as Grantees, and Wisconsin Electric Power Company, as Grantor.	10-Q	0-1125	10.12	11/8/2005
10.19	Assignment and Assumption Agreement, dated as of November 4, 2005 between MGE Power Elm Road, LLC and Madison Gas and Electric Company relating to Elm Road Generating Station I Easement and Indemnification Agreement, dated as of December 17, 2004, among MGE Power Elm Road, LLC and Wisconsin Public Power Inc., as Grantees, and Wisconsin Electric Power Company, as Grantor.	10-K	0-1125	10.16	3/8/2006
10.20	Elm Road Generating Station II Ownership Agreement, dated as of December 17, 2004, among MGE Power Elm Road, LLC, Elm Road Generating Station Supercritical, LLC, and Wisconsin Public Power Inc., as Joint Owners, Elm Road Services, LLC, as Project Manager, and W.E. Power LLC.	10-Q	0-1125	10.13	11/8/2005
10.21	Elm Road Generating Station II Facility Lease Agreement, dated as of November 4, 2005, among MGE Power Elm Road, LLC, as Lessor, and Madison Gas and Electric Company, as Lessee.	10-Q	0-1125	10.14	11/8/2005
10.22	Elm Road Generating Station II Operating and Maintenance Agreement, dated as of December 17, 2004, among Madison Gas and Electric Company, Wisconsin Electric Power Company, and Wisconsin Public Power Inc., as Lessee/ Owners, and Wisconsin Electric Power Company, as Operating Agent.	10-Q	0-1125	10.15	11/8/2005
10.23	Elm Road Generating Station II Easement and Indemnification Agreement, dated as of December 17, 2004, among MGE Power Elm Road, LLC and Wisconsin Public Power Inc., as Grantees, and Wisconsin Electric Power Company, as Grantor.	10-Q	0-1125	10.16	11/8/2005
10.24	Substation and Transformer Shared Use Agreement and Easement Agreement, dated as of September 29, 2006, among Madison Gas and Electric Company and Northern Iowa Windpower II LLC as Joint Owners.	10-Q	0-1125	10.6	11/7/2006
10.25	Management and Administration Agreement, dated as of October 13, 2006, among Madison Gas and Electric Company as Owner and Midwest Renewable Energy Resources, LLC as Manager.	10-Q	0-1125	10.7	11/7/2006
10.26*	Form of Severance Agreement.	10-K	0-49965	10.37	2/26/2009
10.27*	Form of Amendment to Severance Agreement.	10-Q	0-49965	10.1	5/5/2016
10.28*	Form of Severance Agreement for Officers hired on or after January 1, 2012.	10-Q	0-49965	10.2	5/5/2016
10.29*	Form of Deferred Compensation Agreement.	10-K	0-49965	10.38	2/26/2009
10.30*	Form of Amended and Restated Deferred Compensation Agreement.	10-K	0-49965	10.39	2/26/2009
10.31*	Form of Income Continuation Agreement as revised January 1, 2016.	10-Q	0-49965	10.3	5/5/2016
10.32*	Income Continuation Agreement	10-K	0-49965	10.32	2/22/2018
10.33*	Defined Contribution Supplemental Executive Retirement Plan	10-K	0-49965	10.32	2/24/2017
10.34*	Form of Participation Agreement for the Defined Contribution Supplemental Executive Retirement Plan	10-K	0-49965	10.33	2/24/2017
10.35*	MGE Energy, Inc., 2006 Performance Unit Plan, as amended.	10-Q	0-49965	10.1	5/5/2017
10.36*	Form of Performance Unit Award Agreement.	10-K	0-49965	10.42	2/26/2009
10.37*	Form of Amendment to Performance Unit Award Agreement.	8-K	0-49965	10.1	4/21/2011
10.38*	MGE Energy, Inc., 2013 Director Incentive Plan, as amended.	10-Q	0-49965	10.2	5/5/2017
10.39*	Form of 2013 Director Incentive Plan Award Agreement.	10-K	0-49965	10.38	2/27/2014
10.40*	MGE Energy, Inc., 2020 Performance Unit Plan	10-K	0-49965	10.40	2/27/2020
10.41*	Form of 2020 Performance Unit Award Agreement	10-K	0-49965	10.41	2/27/2020
10.42*	MGE Energy, Inc., 2021 Long-Term Incentive Plan	DEF 14A	0-49965	DEF 14A	3/31/2020
10.43*	Form of Performance Unit Award Agreement for Employees pursuant to the MGE Energy Inc., 2021 Long-Term Incentive Plan	-	-	-	-
10.44*	Form of Notice of Grant of Performance Unit Award Agreement for Employees pursuant to the MGE Energy Inc., 2021 Long-Term Incentive Plan	-	-	-	-
10.45*	Form of Restricted Stock Award Agreement for Employees pursuant to the MGE Energy Inc., 2021 Long-Term Incentive Plan	-	-	-	-

Ex. No.	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit	Date Filed
10.46*	Form of Restricted Stock Award Agreement for Directors pursuant to the MGE Energy Inc., 2021 Long-Term Incentive Plan	-	-	-	-
10.47*	Form of Notice of Grant of Restricted Stock Award Agreement for Employees and Directors pursuant to the MGE Energy Inc., 2021 Long-Term Incentive Plan	-	-	-	-
10.48*	Form of Restricted Stock Units Agreement for Employees pursuant to the MGE Energy Inc., 2021 Long-Term Incentive Plan	-	-	-	-
10.49*	Form of Restricted Stock Units Agreement for Directors pursuant to the MGE Energy Inc., 2021 Long-Term Incentive Plan	-	-	-	-
10.50*	Form of Notice of Grant of Restricted Stock Units Agreement for Employees and Directors pursuant to the MGE Energy Inc., 2021 Long-Term Incentive Plan	-	-	-	-
21**	Subsidiaries of MGE Energy, Inc.	-	-	-	-
23.1**	Consent of Independent Registered Public Accounting Firm - MGE Energy, Inc.	-	-	-	-
23.2**	Consent of Independent Registered Public Accounting Firm - Madison Gas and Electric Company	-	-	-	-
31.1**	Certifications Pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934 filed by Jeffrey M. Keebler for MGE Energy, Inc.	-	-	-	-
31.2**	Certifications Pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934 filed by Jared J. Bushek for MGE Energy, Inc.	-	-	-	-
31.3**	Certifications Pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934 filed by Jeffrey M. Keebler for Madison Gas and Electric Company	-	-	-	-
31.4**	Certifications Pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934 filed by Jared J. Bushek for Madison Gas and Electric Company	-	-	-	-
32.1***	Certifications Pursuant to Section 1350 of Chapter 63 of Title 18 United States Code (Sarbanes-Oxley Act of 2002) filed by Jeffrey M. Keebler for MGE Energy, Inc.	-	-	-	-
32.2***	Certifications Pursuant to Section 1350 of Chapter 63 of Title 18 United States Code (Sarbanes-Oxley Act of 2002) filed by Jared J. Bushek for MGE Energy, Inc.	-	-	-	-
32.3***	Certifications Pursuant to Section 1350 of Chapter 63 of Title 18 United States Code (Sarbanes-Oxley Act of 2002) filed by Jeffrey M. Keebler for Madison Gas and Electric Company	-	-	-	-
32.4***	Certifications Pursuant to Section 1350 of Chapter 63 of Title 18 United States Code (Sarbanes-Oxley Act of 2002) filed by Jared J. Bushek for Madison Gas and Electric Company	-	-	-	-
101.INS**	XBRL Instance	-	-	-	-
101.SCH**	XBRL Taxonomy Extension Schema	-	-	-	-
101.CAL**	XBRL Taxonomy Extension Calculation	-	-	-	-
101.DEF**	XBRL Taxonomy Extension Definition	-	-	-	-
101.LAB**	XBRL Taxonomy Extension Labels	-	-	-	-
101.PRE**	XBRL Taxonomy Extension Presentation	-	-	-	-
*	Indicates a management contract or compensatory plan or arrangement.				
**	Filed herewith.				
***	Furnished herewith.				

## Item 16. Form 10-K Summary.

### MGE Energy and MGE

None.

**Schedule I**  
**Condensed Parent Company Financial Statements**

**MGE Energy, Inc.**  
**Statements of Income**  
*(Parent Company Only)*  
*(In thousands)*

	For the Years Ended December 31,		
	2020	2019	2018
<b>Operating Expenses:</b>			
Other operations and maintenance	\$ 882	\$ 815	\$ 913
<i>Total Operating Expenses</i>	<u>882</u>	<u>815</u>	<u>913</u>
<b>Operating Loss</b>	(882)	(815)	(913)
Equity in earnings of investments	92,922	87,728	85,220
Other income (loss), net	94	(1,500)	(1,966)
Interest income, net	<u>78</u>	<u>1,224</u>	<u>1,489</u>
Income before income taxes	92,212	86,637	83,830
Income tax provision	<u>206</u>	<u>237</u>	<u>389</u>
<b>Net Income</b>	<u>\$ 92,418</u>	<u>\$ 86,874</u>	<u>\$ 84,219</u>

*The accompanying notes are an integral part of the above consolidated financial statements.*

**MGE Energy, Inc.**  
**Statements of Cash Flows**  
*(Parent Company Only)*  
*(In thousands)*

	For the Years Ended December 31,		
	2020	2019	2018
<b>Net Cash Flows Provided by Operating Activities</b>	\$ 27,631	\$ 27,901	\$ 27,211
<b>Investing Activities:</b>			
Contributions to affiliates	(32,157)	(33,631)	(3,200)
Contributions to other investments	(3,809)	(4,496)	(2,626)
Other	<u>622</u>	<u>214</u>	<u>873</u>
<i>Cash Used for Investing Activities</i>	<u>(35,344)</u>	<u>(37,913)</u>	<u>(4,953)</u>
<b>Financing Activities:</b>			
Issuance of common stock, net	79,635	-	-
Cash dividends paid on common stock	<u>(51,729)</u>	<u>(47,842)</u>	<u>(45,762)</u>
<i>Cash Provided by (Used for) Financing Activities</i>	<u>27,906</u>	<u>(47,842)</u>	<u>(45,762)</u>
Change in cash, cash equivalents, and restricted cash	20,193	(57,854)	(23,504)
Cash, cash equivalents, and restricted cash at beginning of period	<u>17,182</u>	<u>75,036</u>	<u>98,540</u>
<b>Cash, cash equivalents, and restricted cash at end of period</b>	<u>\$ 37,375</u>	<u>\$ 17,182</u>	<u>\$ 75,036</u>

*The accompanying notes are an integral part of the above consolidated financial statements.*

**Schedule I**  
**Condensed Parent Company Financial Statements (continued)**

**MGE Energy, Inc.**  
**Balance Sheets**  
*(Parent Company Only)*  
*(In thousands)*

	As of December 31,	
	2020	2019
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 37,375	\$ 17,182
Other current assets	1,494	3,180
<i>Total Current Assets</i>	<u>38,869</u>	<u>20,362</u>
Other deferred assets and other	364	498
<b>Investments:</b>		
Investments in affiliates	953,810	856,444
Other investments	15,634	12,910
<i>Total Investments</i>	<u>969,444</u>	<u>869,354</u>
<b>Total Assets</b>	<u><u>\$ 1,008,677</u></u>	<u><u>\$ 890,214</u></u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current Liabilities:</b>		
Accounts payable to affiliates	\$ 530	\$ 530
Other current liabilities	66	2,314
<i>Total Current Liabilities</i>	<u>596</u>	<u>2,844</u>
<b>Other Credits:</b>		
Deferred income taxes	29,926	29,006
Accounts payable to affiliates	2,118	2,647
Other deferred liabilities	37	41
<i>Total Other Credits</i>	<u>32,081</u>	<u>31,694</u>
<b>Shareholders' Equity:</b>		
Common shareholders' equity	430,571	350,936
Retained earnings	545,429	504,740
<i>Total Shareholders' Equity</i>	<u>976,000</u>	<u>855,676</u>
Commitments and contingencies (see Footnote 3)		
<b>Total Liabilities and Shareholders' Equity</b>	<u><u>\$ 1,008,677</u></u>	<u><u>\$ 890,214</u></u>

*The accompanying notes are an integral part of the above consolidated financial statements.*

**Schedule I**  
**Condensed Parent Company Financial Statements (continued)**  
**Notes to Condensed Financial Statements**  
*(Parent Company Only)*

**1. Basis of Presentation.**

MGE Energy is a holding company and conducts substantially all of its business operations through its subsidiaries. For Parent Company only presentation, investment in subsidiaries are accounted for using the equity method. These condensed Parent Company financial statements and related notes have been prepared in accordance with Rule 12-04, Schedule I of Regulation S-X. These statements should be read in conjunction with the financial statements and the notes in Item 8. Financial Statements and Supplementary Data of the Annual Report on Form 10-K for the year ended December 31, 2020.

**2. Credit Agreements.**

As of December 31, 2020, MGE Energy had access to an unsecured, committed credit facility with aggregate bank commitments of \$50.0 million. As of December 31, 2020, no borrowings were outstanding under this facility. See Footnote 13 of the Notes to Consolidated Financial Statements in this Report for further information regarding MGE Energy's credit agreement.

**3. Commitments and Contingencies.**

See Footnote 16 of the Notes to Consolidated Financial Statements in this Report for information regarding commitments and contingencies.

**4. Dividends from Affiliates.**

	Dividends from Affiliates		
	2020	2019	2018
<i>(In thousands)</i>			
MGE Power Elm Road	\$ 15,500	\$ 15,500	\$ 15,500
MGE Power West Campus	6,000	8,000	6,500
MGE Transco	5,864	4,653	4,625
MGEE Transco	350	93	60
NGV Fueling Services	-	-	50
Total	<u>\$ 27,714</u>	<u>\$ 28,246</u>	<u>\$ 26,735</u>

***Dividend Restrictions***

Dividend payments by MGE to MGE Energy are subject to restrictions arising under a PSCW rate order and, to a lesser degree, MGE's first mortgage bonds. The PSCW order restricts any dividends that MGE may pay MGE Energy if its common equity ratio, calculated in the manner used in the rate proceeding, is less than 55%. MGE's thirteen month rolling average common equity ratio as of December 31, 2020, is 60.2% as determined under the calculation used in the rate proceeding. This restriction did not impact MGE's payment of dividends in 2020. No cash dividends were paid by MGE to MGE Energy in 2020 or 2019. The rate proceeding calculation includes as indebtedness imputed amounts for MGE's outstanding purchase power capacity payments and other PSCW adjustments but does not include the indebtedness associated with MGE Power Elm Road or MGE Power West Campus, which are consolidated into MGE's financial statements but are not direct obligations of MGE.

MGE has covenanted with the holders of its first mortgage bonds not to declare or pay any dividend or make any other distribution on or purchase any shares of its common stock unless, after giving effect thereto, the aggregate amount of all such dividends and distributions and all amounts applied to such purchases, after December 31, 1945, shall not exceed the earned surplus (retained earnings) accumulated subsequent to December 31, 1945. As of December 31, 2020, approximately \$529.9 million was available for the payment of dividends under this covenant.

See Footnotes 13 and 14 of the Notes to Consolidated Financial Statements in this Report for more information on dividend restrictions appearing in credit agreements and long-term debt, respectively.

**Schedule II**  
**MGE Energy, Inc. and Madison Gas and Electric Company**  
**Valuation and Qualifying Accounts**

		Balance at Beginning of Period	Additions		Net Accounts Written Off <sup>(a)</sup>	Balance at End of Period
			Charged to Costs and Expenses	Charged to Other Accounts		
<b>Fiscal Year 2018:</b>						
Accumulated provision for uncollectibles	\$	3,174,945	1,065,970	320,400	(1,407,653)	\$ 3,153,662
<b>Fiscal Year 2019:</b>						
Accumulated provision for uncollectibles	\$	3,153,662	1,614,943	20,160	(1,530,496)	\$ 3,258,269
<b>Fiscal Year 2020:</b>						
Accumulated provision for uncollectibles	\$	3,258,269	5,164,943 <sup>(b)</sup>	26,400	(1,373,047)	\$ 7,076,565

(a) Net of recovery of amounts previously written off

(b) As of December 31, 2020, MGE had deferred \$3.8 million of incremental COVID-19-related costs as a regulatory asset. See Footnote 8 of the Notes to Consolidated Financial Statements in this Report for further information.

## Signatures - MGE Energy, Inc.

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, hereunto duly authorized.

**MGE Energy, Inc.**

(Registrant)

Date: February 24, 2021

/s/ Jeffrey M. Keebler

Chairman, President, and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on February 24, 2021.

/s/ Jeffrey M. Keebler

Jeffrey M. Keebler  
Chairman, President, and Chief Executive Officer and Director  
(Principal Executive Officer)

/s/ Jared J. Bushek

Jared J. Bushek  
Vice President - Finance, Chief Information Officer and Treasurer  
(Chief Financial Officer)

/s/ Tamara J. Johnson

Tamara J. Johnson  
Vice President - Accounting and Controller  
(Chief Accounting Officer)

/s/ Marcia M. Anderson

Marcia M. Anderson, Director

/s/ James G. Berbee

James G. Berbee, Director

/s/ Mark D. Bugher

Mark D. Bugher, Director

/s/ Londa J. Dewey

Londa J. Dewey, Director

/s/ F. Curtis Hastings

F. Curtis Hastings, Director

/s/ James L. Possin

James L. Possin, Director

/s/ Thomas R. Stolper

Thomas R. Stolper, Director

/s/ Gary J. Wolter

Gary J. Wolter, Director

## Signatures - Madison Gas and Electric Company

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, hereunto duly authorized.

**Madison Gas and Electric Company**  
(Registrant)

Date: February 24, 2021

/s/ Jeffrey M. Keebler  
Chairman, President, and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on February 24, 2021.

<u>/s/ Jeffrey M. Keebler</u>	Jeffrey M. Keebler Chairman, President, and Chief Executive Officer and Director (Principal Executive Officer)
<u>/s/ Jared J. Bushek</u>	Jared J. Bushek Vice President - Finance, Chief Information Officer and Treasurer (Chief Financial Officer)
<u>/s/ Tamara J. Johnson</u>	Tamara J. Johnson Vice President - Accounting and Controller (Chief Accounting Officer)
<u>/s/ Marcia M. Anderson</u>	Marcia M. Anderson, Director
<u>/s/ James G. Berbee</u>	James G. Berbee, Director
<u>/s/ Mark D. Bugher</u>	Mark D. Bugher, Director
<u>/s/ Londa J. Dewey</u>	Londa J. Dewey, Director
<u>/s/ F. Curtis Hastings</u>	F. Curtis Hastings, Director
<u>/s/ James L. Possin</u>	James L. Possin, Director
<u>/s/ Thomas R. Stolper</u>	Thomas R. Stolper, Director
<u>/s/ Gary J. Wolter</u>	Gary J. Wolter, Director