United States

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended:

June 30, 2021

☐ 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	**MGE Energy, Inc.** (a Wisconsin Corporation) 133 South Blair Street Madison, Wisconsin 53788 (608) 252-7000 | mgeenergy.com	39-2040501
000-1125	**Madison Gas and Electric Company** (a Wisconsin Corporation) 133 South Blair Street Madison, Wisconsin 53788 (608) 252-7000 | mge.com	39-0444025

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 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 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.	☒	☐	☐	☐	☐
Madison Gas and Electric Company	☐	☐	☒	☐	☐

If an emerging growth company, indicate by check mark if the registrants have elected not to use the extended transition period for complying with any new or revised financial accounting 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 registrants are shell companies (as defined in Rule 12b-2 of the Exchange Act):

MGE Energy, Inc. Yes ☐ No ☒ **Madison Gas and Electric Company** Yes ☐ No ☒

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common Stock, $1 Par Value Per Share	MGEE	The NASDAQ Stock Market

Number of Shares Outstanding of Each Class of Common Stock as of July 31, 2021

MGE Energy, Inc.	Common stock, $1.00 par value, 36,163,370 shares outstanding.
Madison Gas and Electric Company	Common stock, $1.00 par value, 17,347,894 shares outstanding (all of which are owned beneficially and of record by MGE Energy, Inc.).

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PART I. FINANCIAL INFORMATION.

Filing Format

This combined Form 10-Q 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 the registrants' 2020 Annual Report on Form 10-K: Item 1A. Risk Factors, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, as updated by Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations in this report, and Item 8. Financial Statements and Supplementary Data – Note 16, as updated by Part I, Item 1. Financial Statements – Note 8 in this report, 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 assume 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, MGE Energy's website at mgeenergy.com, and MGE's website at 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:

2017 Tax Act	Tax Cut and Jobs Act of 2017
2021 Plan	MGE Energy's 2021 Long-Term Incentive Plan
ACE Rule	Affordable Clean Energy Rule
AFUDC	Allowance for Funds Used During Construction
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
Blount	Blount Station
BTA	Best technology available
CA	Certificate of Authority
CCR	Coal Combustion Residual
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
CPP Rule	Clean Power Plan Rule
CSAPR	Cross-State Air Pollution Rule
Dth	Dekatherms, a quantity measure for natural gas
ELG	Effluent Limitations Guidelines
electric margin	Electric revenues less fuel for electric generation and purchase power costs, a non-GAAP measure
Elm Road Units	Elm Road Generating Station
EPA	United States Environmental Protection Agency
FERC	Federal Energy Regulatory Commission
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
IRS	Internal Revenue Service
kWh	Kilowatt-hour, a measure of electric energy produced

MISO	Midcontinent Independent System Operator (a regional transmission organization)
MW	Megawatt, a measure of electric energy generating capacity
MWh	Megawatt-hour, a measure of electric energy produced
NAAQS	National Ambient Air Quality Standards
NO_x	Nitrogen oxide
PGA	Purchased Gas Adjustment clause, a regulatory mechanism used to reconcile natural gas costs recovered in rates to actual costs
PPA	Purchased Power Agreement
PSCW	Public Service Commission of Wisconsin
Riverside	Riverside Energy Center
ROE	Return on equity
SCR	Selective Catalytic Reduction
SEC	Securities and Exchange Commission
SIP	State Implementation Plan
SO_2	Sulfur dioxide
Stock Plan	Direct Stock Purchase and Dividend Reinvestment Plan of MGE Energy
WCCF	West Campus Cogeneration Facility
WDNR	Wisconsin Department of Natural Resources
working capital	Current assets less current liabilities
WPL	Wisconsin Power and Light Company, a subsidiary of Alliant Energy Corporation
XBRL	eXtensible Business Reporting Language

Item 1. Financial Statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Operating Revenues:				
Electric revenues	$ 102,076	$ 93,961	$ 202,721	$ 186,989
Gas revenues	28,654	23,079	95,924	79,924
Total Operating Revenues	130,730	117,040	298,645	266,913
Operating Expenses:				
Fuel for electric generation	10,913	8,692	24,084	18,398
Purchased power	10,913	10,856	20,268	21,342
Cost of gas sold	11,504	6,339	48,948	37,137
Other operations and maintenance	50,387	46,224	96,069	90,593
Depreciation and amortization	18,595	18,434	36,977	36,601
Other general taxes	5,025	4,975	9,852	9,882
Total Operating Expenses	107,337	95,520	236,198	213,953
Operating Income	23,393	21,520	62,447	52,960
Other income, net	6,110	6,925	8,188	12,596
Interest expense, net	(5,771)	(5,914)	(11,511)	(11,975)
Income before income taxes	23,732	22,531	59,124	53,581
Income tax provision	(881)	(3,740)	(1,340)	(8,753)
Net Income	$ 22,851	$ 18,791	$ 57,784	$ 44,828
Earnings Per Share of Common Stock				
Basic	$ 0.63	$ 0.53	$ 1.60	$ 1.28
Diluted	$ 0.63	$ 0.53	$ 1.60	$ 1.28
Dividends per share of common stock	$ 0.370	$ 0.353	$ 0.740	$ 0.705
Weighted Average Shares Outstanding				
Basic	36,163	35,441	36,163	35,054
Diluted	36,168	35,441	36,170	35,054

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

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

	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Operating Activities:		
Net income	$ 57,784	$ 44,828
Items not affecting cash:		
Depreciation and amortization	36,977	36,601
Deferred income taxes	114	5,088
Provision for doubtful receivables	775	817
Employee benefit plan cost (credit)	319	(1,875)
Equity earnings in investments	(4,908)	(5,405)
Other items	3,994	(1,006)
Changes in working capital items:		
(Increase) decrease in current assets	(4,999)	9,934
Decrease in current liabilities	(15,495)	(8,195)
Dividends from investments	3,900	4,581
Cash contributions to pension and other postretirement plans	(3,087)	(2,943)
Other noncurrent items, net	3,159	3,025
Cash Provided by Operating Activities	78,533	85,450
Investing Activities:		
Capital expenditures	(75,667)	(85,217)
Capital contributions to investments	(2,340)	(2,577)
Other	(1)	(899)
Cash Used for Investing Activities	(78,008)	(88,693)
Financing Activities:		
Issuance of common stock, net	-	79,635
Cash dividends paid on common stock	(26,761)	(24,968)
Repayments of long-term debt	(2,371)	(21,616)
Issuance of long-term debt	40,000	19,300
Net repayments of short-term debt	(21,500)	-
Other	(1,338)	(1,030)
Cash (Used for) Provided by Financing Activities	(11,970)	51,321
Change in cash, cash equivalents, and restricted cash	(11,445)	48,078
Cash, cash equivalents, and restricted cash at beginning of period	47,039	25,814
Cash, cash equivalents, and restricted cash at end of period	$ 35,594	$ 73,892
Supplemental disclosures of cash flow information:		
Significant noncash investing activities:		
Accrued capital expenditures	$ 12,426	$ 15,762

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

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

ASSETS	June 30, 2021	December 31, 2020
Current Assets:		
Cash and cash equivalents	$ 34,025	$ 44,738
Accounts receivable, less reserves of $4,809 and $5,787, respectively	37,483	41,384
Other accounts receivable, less reserves of $1,282 and $1,290, respectively	8,733	7,300
Unbilled revenues	25,735	27,511
Materials and supplies, at average cost	31,902	32,513
Fuel for electric generation, at average cost	6,224	6,356
Stored natural gas, at average cost	7,935	8,396
Prepaid taxes	15,087	15,179
Regulatory assets - current	13,842	14,748
Other current assets	10,427	11,394
Total Current Assets	191,393	209,519
Other long-term receivables	1,268	1,435
Regulatory assets	135,964	142,504
Pension benefit asset	21,690	13,873
Other deferred assets and other	27,268	22,259
Property, Plant, and Equipment:		
Property, plant, and equipment, net	1,669,843	1,630,286
Construction work in progress	157,477	139,099
Total Property, Plant, and Equipment	1,827,320	1,769,385
Investments	97,182	94,676
Total Assets	$ 2,302,085	$ 2,253,651
LIABILITIES AND CAPITALIZATION		
Current Liabilities:		
Long-term debt due within one year	$ 4,829	$ 4,771
Short-term debt	31,000	52,500
Accounts payable	46,625	54,642
Accrued interest and taxes	8,658	8,539
Accrued payroll related items	11,452	12,635
Regulatory liabilities - current	27,476	41,664
Derivative liabilities	6,650	10,160
Other current liabilities	8,999	6,015
Total Current Liabilities	145,689	190,926
Other Credits:		
Deferred income taxes	235,645	231,471
Investment tax credit - deferred	29,792	21,821
Regulatory liabilities	146,400	142,239
Accrued pension and other postretirement benefits	77,881	78,168
Derivative liabilities	-	3,980
Finance lease liabilities	17,519	17,532
Other deferred liabilities and other	85,427	72,211
Total Other Credits	592,664	567,422
Capitalization:		
Common shareholders' equity	1,007,301	976,000
Long-term debt	556,431	519,303
Total Capitalization	1,563,732	1,495,303
Commitments and contingencies (see Footnote 8)		
Total Liabilities and Capitalization	$ 2,302,085	$ 2,253,651

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

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

	Common Stock Shares	Common Stock Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total
Three Months Ended June 30, 2020						
Beginning Balance	34,668	$ 34,668	$ 316,268	$ 518,556	$ -	$ 869,492
Net income				18,791		18,791
Common stock dividends declared						
($0.353 per share)				(12,747)		(12,747)
Common stock issued, net	1,495	1,495	78,140			79,635
Ending Balance - June 30, 2020	36,163	$ 36,163	$ 394,408	$ 524,600	$ -	$ 955,171
Three Months Ended June 30, 2021						
Beginning Balance	36,163	$ 36,163	$ 394,566	$ 566,982	$ -	$ 997,711
Net income				22,851		22,851
Common stock dividends declared						
($0.370 per share)				(13,381)		(13,381)
Equity-based compensation plans and other			120			120
Ending Balance - June 30, 2021	36,163	$ 36,163	$ 394,686	$ 576,452	$ -	$ 1,007,301
Six Months Ended June 30, 2020						
Beginning Balance	34,668	$ 34,668	$ 316,268	$ 504,740	$ -	$ 855,676
Net income				44,828		44,828
Common stock dividends declared						
($0.705 per share)				(24,968)		(24,968)
Common stock issued, net	1,495	1,495	78,140			79,635
Ending Balance - June 30, 2020	36,163	$ 36,163	$ 394,408	$ 524,600	$ -	$ 955,171
Six Months Ended June 30, 2021						
Beginning Balance	36,163	$ 36,163	$ 394,408	$ 545,429	$ -	$ 976,000
Net income				57,784		57,784
Common stock dividends declared						
($0.740 per share)				(26,761)		(26,761)
Equity-based compensation plans and other			278			278
Ending Balance - June 30, 2021	36,163	$ 36,163	$ 394,686	$ 576,452	$ -	$ 1,007,301

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

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

	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Operating Revenues:				
Electric revenues	$ 102,076	$ 93,961	$ 202,721	$ 186,989
Gas revenues	28,654	23,079	95,924	79,924
Total Operating Revenues	130,730	117,040	298,645	266,913
Operating Expenses:				
Fuel for electric generation	10,913	8,692	24,084	18,398
Purchased power	10,913	10,856	20,268	21,342
Cost of gas sold	11,504	6,339	48,948	37,137
Other operations and maintenance	50,125	45,893	95,663	90,043
Depreciation and amortization	18,595	18,434	36,977	36,601
Other general taxes	5,025	4,975	9,852	9,882
Total Operating Expenses	107,075	95,189	235,792	213,403
Operating Income	23,655	21,851	62,853	53,510
Other income, net	3,173	3,531	3,069	6,911
Interest expense, net	(5,781)	(5,935)	(11,534)	(12,046)
Income before income taxes	21,047	19,447	54,388	48,375
Income tax provision	(293)	(3,046)	140	(7,417)
Net Income	$ 20,754	$ 16,401	$ 54,528	$ 40,958
Less: Net Income Attributable to Noncontrolling Interest, net of tax	(5,627)	(5,768)	(11,128)	(11,261)
Net Income Attributable to MGE	$ 15,127	$ 10,633	$ 43,400	$ 29,697

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

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

	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Operating Activities:		
Net income	$ 54,528	$ 40,958
Items not affecting cash:		
Depreciation and amortization	36,977	36,601
Deferred income taxes	132	4,034
Provision for doubtful receivables	775	817
Employee benefit plan cost (credit)	319	(1,875)
Other items	4,892	(380)
Changes in working capital items:		
(Increase) decrease in current assets	(12,170)	7,460
Decrease in current liabilities	(13,873)	(4,439)
Cash contributions to pension and other postretirement plans	(3,087)	(2,943)
Other noncurrent items, net	2,653	2,412
Cash Provided by Operating Activities	71,146	82,645
Investing Activities:		
Capital expenditures	(75,667)	(85,217)
Other	(955)	(890)
Cash Used for Investing Activities	(76,622)	(86,107)
Financing Activities:		
Distributions to parent from noncontrolling interest	(7,500)	(8,500)
Capital contribution from parent	-	30,000
Repayments of long-term debt	(2,371)	(21,616)
Issuance of long-term debt	40,000	19,300
Net repayments of short-term debt	(21,500)	-
Other	(1,338)	(999)
Cash Provided by Financing Activities	7,291	18,185
Change in cash, cash equivalents, and restricted cash	1,815	14,723
Cash, cash equivalents, and restricted cash at beginning of period	6,404	5,529
Cash, cash equivalents, and restricted cash at end of period	$ 8,219	$ 20,252
Supplemental disclosures of cash flow information:		
Significant noncash investing activities:		
Accrued capital expenditures	$ 12,426	$ 15,762

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

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

ASSETS	June 30, 2021	December 31, 2020
Current Assets:		
Cash and cash equivalents	$ 6,650	$ 4,103
Accounts receivable, less reserves of $4,809 and $5,787, respectively	37,483	41,384
Affiliate receivables	6,302	532
Other accounts receivable, less reserves of $1,282 and $1,290, respectively	8,731	7,295
Unbilled revenues	25,735	27,511
Materials and supplies, at average cost	31,902	32,513
Fuel for electric generation, at average cost	6,224	6,356
Stored natural gas, at average cost	7,935	8,396
Prepaid taxes	16,154	14,848
Regulatory assets - current	13,842	14,748
Other current assets	10,359	11,326
Total Current Assets	171,317	169,012
Affiliate receivable long-term	1,853	2,118
Regulatory assets	135,964	142,504
Pension benefit asset	21,690	13,873
Other deferred assets and other	27,542	22,448
Property, Plant, and Equipment:		
Property, plant, and equipment, net	1,669,871	1,630,314
Construction work in progress	157,477	139,099
Total Property, Plant, and Equipment	1,827,348	1,769,413
Investments	356	603
Total Assets	$ 2,186,070	$ 2,119,971
LIABILITIES AND CAPITALIZATION		
Current Liabilities:		
Long-term debt due within one year	$ 4,829	$ 4,771
Short-term debt	31,000	52,500
Accounts payable	46,607	54,576
Accrued interest and taxes	9,232	10,405
Accrued payroll related items	11,452	12,635
Regulatory liabilities - current	27,476	41,664
Derivative liabilities	6,650	10,160
Other current liabilities	11,892	6,042
Total Current Liabilities	149,138	192,753
Other Credits:		
Deferred income taxes	204,582	200,390
Investment tax credit - deferred	29,792	21,821
Regulatory liabilities	146,400	142,239
Accrued pension and other postretirement benefits	77,881	78,168
Derivative liabilities	-	3,980
Finance lease liabilities	17,519	17,532
Other deferred liabilities and other	85,687	72,173
Total Other Credits	561,861	536,303
Capitalization:		
Common shareholder's equity	773,816	730,416
Noncontrolling interest	144,824	141,196
Total Equity	918,640	871,612
Long-term debt	556,431	519,303
Total Capitalization	1,475,071	1,390,915
Commitments and contingencies (see Footnote 8)		
Total Liabilities and Capitalization	$ 2,186,070	$ 2,119,971

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

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

	Common Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive	Non-Controlling	
	Shares	Value	Capital	Earnings	Income/(Loss)	Interest	Total
Three Months Ended June 30, 2020							
Beginning balance	17,348	$ 17,348	$ 222,917	$ 416,085	$ -	$ 138,796	$ 795,146
Net income				10,633		5,768	16,401
Capital contributions from parent			30,000				30,000
Distributions to parent from noncontrolling interest						(1,500)	(1,500)
Ending Balance - June 30, 2020	17,348	$ 17,348	$ 252,917	$ 426,718	$ -	$ 143,064	$ 840,047
Three Months Ended June 30, 2021							
Beginning balance	17,348	$ 17,348	$ 252,917	$ 488,424	$ -	$ 141,697	$ 900,386
Net income				15,127		5,627	20,754
Distributions to parent from noncontrolling interest						(2,500)	(2,500)
Ending Balance - June 30, 2021	17,348	$ 17,348	$ 252,917	$ 503,551	$ -	$ 144,824	$ 918,640
Six Months Ended June 30, 2020							
Beginning balance	17,348	$ 17,348	$ 222,917	$ 397,021	$ -	$ 140,303	$ 777,589
Net income				29,697		11,261	40,958
Capital contributions from parent			30,000				30,000
Distributions to parent from noncontrolling interest						(8,500)	(8,500)
Ending Balance - June 30, 2020	17,348	$ 17,348	$ 252,917	$ 426,718	$ -	$ 143,064	$ 840,047
Six Months Ended June 30, 2021							
Beginning balance	17,348	$ 17,348	$ 252,917	$ 460,151	$ -	$ 141,196	$ 871,612
Net income				43,400		11,128	54,528
Distributions to parent from noncontrolling interest						(7,500)	(7,500)
Ending Balance - June 30, 2021	17,348	$ 17,348	$ 252,917	$ 503,551	$ -	$ 144,824	$ 918,640

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

1. Summary of Significant Accounting Policies – MGE Energy and MGE.

a. Basis of Presentation.

This report is a combined report of MGE Energy and MGE. References in this report to "MGE Energy" are to MGE Energy, Inc. and its subsidiaries. References in this report to "MGE" are to Madison Gas and Electric Company.

MGE Power Elm Road and MGE Power West Campus own electric generating assets and lease those assets to MGE. Both entities are variable interest entities under applicable authoritative accounting guidance. MGE is considered the primary beneficiary of these entities as a result of contractual agreements. As a result, MGE has consolidated MGE Power Elm Road and MGE Power West Campus. See Footnote 3 of Notes to Consolidated Financial Statements under Item 8, Financial Statements and Supplementary Data, of MGE Energy's and MGE's 2020 Annual Report on Form 10-K (the 2020 Annual Report on Form 10-K).

The accompanying consolidated financial statements as of June 30, 2021, and during the three and six months ended, are unaudited but include all adjustments that MGE Energy and MGE management consider necessary for a fair statement of their respective financial statements. All adjustments are of a normal, recurring nature except as otherwise disclosed. The year-end consolidated balance sheet information was derived from the audited balance sheet appearing in the 2020 Annual Report on Form 10-K but does not include all disclosures required by accounting principles generally accepted in the United States of America. These notes should be read in conjunction with the financial statements and the notes on pages 62 through 115 of the 2020 Annual Report on Form 10-K.

b. Cash, Cash Equivalents, and Restricted Cash.

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

	MGE Energy		MGE	
(In thousands)	June 30, 2021	December 31, 2020	June 30, 2021	December 31, 2020
Cash and cash equivalents	$ 34,025	$ 44,738	$ 6,650	$ 4,103
Restricted cash	1,019	644	1,019	644
Receivable - margin account	550	1,657	550	1,657
Cash, cash equivalents, and restricted cash	$ 35,594	$ 47,039	$ 8,219	$ 6,404

Cash Equivalents
All highly liquid investments purchased with an original maturity of three months or less 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.

c. Property, Plant, and Equipment.

Columbia.

An asset that will be retired in the near future and substantially in advance of its previously expected retirement date is subject to abandonment accounting. In the second quarter of 2021, the operator of Columbia received approval from MISO to retire Columbia Units 1 and 2. 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 reviews, including identification and approval of energy and capacity resources to replace Columbia. As of June 30, 2021, early retirement of Columbia was probable. The net book value of our ownership share of this generating unit was $164.9 million as of June 30, 2021. This amount was classified as plant to be retired within "Property, plant, and equipment, net" on the consolidated balance sheets. Assets for Columbia Unit 1 and Unit 2 are currently included in rate base, and MGE continues to depreciate them on a straight-line basis using the composite depreciation rates approved by the PSCW that included retirement dates of 2029 for Unit 1 and 2038 for Unit 2. If it becomes probable that regulators will disallow full recovery or a return on the remaining net book value of a generating unit that is either abandoned or probable of being abandoned, an impairment loss would be required. An impairment loss would be recorded for the difference of the remaining net book value of the generating unit that is greater than the present value of the amount expected to be recovered from ratepayers. No impairment was recorded as of June 30, 2021.

2. New Accounting Standards - MGE Energy and MGE.

MGE Energy and MGE reviewed FASB authoritative guidance recently issued, none of which are expected to have a material impact on the consolidated results of operations, financial condition, or cash flows.

3. Investment in ATC and ATC Holdco - MGE Energy and MGE.

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 subsidiary of 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 subsidiary of MGE Energy.

MGE Transco and MGEE Transco have accounted for their investments 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. MGE Transco recorded the following amounts related to its investment in ATC:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2021	2020	2021	2020
Equity earnings from investment in ATC	$ 2,413	$ 3,139	$ 4,833	$ 5,405
Dividends from investments	1,933	1,880	3,900	4,271
Capital contributions to ATC	-	355	-	533

ATC Holdco was formed in December 2016. ATC Holdco's transmission development activities have been suspended for the near term.

ATC's summarized financial data is as follows:

(In thousands)	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Operating revenues	$ 185,900	$ 203,071	$ 374,594	$ 389,872
Operating expenses	(92,384)	(97,511)	(187,488)	(192,722)
Other income, net	663	906	1,041	1,281
Interest expense, net	(28,792)	(26,258)	(57,663)	(55,146)
Earnings before members' income taxes	$ 65,387	$ 80,208	$ 130,484	$ 143,285

MGE receives transmission and other related services from ATC. During the three and six months ended June 30, 2021, MGE recorded $8.0 million and $16.0 million, respectively, for transmission services received compared to $7.6 million and $15.3 million for the comparable periods in 2020. MGE also provides a variety of operational, maintenance, and project management work for ATC, which is reimbursed by ATC. As of June 30, 2021, and December 31, 2020, MGE had a receivable due from ATC of $3.1 million and $2.6 million, respectively. The receivable is primarily related to Badger Hollow I and II. MGE is reimbursed for these costs after the new generation assets are placed into service.

4. Taxes - MGE Energy and MGE.

Effective Tax Rate.

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	
Three Months Ended June 30,	2021	2020	2021	2020
Statutory federal income tax rate	21.0 %	21.0 %	21.0 %	21.0 %
State income taxes, net of federal benefit	6.2	6.3	6.2	6.2
Amortized investment tax credits	(1.3)	(0.1)	(1.5)	(0.1)
Credit for electricity from wind energy	(6.3)	(6.7)	(6.8)	(7.3)
AFUDC equity, net	(1.5)	(1.4)	(1.7)	(1.5)
Amortization of utility excess deferred tax - tax reform[a]	(14.5)	(2.6)	(15.9)	(2.7)
Other, net, individually insignificant	0.1	0.1	0.1	0.1
Effective income tax rate	3.7 %	16.6 %	1.4 %	15.7 %

	MGE Energy		MGE	
Six Months Ended June 30,	2021	2020	2021	2020
Statutory federal income tax rate	21.0 %	21.0 %	21.0 %	21.0 %
State income taxes, net of federal benefit	6.2	6.3	6.2	6.2
Amortized investment tax credits	(1.5)	(0.1)	(1.6)	(0.1)
Credit for electricity from wind energy	(6.8)	(6.8)	(7.4)	(7.4)
AFUDC equity, net	(0.9)	(1.5)	(1.1)	(1.6)
Amortization of utility excess deferred tax - tax reform[a]	(15.8)	(2.6)	(17.4)	(2.8)
Other, net, individually insignificant	0.1	-	-	-
Effective income tax rate	2.3 %	16.3 %	(0.3) %	15.3 %

(a) Included are impacts of the 2017 Tax Act for the regulated utility for excess deferred taxes recognized using a normalization method of accounting in recognition of IRS rules that restrict the rate at which the excess deferred taxes may be returned to utility customers. For the three months ended June 30, 2021 and 2020, MGE recognized $0.7 million. For the six months ended June 30, 2021 and 2020, MGE recognized $1.3 million. Included in the 2021 rate settlement was a one-time return to customers of the electric portion of excess deferred taxes related to the 2017 Tax Act not restricted by IRS normalization rules. For the three and six months ended June 30, 2021, MGE recognized $3.3 million and $6.6 million, respectively.

5. Pension and Other Postretirement Plans - 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.

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.

The following table presents the components of net periodic benefit costs recognized.

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2021	2020	2021	2020
Pension Benefits				
Components of net periodic benefit cost:				
Service cost	$ 1,442	$ 1,332	$ 2,864	$ 2,648
Interest cost	2,288	3,082	4,560	6,105
Expected return on assets	(7,368)	(6,804)	(14,743)	(13,615)
Amortization of:				
Prior service credit	(31)	(31)	(62)	(62)
Actuarial loss	1,743	1,392	3,323	2,678
Net periodic benefit (credit) cost	$ (1,926)	$ (1,029)	$ (4,058)	$ (2,246)
Postretirement Benefits				
Components of net periodic benefit cost:				
Service cost	$ 373	$ 321	$ 724	$ 632
Interest cost	390	566	774	1,139
Expected return on assets	(821)	(787)	(1,638)	(1,577)
Amortization of:				
Transition obligation	1	1	1	1
Prior service credit	(380)	(667)	(759)	(1,334)
Actuarial loss	138	40	247	110
Net periodic benefit (credit) cost	$ (299)	$ (526)	$ (651)	$ (1,029)

As approved by the PSCW, MGE is allowed to defer differences between actual employee benefit plan costs and costs reflected in current rates. The deferred costs may be recovered or refunded in MGE's next rate filing. During the three and six months ended June 30, 2021, MGE recovered approximately $0.2 million and $3.6 million of pension and other postretirement costs, respectively, compared to approximately $0.2 million and $0.6 million for the comparable periods in 2020. The recovery of these costs reduced the amount previously deferred and has not been reflected in the table above.

During the three and six months ended June 30, 2021, MGE deferred $2.6 million of savings from 2021 employee benefit plan costs and recorded as a regulatory liability. The deferred savings has not been reflected in the table above.

6. Equity and Financing Arrangements.

a. Common Stock - MGE Energy.

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. All sales under the Stock Plan are covered by a shelf registration statement that MGE Energy filed with the SEC. During the three and six months ended June 30, 2021 and 2020, 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.

b. Dilutive Shares Calculation - MGE Energy.

As of June 30, 2021, 6,372 shares were included in the calculation of diluted earnings per share related to nonvested equity awards. See Footnote 7 for additional information on shared-based compensation awards.

c. Long-term Debt - MGE Energy and MGE.

In May 2021, MGE entered into a private placement Note Purchase Agreement in which it committed to issue $60 million of new long-term debt (Series A), carrying an interest rate of 2.48% per annum over its 10-year life, and $40 million of new long-term debt (Series B), carrying an interest rate of 2.63% per annum over its 12-year life. Funding occurred on June 15, 2021, for Series B and funding for Series A is expected to occur in August 2021. The proceeds of the debt financing will be used to assist with capital expenditures and other corporate obligations. The covenants of this debt are substantially consistent with MGE's existing unsecured long-term debt.

7. Share-Based Compensation - MGE Energy and MGE.

During the three and six months ended June 30, 2021, MGE recorded $0.6 million and $1.3 million, respectively, in compensation expense related to share-based compensation awards under the 2006 Performance Unit Plan, the 2020 Performance Unit Plan, the 2013 Director Incentive Plan, and the 2021 Long-Term Incentive Plan (2021 Plan) compared to $0.8 million and $0.1 million for the comparable periods in 2020.

In January 2021, cash payments of $1.9 million were distributed related to awards that were granted in 2018, for the 2013 Director Incentive Plan, and in 2016, for the 2006 Performance Unit Plan.

In February 2021, MGE issued 10,187 performance units and 16,267 restricted stock units under the 2021 Plan to eligible employees and non-employee directors.

MGE recognizes stock-based compensation expense on a straight-line basis over the requisite service period. Awards classified as equity awards are measured based on their grant-date fair value. Awards classified as liability awards are recorded at fair value each reporting period. The performance units can be paid out in either cash, shares of common stock or a combination of cash and stock and are classified as a liability award. The restricted stock units will be paid out in shares of common stock, and therefore are classified as equity awards.

8. Commitments and Contingencies.

a. Environmental - MGE Energy and MGE.

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 requirements discussed below will depend upon the final retirement dates approved and compliance requirement dates.

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 operations are conducted, the costs of operations, as well as capital and operating expenditures. Several of these environmental rules are subject to legal challenges, reconsideration and/or other uncertainties. Regulatory initiatives, proposed rules, and court challenges to adopted rules could have a material effect on capital expenditures and operating costs. Management believes compliance costs will be recovered in future rates based on previous treatment of environmental compliance projects.

These initiatives, proposed rules, and court challenges include:

- The EPA's promulgated water Effluent Limitations Guidelines (ELG) and standards for steam electric power plants which focus on the reduction of metals and other pollutants in wastewater from new and existing power plants. The standards were finalized in August 2020.

  In July 2021, the PSCW approved a Certificate of Authority (CA) application filed by MGE and the other owners of Columbia. The CA application commits to close Columbia's wet pond system to comply with the Coal Combustions Residuals (CCR) Rule as described in further detail in the CCR section below. By committing to close the wet pond system, Columbia will be in compliance with ELG requirements.

  The Elm Road Units must satisfy the rule's requirements no later than December 31, 2023, as determined by the permitting authority. 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 the other co-owners of the Elm Road Units 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. Subject to approval from the PSCW, construction is expected to begin in 2022.

- The EPA's cooling water intake rules require cooling water intake structures at electric power plants to meet best technology available (BTA) standards to reduce the mortality from entrainment (drawing aquatic life into a plant's cooling system) and impingement (trapping aquatic life on screens).

  Blount's Wisconsin Pollution Discharge Elimination System permit assumes that the plant meets BTA for the duration of the permit, which expires in 2023. However, MGE must conduct studies of its Blount plant by the end of 2021 to help regulators determine BTA.

  Columbia's river intakes are subject to this rule. 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. MGE does not expect this rule to have a material effect on its existing plants.

- Greenhouse Gas (GHG) reduction guidelines and approval criteria established under the Clean Air Act for states to use in developing plans to control GHG emissions from fossil fuel-fired electric generating units (EGUs), including existing and proposed regulations governing existing, new or modified fossil-fuel generating units.

  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. As a result of these legal proceedings, neither the CPP nor ACE rules are currently in effect. MGE will continue to evaluate the rule development and monitor ongoing and potential legal proceedings.

- The EPA's rule to regulate ambient levels of ozone through the 2015 Ozone National Ambient Air Quality Standards (NAAQS).

  In May 2021, the EPA published a final rule that expands several nonattainment areas in Wisconsin to include all of Milwaukee County where MGE's Elm Road Units are located. The Wisconsin Department of Natural Resources (WDNR) will need to develop a State Implementation Plan (SIP) for the area, which will likely result in more stringent requirements for both new development and existing plants in the area. MGE will monitor the WDNR's SIP development and the extent to which the requirements will impact the Elm Road Units. At this time, MGE does not expect that the 2015 Ozone NAAQS will have a material effect on its existing plants based on final designations.

- Rules regulating nitrogen oxide (NO_x) and sulfur dioxide (SO_2) emissions, including the Cross State Air Pollution Rule (CSAPR) and Clean Air Visibility Rule.

  The EPA's CSAPR and its progeny are a suite of interstate air pollution transport rules designed to reduce ozone and fine particulate (PM2.5) air levels in areas that the EPA has determined as being significantly impacted by pollution from upwind states. 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 March 2021, the EPA addressed the remand by finalizing its revised CSAPR Update Rule. The revised rule does not require further emission reductions from Wisconsin stationary sources beyond those under the original CSAPR. MGE has met its current CSAPR obligations through a combination of reduced emissions through pollution control (e.g., SCR installation at Columbia), and owned, received, and purchased allowances. MGE expects to meet ongoing CSAPR obligations for the foreseeable future. MGE will continue to monitor legal developments and any future updates to this rule.

- The EPA's Coal Combustion Residuals Rule (CCR), which regulates as a solid waste coal ash from burning coal for the purpose of generating electricity 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 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 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 has not formally approved the extension. The reviews have been put on hold pending an overall review of rules promulgated in the final year of the previous administration. The Columbia owners anticipate that the EPA will approve the extension request. However, we will not know the extension request outcome with any certainty until the EPA completes their rules review.

  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. In July 2021, the PSCW approved a CA application filed by MGE and the other owners of Columbia to install technology required to cease bottom ash transport water discharges rather than extend the longevity of the ash ponds. MGE's share of the estimated costs of the project will be approximately $4 million. Construction is expected to be completed by the end of 2022.

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 accrues for 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. The following table shows future commitments related to purchase contracts as of June 30, 2021:

(In thousands)	2021	2022	2023	2024	2025	Thereafter
Coal[(a)]	$ 8,618	$ 7,151	$ 4,537	$ 1,638	$ -	$ -
Natural gas						
Transportation and storage[(b)]	10,226	22,487	23,102	23,102	23,102	17,223
Supply[(c)]	11,384	12,546	-	-	-	-
	$ 30,228	$ 42,184	$ 27,639	$ 24,740	$ 23,102	$ 17,223

(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 established by FERC but may be subject to change.

(c) These commitments include market-based pricing.

9. Rate Matters - MGE Energy and MGE.

a. Rate Proceedings.

In May 2021, MGE filed an application with the PSCW requesting a 5.9% increase to electric rates and a 3.0% increase to gas rates for 2022. The proposed electric and gas rate increases are primarily driven by an increase in rate base including our investments in Badger Hollow I and a new customer information system. Also driving the requested electric increase is the completion of the one-time return of the electric excess deferred tax credit related to the 2017 Tax Act not restricted by IRS normalization rules. In its application, MGE is proposing to address potential 2023 rate changes through an electric limited rate case re-opener and a 1.65% increase in gas rates. The proposed return on common stock equity for 2022 is 9.8% based on a proposed capital structure consisting of 55.6% common equity in 2022. PSCW approval of the application is pending. A final order is expected before the end of the year.

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% 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 restricted by IRS normalization rules. As part of the settlement, the fuel rules bandwidth is set at plus or minus 1% for 2021. When compared to the 2020 rate case, the settlement included 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 with the Dane County Circuit Court seeking review of the PSCW decision approving the rate settlement in MGE's 2021 rate case. The PSCW is named as the responding party; MGE is not named as a party. The petition challenges the process the PSCW used to approve the portion of the settlement relating to electric rates and the electric customer fixed charge that does not vary with usage. The requested relief is unclear. The revenue requirement approved by the PSCW in the settlement has not been challenged. The PSCW is expected to vigorously defend its approval of the rate case settlement. MGE has intervened in the proceedings to further defend the PSCW's decision.

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. The fuel rules bandwidth is set at plus or minus 1% in 2021. Under fuel rules, MGE defers costs, less any excess revenues, if its actual electric fuel costs exceed 101% 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 99% of the electric fuel costs allowed in that order. In 2020 the fuel rules bandwidth was set at plus or minus 2%. These costs are subject to the PSCW's annual review of fuel costs completed in the year following the deferral.

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 had deferred $3.2 million of 2020 fuel-related savings. The PSCW's annual review of 2020 fuel costs was completed in June 2021. There was no change to the refund in the fuel rules proceedings from the amount MGE deferred in the previous year. In July 2021, the PSCW issued a decision in the 2020 fuel rules proceedings requiring MGE to refund additional fuel savings incurred plus accrued interest to its retail electric customers over a one-month period. The fuel savings are expected to be returned by the end of 2021.

As of June 30, 2021, MGE had no deferred 2021 fuel savings or costs.

10. 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:

	June 30, 2021		December 31, 2020	
Commodity derivative contracts	285,120	MWh	259,080	MWh
Commodity derivative contracts	5,780,000	Dth	6,030,000	Dth
FTRs	4,541	MW	2,869	MW
PPA	550	MW	850	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 June 30, 2021, and December 31, 2020, the fair value of exchange traded derivatives and FTRs exceeded their cost basis by $4.1 million and $0.2 million, respectively.

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 June 30, 2021, and December 31, 2020, reflected a loss position of $6.7 million and $14.1 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.

(In thousands)	Derivative Assets	Derivative Liabilities	Balance Sheet Location
June 30, 2021			
Commodity derivative contracts[(a)]	$ 3,549	$ 184	Other current assets
Commodity derivative contracts[(a)]	312	6	Other deferred charges
FTRs	398	-	Other current assets
PPA	N/A	6,650	Derivative liability (current)
PPA	N/A	-	Derivative liability (long-term)
December 31, 2020			
Commodity derivative contracts[(b)]	$ 617	$ 593	Other current assets
Commodity derivative contracts[(b)]	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)

(a) As of June 30, 2021, collateral of $2.9 million was posted against derivative positions owed to counterparties under a master netting agreement on the consolidated balance sheet.

(b) No collateral was posted against derivative positions as of December 31, 2020.

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

(In thousands)	Gross Amounts	Gross Amounts Offset in Balance Sheets	Collateral Posted Against Derivative Positions	Net Amount Presented in Balance Sheets
June 30, 2021				
Commodity derivative contracts	$ 3,861	$ (190)	$ (2,913)	$ 758
FTRs	398	-	-	398
December 31, 2020				
Commodity derivative contracts	$ 806	$ (632)	$ -	$ 174

Offsetting of Derivative Liabilities

(In thousands)	Gross Amounts	Gross Amounts Offset in Balance Sheets	Collateral Posted Against Derivative Positions	Net Amount Presented in Balance Sheets
June 30, 2021				
Commodity derivative contracts	$ 190	$ (190)	$ -	$ -
PPA	6,650	-	-	6,650
December 31, 2020				
Commodity derivative contracts	$ 632	$ (632)	$ -	$ -
FTRs	23	-	-	23
PPA	14,140	-	-	14,140

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.

(In thousands)	2021 Current and Long-Term Regulatory Asset	2021 Other Current Assets	2020 Current and Long-Term Regulatory Asset	2020 Other Current Assets
Three Months Ended June 30:				
Balance as of April 1,	$ 11,059	$ 173	$ 25,327	$ 430
Unrealized gain	(8,049)	-	(2,648)	-
Realized (loss) gain reclassified to a deferred account	(366)	366	(729)	729
Realized (loss) gain reclassified to income statement	(63)	(19)	(1,550)	(219)
Balance as of June 30,	$ 2,581	$ 520	$ 20,400	$ 940
Six Months Ended June 30:				
Balance as of January 1,	$ 13,989	$ 1,162	$ 26,875	$ 1,100
Unrealized gain	(11,637)	-	(3,337)	-
Realized (loss) gain reclassified to a deferred account	(416)	416	(1,792)	1,792
Realized (loss) gain reclassified to income statement	645	(1,058)	(1,346)	(1,952)
Balance as of June 30,	$ 2,581	$ 520	$ 20,400	$ 940

	Realized Losses (Gains)			
	2021		2020	
(In thousands)	Fuel for Electric Generation/ Purchased Power	Cost of Gas Sold	Fuel for Electric Generation/ Purchased Power	Cost of Gas Sold
Three Months Ended June 30:				
Commodity derivative contracts	$ (326)	$ 33	$ 943	$ 47
FTRs	(55)	-	(41)	-
PPA	430	-	820	-
Six Months Ended June 30:				
Commodity derivative contracts	$ (521)	$ 1,055	$ 1,623	$ 1,654
FTRs	(311)	-	(106)	-
PPA	190	-	127	-

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 treatment described above, 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 June 30, 2021, no collateral was required to be, or had been, posted. Certain counterparties extend MGE a credit limit. If MGE exceeds these limits, the counterparties may require collateral to be posted. As of June 30, 2021, and December 31, 2020, 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 June 30, 2021, no counterparties had defaulted.

11. 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:

	June 30, 2021		December 31, 2020	
(In thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
MGE Energy				
Assets:				
Cash and cash equivalents	$ 34,025	$ 34,025	$ 44,738	$ 44,738
Liabilities:				
Short-term debt - commercial paper	31,000	31,000	52,500	52,500
Long-term debt[(a)]	565,849	665,034	528,220	639,271
MGE				
Assets:				
Cash and cash equivalents	$ 6,650	$ 6,650	$ 4,103	$ 4,103
Liabilities:				
Short-term debt - commercial paper	31,000	31,000	52,500	52,500
Long-term debt[(a)]	565,849	665,034	528,220	639,271

(a) Includes long-term debt due within one year. Excludes debt issuance costs and unamortized discount of $4.6 million and $4.1 million as of June 30, 2021, and December 31, 2020, 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 June 30, 2021 Total	Level 1	Level 2	Level 3
MGE Energy				
Assets:				
Derivatives, net[(b)]	$ 4,259	$ 2,123	$ -	$ 2,136
Exchange-traded investments	1,335	1,335	-	-
Total Assets	$ 5,594	$ 3,458	$ -	$ 2,136
Liabilities:				
Derivatives, net	$ 6,840	$ 171	$ -	$ 6,669
Deferred compensation	3,618	-	3,618	-
Total Liabilities	$ 10,458	$ 171	$ 3,618	$ 6,669
MGE				
Assets:				
Derivatives, net[(b)]	$ 4,259	$ 2,123	$ -	$ 2,136
Exchange-traded investments	356	356	-	-
Total Assets	$ 4,615	$ 2,479	$ -	$ 2,136
Liabilities:				
Derivatives, net	$ 6,840	$ 171	$ -	$ 6,669
Deferred compensation	3,618	-	3,618	-
Total Liabilities	$ 10,458	$ 171	$ 3,618	$ 6,669

(In thousands)	Fair Value as of December 31, 2020 Total	Level 1	Level 2	Level 3
MGE Energy				
Assets:				
Derivatives, net[(b)]	$ 806	$ 436	$ -	$ 370
Exchange-traded investments	1,750	1,750	-	-
Total Assets	$ 2,556	$ 2,186	$ -	$ 370
Liabilities:				
Derivatives, net[(b)]	$ 14,795	$ 370	$ -	$ 14,425
Deferred compensation	3,509	-	3,509	-
Total Liabilities	$ 18,304	$ 370	$ 3,509	$ 14,425
MGE				
Assets:				
Derivatives, net[(b)]	$ 806	$ 436	$ -	$ 370
Exchange-traded investments	603	603	-	-
Total Assets	$ 1,409	$ 1,039	$ -	$ 370
Liabilities:				
Derivatives, net[(b)]	$ 14,795	$ 370	$ -	$ 14,425
Deferred compensation	3,509	-	3,509	-
Total Liabilities	$ 18,304	$ 370	$ 3,509	$ 14,425

(b) These amounts are shown gross and exclude $2.9 million of collateral that was posted against derivative positions owed to counterparties under a master netting agreement on the consolidated balance sheet as of June 30, 2021. No collateral was posted against derivative positions owed to counterparties under a master netting agreement on the consolidated balance sheet as of December 31, 2020.

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 10) 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.

	Model Input	
Significant Unobservable Inputs	June 30, 2021	December 31, 2020
Basis adjustment:		
On peak	94.5%	94.2%
Off peak	94.9%	94.5%
Counterparty fuel mix:		
Internal generation - range	41% - 66%	46% - 65%
Internal generation - weighted average	56.3%	56.5%
Purchased power - range	59% - 34%	54% - 35%
Purchased power - weighted average	43.7%	43.5%

The following table summarizes the changes in Level 3 commodity derivative assets and liabilities measured at fair value on a recurring basis.

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2021	2020	2021	2020
Beginning balance	$ (11,367)	$ (25,647)	$ (14,055)	$ (26,456)
Realized and unrealized gains (losses):				
Included in regulatory assets	6,834	4,624	9,522	5,434
Included in other comprehensive income	-	-	-	-
Included in earnings	(98)	(1,710)	210	(3,163)
Included in current assets	(180)	(311)	175	(64)
Purchases	6,377	5,317	12,261	10,331
Sales	-	-	-	-
Issuances	-	-	-	-
Settlements	(6,099)	(3,296)	(12,646)	(7,105)
Balance as of June 30,	$ (4,533)	$ (21,023)	$ (4,533)	$ (21,023)
Total gains (losses) included in earnings attributed to the change in unrealized gains (losses) related to assets and liabilities held as of June 30,[c]	$ -	$ -	$ -	$ -

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[c].

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2021	2020	2021	2020
Purchased power expense	$ (65)	$ (1,663)	$ 637	$ (2,847)
Cost of gas sold expense	(33)	(47)	(427)	(316)
Total	$ (98)	$ (1,710)	$ 210	$ (3,163)

(c) 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.

12. Joint Plant Construction Project Ownership - MGE Energy and MGE

MGE currently has ongoing jointly-owned solar generation construction projects, as shown in the following table. Incurred costs are reflected in "Construction work in progress" on the consolidated balance sheets.

Project	Ownership Interest	Share of Generation	Share of Estimated Costs	Costs incurred as of June 30, 2021[a]	Date of Commercial Operation
Badger Hollow I[b]	33%	50MW	$65 million	$58.0 million	Q4 2021[c]
Badger Hollow II[b]	33%	50MW	$65 million	$9.9 million	December 2022[c]

(a) Excluding AFUDC.

(b) The Badger Hollow I and Badger Hollow II solar farms are located in southwestern Wisconsin in Iowa County, near the villages of Montfort and Cobb.

(c) Estimated date of commercial operation.

MGE received specific approval to recover 100% AFUDC on each of these projects. During the three and six months ended June 30, 2021, MGE recognized $1.2 million and $2.3 million, respectively, after tax, in AFUDC for Badger Hollow I and II compared to $0.5 million and $0.9 million for the comparable periods in 2020.

13. 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. As of June 30, 2021, MGE recorded an obligation of $3.9 million for the fair value of its legal liability for AROs associated with completed renewable projects and $3.3 million for the revision of its ARO legal liability with Columbia ash pond. MGE has regulatory treatment and recognizes regulatory assets or liabilities for the timing differences between when we recover legal AROs in rates and when those costs would actually be recognized.

14. Revenue - MGE Energy and MGE.

Revenues disaggregated by revenue source were as follows:

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
Electric revenues	2021	2020	2021	2020
Residential	$ 36,137	$ 34,874	$ 72,831	$ 68,302
Commercial	52,391	47,388	100,274	95,022
Industrial	3,088	2,763	6,089	5,563
Other-retail/municipal	8,692	8,050	16,862	16,254
Total retail	100,308	93,075	196,056	185,141
Sales to the market	1,144	568	5,783	1,050
Other revenues	410	104	632	546
Total electric revenues	101,862	93,747	202,471	186,737
Gas revenues				
Residential	17,884	15,405	57,643	48,892
Commercial/Industrial	9,397	6,438	34,903	27,909
Total retail	27,281	21,843	92,546	76,801
Gas transportation	1,332	1,232	3,333	3,026
Other revenues	41	4	45	97
Total gas revenues	28,654	23,079	95,924	79,924
Non-regulated energy revenues	214	214	250	252
Total Operating Revenue	$ 130,730	$ 117,040	298,645	$ 266,913

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.

15. Segment Information - MGE Energy and MGE.

MGE Energy operates in the following business segments: electric utility, gas utility, nonregulated energy, transmission investment, and all other. See the 2020 Annual Report on Form 10-K for additional discussion of each of these segments.

(In thousands) **MGE Energy**	Electric	Gas	Nonregulated Energy	Transmission Investment	All Others	Consolidation/ Elimination	Consolidated Total
Three Months Ended June 30, 2021							
Operating revenues from external customers	$ 101,862	$ 28,654	$ 214	$ -	$ -	$ -	$ 130,730
Interdepartmental revenues	(46)	2,877	10,197	-	-	(13,028)	-
Total operating revenues	101,816	31,531	10,411	-	-	(13,028)	130,730
Equity in earnings of investments	-	-	-	2,464	-	-	2,464
Net income	14,122	1,277	5,355	1,793	304	-	22,851
Three Months Ended June 30, 2020							
Operating revenues from external customers	$ 93,747	$ 23,079	$ 214	$ -	$ -	$ -	$ 117,040
Interdepartmental revenues	185	2,355	10,089	-	-	(12,629)	-
Total operating revenues	93,932	25,434	10,303	-	-	(12,629)	117,040
Equity in earnings of investments	-	-	-	3,141	-	-	3,141
Net income	10,216	960	5,225	2,285	105	-	18,791
Six Months Ended June 30, 2021							
Operating revenues from external customers	$ 202,471	$ 95,924	$ 250	$ -	$ -	$ -	$ 298,645
Interdepartmental revenues	227	7,688	20,371	-	-	(28,286)	-
Total operating revenues	202,698	103,612	20,621	-	-	(28,286)	298,645
Equity in earnings of investments	-	-	-	4,908	-	-	4,908
Net income (loss)	32,146	11,833	10,549	3,571	(315)	-	57,784
Six Months Ended June 30, 2020							
Operating revenues from external customers	$ 186,737	$ 79,924	$ 252	$ -	$ -	$ -	$ 266,913
Interdepartmental revenues	375	5,806	20,146	-	-	(26,327)	-
Total operating revenues	187,112	85,730	20,398	-	-	(26,327)	266,913
Equity in earnings of investments	-	-	-	5,427	-	-	5,427
Net income (loss)	21,679	8,994	10,285	3,948	(78)	-	44,828

(In thousands)
MGE

	Electric	Gas	Nonregulated Energy	Consolidation/ Elimination	Consolidated Total
Three Months Ended June 30, 2021					
Operating revenues from external customers	$ 101,862	$ 28,654	$ 214	$ -	$ 130,730
Interdepartmental revenues	(46)	2,877	10,197	(13,028)	-
Total operating revenues	101,816	31,531	10,411	(13,028)	130,730
Net income attributable to MGE	14,122	1,277	5,355	(5,627)	15,127
Three Months Ended June 30, 2020					
Operating revenues from external customers	$ 93,747	$ 23,079	$ 214	$ -	$ 117,040
Interdepartmental revenues	185	2,355	10,089	(12,629)	-
Total operating revenues	93,932	25,434	10,303	(12,629)	117,040
Net income attributable to MGE	10,216	960	5,225	(5,768)	10,633
Six Months Ended June 30, 2021					
Operating revenues from external customers	$ 202,471	$ 95,924	$ 250	$ -	$ 298,645
Interdepartmental revenues	227	7,688	20,371	(28,286)	-
Total operating revenues	202,698	103,612	20,621	(28,286)	298,645
Net income attributable to MGE	32,146	11,833	10,549	(11,128)	43,400
Six Months Ended June 30, 2020					
Operating revenues from external customers	$ 186,737	$ 79,924	$ 252	$ -	$ 266,913
Interdepartmental revenues	375	5,806	20,146	(26,327)	-
Total operating revenues	187,112	85,730	20,398	(26,327)	266,913
Net income attributable to MGE	21,679	8,994	10,285	(11,261)	29,697

Item 2. 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.

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 (a coal generation plant) and its growing ownership of renewable wind and solar 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 standing 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" in our 2020 Annual Report on Form 10-K.

During the three months ended June 30, 2021, MGE Energy's earnings were $22.9 million or $0.63 per share compared to $18.8 million or $0.53 per share during the same period in the prior year. MGE's earnings during the three months ended June 30, 2021, were $15.1 million compared to $10.6 million during the same period in the prior year.

During the six months ended June 30, 2021, MGE Energy's earnings were $57.8 million or $1.60 per share compared to $44.8 million or $1.28 per share during the same period in the prior year. MGE's earnings during the six months ended June 30, 2021, were $43.4 million compared to $29.7 million during the same period in the prior year.

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

(In millions)	Three Months Ended June 30,		Six Months Ended June 30,	
Business Segment:	2021	2020	2021	2020
Electric Utility	$ 14.1	$ 10.2	$ 32.1	$ 21.7
Gas Utility	1.3	1.0	11.8	9.0
Nonregulated Energy	5.4	5.2	10.6	10.3
Transmission Investments	1.8	2.3	3.6	3.9
All Other	0.3	0.1	(0.3)	(0.1)
Net Income	$ 22.9	$ 18.8	$ 57.8	$ 44.8

Our net income during the three and six months ended June 30, 2021, compared to the same period in the prior year primarily reflects the effects of the following factors:

Electric Utility
An increase in electric investments included in rate base contributed to increased earnings for 2021. Timing of 2021 depreciation and other operations and maintenance costs also contributed to higher earnings in the first half of 2021. Depreciation and operations and maintenance costs are expected to increase during the remainder of 2021 after significant capital projects are completed. Badger Hollow I and a new customer information system are expected to be completed in the second half of 2021. MGE received approval to recover 100% AFUDC during construction of these projects.

Warmer weather during the three months ended June 30, 2021, contributed to the increase in electric net income. Cooling degree days (a measure for determining the impact of weather during the cooling season) increased from 213 days in 2020 to 309 days in 2021.

Electric commercial retail sales increased approximately 9% and 3%, respectively, for the three and six months ended June 30, 2021, compared to the same period in the prior year. The general economic recovery from the COVID-19 pandemic during the second quarter of 2021 contributed to higher electric commercial retail sales.

Gas Utility
An increase in gas investments included in rate base contributed to increased earnings for 2021. Higher gas retail sales resulting from colder weather in the first quarter of 2021 contributed to higher earnings for the six months ended June 30, 2021. Heating degree days (a measure for determining the impact of weather during the heating season) increased by approximately 11% in the first quarter 2021 compared to the same period in the prior year.

The following developments affected the first six months of 2021:

2021 Rate Settlement Agreement: 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% 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 restricted by IRS normalization rules. As part of the settlement, the fuel rules bandwidth was 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.

Utility Solar: Large solar generation projects recently completed or under construction, as shown in the following table. Incurred costs are reflected in "Property, plant, and equipment" 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 Badger Hollow I and II. After tax, MGE recognized $3.8 million and $0.3 million of AFUDC equity through June 30, 2021, on Badger Hollow I and II, respectively, during construction.

Project	Ownership Interest	Share of Generation	Share of Estimated Costs	Costs Incurred as of June 30, 2021[a]	Date of Commercial Operation
Badger Hollow I	33%	50 MW	$65 million	$58.0 million	Q4 2021[b]
Badger Hollow II	33%	50 MW	$65 million	$9.9 million	December 2022[b]
O'Brien	100%	20 MW	$32 million	$27.7 million	May 2021

(a) Excluding AFUDC
(b) Estimated date of commercial operation

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. The approved rate settlement agreement for 2021 includes approximately $5.3 million of the benefit in base rates 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. The settlement agreement also includes $18.2 million of the benefit not subject to normalization restrictions in electric base rates. The collection of the remaining portion not subject to normalization restrictions related to gas will be addressed by the PSCW in a future rate case.

In the near term, several items may affect us, including:

2022/2023 Rate Case Filing: In May 2021, MGE filed an application with the PSCW for the 2022/2023 rate case. MGE is requesting a 5.9% increase to electric rates and a 3.0% increase to gas rates for 2022. MGE is proposing to address potential 2023 rate changes through an electric limited rate case re-opener and a 1.65% increase in gas rates. See "Other Matters" below for additional information on the 2022/2023 rate case application.

2020 Annual Fuel Proceeding: As of December 31, 2020, MGE had deferred $3.2 million of 2020 fuel-related savings. The PSCW's annual review of 2020 fuel costs was completed in June 2021. There was no change to the refund in the fuel rules proceedings from the amount MGE deferred in the previous year. In July 2021, the PSCW issued a decision in the 2020 fuel rules proceedings requiring MGE to refund additional fuel savings incurred plus accrued interest to its retail electric customers over a one-month period. The fuel savings are expected to be returned by the end of 2021.

ATC Return on Equity: As discussed in "Other Matters" below, ATC's authorized ROE, which is used in calculating its rates and revenues, is the subject of a challenge before FERC. A decrease in ATC's ROE could result in lower equity earnings and distributions from ATC in the future. We derived approximately 5.8% and 8.6% of our net income during the six months ended June 30, 2021 and 2020, respectively, from our investment in 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, although it is likely that such proposals and initiatives will be more stringent on fossil-fuel based generation. 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 any legislation or rules, and the scope and time of the recovery of costs in rates, which may occur 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. As a result of these legal proceedings, neither the CPP nor ACE rules are currently in effect. MGE will continue to evaluate the rule development and monitor ongoing and potential legal proceedings.

Columbia: In February 2021, MGE, along with the other plant 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.

Future Generation – Renewable Energy: MGE is seeking approval from the PSCW to acquire a joint interest in the following renewable generation projects as shown in the following table. There is no certainty that these projects will be approved by the PSCW.

Project	Source	Ownership Interest	Share of Generation/ Battery Storage	Share of Estimated Costs[a]	Estimated Date of Commercial Operation
Darien	Solar/Battery	10%	25MW/7.5MW	$45 million[b]	December 31, 2023
Paris	Solar/Battery	10%	20MW/11MW	$43 million[b]	May 31, 2023
Red Barn	Wind	10%	9.16MW	$17 million	December 31, 2022
Koshkonong	Solar/Battery	10%	30MW/16.5MW	$65 million[b]	2024[c]

(a) Excluding AFUDC
(b) Requested approval to recover 100% AFUDC.
(c) Construction of the project is expected to be completed in phases ranging from May 2024 through December 2024.

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 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.

COVID-19 Update

MGE Energy continues to provide safe and reliable service to our customers despite the challenges presented by the Coronavirus Disease 2019 (COVID-19) pandemic. We have 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 and Regulatory Actions*. State and local governments issued orders and regulations to restrict or manage business and individual activity. In June 2021, all COVID-related orders were lifted. Additionally, the PSCW ordered changes to the tariff provisions on March 24, 2020, in response to the COVID-19 pandemic. All restrictions were lifted by November 1, 2020.

- *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. As of June 30, 2021, MGE Energy and MGE had $34.0 million and $6.7 million, respectively, in cash and cash equivalents and $50.0 million and $68.3 million, respectively, of available borrowing capacity under revolving credit facilities.

See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Credit Facilities" in the 2020 Annual Report on Form 10-K for more information about our credit facilities.

- *Customer Impacts*: Governmental regulations limiting community activity began impacting customer sales in late March 2020. While the total expected impact of COVID-19 on future sales is currently unknown, MGE experienced higher electric residential sales and lower electric commercial and industrial sales due to pandemic-related regulations. The general economic recovery that followed the lifting of these regulations during the second quarter of 2021 contributed to higher electric commercial and industrial sales.

- *Capital Expenditures & Operations*: MGE does not currently expect any material changes to its construction expenditures plans disclosed in "Liquidity and Capital Resources" in the 2020 Annual Report on Form 10-K resulting from COVID-19. 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 cannot reasonably estimate with any degree of certainty the actual impact of COVID-19 and associated governmental regulations may have on future results of operations, financial position, and liquidity. See Item 1A. "Risk Factors" "Pandemic virus or diseases, including COVID-19, could have a material adverse effect on our business, financial condition and liquidity" in our 2020 Annual Report on Form 10-K for a description of risk.

The following discussion is based on the business segments as discussed in Footnote 15 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 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.

Three Months Ended June 30, 2021 and 2020

The following table provides a calculation of electric and gas margins (both non-GAAP measures), along with a reconciliation to the most comparable GAAP measure, operating income:

(In millions)	Three Months Ended June 30, 2021	2020	$ Change
Electric revenues	$ 101.9	$ 93.7	$ 8.2
Fuel for electric generation	(10.9)	(8.7)	(2.2)
Purchased power	(10.9)	(10.9)	-
Total Electric Margins	80.1	74.1	6.0
Gas revenues	28.7	23.1	5.6
Cost of gas sold	(11.5)	(6.3)	(5.2)
Total Gas Margins	17.2	16.8	0.4
Other operating revenues	0.2	0.2	-
Other operations and maintenance	(50.4)	(46.2)	(4.2)
Depreciation and amortization	(18.6)	(18.4)	(0.2)
Other general taxes	(5.1)	(5.0)	(0.1)
Operating Income	$ 23.4	$ 21.5	$ 1.9

Operating income during the three months ended June 30, 2021, compared to the same period in the prior year primarily reflects the effects of the following factors:

- Electric revenues and fuel costs
  - Electric revenues increased $8.2 million primarily driven by an increase in electric retail sales due to warmer weather and economic recovery from the COVID-19 in MGE's service territory.
  - A $2.2 million increase in fuel for electric generation reflecting higher internal generation and market costs.

- Gas revenues and cost of gas sold
  - A $5.6 million increase in gas revenue driven by higher cost of gas, which is recovered on a pass-through basis in revenues.
  - A $5.2 million increase in cost of gas sold driven by higher cost per therm of gas. Payments for natural gas increased due to the significant increase in natural gas costs seen throughout the central part of the country in February 2021 related to extreme weather conditions. MGE expects these costs will be recovered by the end of 2021 through our existing recovery mechanism, on a pass-through basis in customer rates. The increased cost was partially offset by a decrease in volume of approximately 8%.

- A $4.2 million increase in other operations and maintenance. See consolidated operations and maintenance expenses section below for a description of the factors contributing to the decrease.

Electric sales and revenues

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

(In thousands, except cooling degree days)	Revenues: Three Months Ended June 30, 2021	2020	% Change	Sales (kWh): Three Months Ended June 30, 2021	2020	% Change
Residential	$ 36,137	$ 34,874	3.6 %	210,136	207,328	1.4 %
Commercial	52,391	47,388	10.6 %	437,320	399,577	9.4 %
Industrial	3,088	2,763	11.8 %	41,088	38,431	6.9 %
Other-retail/municipal	8,692	8,050	8.0 %	93,675	84,491	10.9 %
Total retail	100,308	93,075	7.8 %	782,219	729,827	7.2 %
Sales to the market	1,144	568	n.m.%	38,494	19,554	96.9 %
Other revenues	410	104	n.m.%	-	-	- %
Total	$ 101,862	$ 93,747	8.7 %	820,713	749,381	9.5 %
Cooling degree days (normal 184)				309	213	45.1 %

n.m. not meaningful

Electric margin, a non-GAAP measure, increased $6.0 million during the three months ended June 30, 2021, compared to the same period in 2020, due to the following:

(In millions)	
Increase in commercial, industrial and other-retail/municipal volume	$ 2.4
Revenue subject to refund, net	1.7
Rate changes	1.5
Other	0.4
Increase in residential volume	0.3
Customer fixed and demand charges	0.3
Increased fuel costs	(0.6)
Total	$ 6.0

- *Commercial, industrial, and other-retail/municipal volume.* During the three months ended June 30, 2021, there was approximately 9% increase in commercial sales compared to the same period in the prior year driven by economic recovery from the COVID-19 pandemic and associated governmental regulations and restrictions on activity.

- *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. In the year the over-collection is refunded, rates are reduced and offset as revenue subject to refund. There is no margin impact in the year the costs are refunded.

- *Rate changes.* MGE's PSCW approved 2020 Fuel Cost Plan resulted in a fuel credit that decreased rates 0.84% in 2020. Rates charged to retail customers during the three months ended June 30, 2021, were $1.5 million higher than those charged during the same period in the prior year as a result of the fuel credit from 2020 ending.

Gas deliveries and revenues

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

	Revenues			Therms Delivered		
(In thousands, except HDD and average rate per therm of retail customer)	Three Months Ended June 30,			Three Months Ended June 30,		
	2021	2020	% Change	2021	2020	% Change
Residential	$ 17,884	$ 15,405	16.1 %	12,499	15,055	(17.0)%
Commercial/Industrial	9,397	6,438	46.0 %	13,036	13,513	(3.5)%
Total retail	27,281	21,843	24.9 %	25,535	28,568	(10.6)%
Gas transportation	1,332	1,232	8.1 %	16,630	16,390	1.5 %
Other revenues	41	4	n.m%	-	-	- %
Total	$ 28,654	$ 23,079	24.2 %	42,165	44,958	(6.2)%
Heating degree days (normal 818)				761	915	(16.8)%
Average rate per therm of retail customer	$ 1.068	$ 0.765	39.6 %			

n.m. not meaningful

Gas margin, a non-GAAP measure, increased $0.4 million during the three months ended June 30, 2021, compared to the same period in 2020, due to the following:

(In millions)	
Rate changes	$ 0.7
Other	0.3
Decrease in volume	(0.4)
Revenue subject to refund, net	(0.2)
Total	$ 0.4

- *Rate changes.* In December 2020, the PSCW authorized MGE to increase 2021 rates for retail gas customers by approximately 4.0%.

  MGE recovers the cost of natural gas in its gas 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. Changes in PGA recoveries affect revenues but do not change net income. Payments for natural gas increased due to the significant increase in natural gas costs seen throughout the central part of the country in February 2021 related to extreme weather conditions driving higher rates during the three months ended June 30, 2021. MGE expects the increase in natural gas costs from February 2021 to be recovered by the end of 2021 through the PGA.

- *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.

Consolidated operations and maintenance expenses

During the three months ended June 30, 2021, operations and maintenance expenses increased $4.2 million, compared to the same period in the prior year. The following contributed to the net change:

(In millions)	
Increased electric production expenses	$ 3.8
Increased transmission costs	1.5
Increased customer accounts costs	0.4
Increased customer services	0.4
Decreased administrative and general costs	(0.9)
Decreased electric distribution expenses	(0.6)
Decreased gas distribution expenses	(0.4)
Total	$ 4.2

- Increased electric production expenses are related to increased maintenance costs for the Saratoga and Two Creeks solar farms and Columbia. 2021 scheduled maintenance outage for Columbia was completed in spring. The outage for 2020 was rescheduled for fall of 2020. Also contributing to the increase is $2.6 million additional expense recorded for Columbia inventory obsolescence and employee severance reserves. MGE anticipates requesting PSCW approval for regulatory recovery of these costs at a future date.

- Increased transmission costs are related to higher transmission rates in 2021 compared to rates in 2020. Transmission rates in 2020 reflected adjustments from a lower return on equity, ordered in FERC proceedings, for prior year rates.

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. During the three months ended June 30, 2021 and 2020, net income at the nonregulated energy operations segment was $5.4 million and $5.2 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 transmission development activities have been suspended for the near term. During the three months ended June 30, 2021 and 2020, other income at the transmission investment segment was $2.5 million and $3.1 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, which adjusted ATC's ROE to 10.02%. See Footnote 3 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 2021, the effective electric tax rate decreased as a result of the return of electric excess deferred taxes related to the 2017 Tax Act not governed by IRS normalization rules in 2021. These costs were recorded as a regulatory liability in the year of remeasurement. See Footnote 4 of the Notes to Consolidated Financial Statements in this Report for the effective tax rate reconciliation.

Noncontrolling Interest, Net of Tax - MGE

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. They are not owned by MGE. 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:

	Three Months Ended June 30,	
(In millions)	2021	2020
MGE Power Elm Road	$ 3.8	$ 4.0
MGE Power West Campus	1.8	1.8

Six Months Ended June 30, 2021 and 2020

The following table provides a calculation of electric and gas margins (non-GAAP), along with a reconciliation to the most comparable GAAP measure, operating income:

	Six Months Ended June 30,		
(In millions)	2021	2020	$ Change
Electric revenues	$ 202.5	$ 186.7	$ 15.8
Fuel for electric generation	(24.1)	(18.4)	(5.7)
Purchased power	(20.3)	(21.3)	1.0
Total Electric Margins	158.1	147.0	11.1
Gas revenues	95.9	79.9	16.0
Cost of gas sold	(48.9)	(37.1)	(11.8)
Total Gas Margins	47.0	42.8	4.2
Other operating revenues	0.3	0.3	-
Other operations and maintenance	(96.1)	(90.6)	(5.5)
Depreciation and amortization	(37.0)	(36.6)	(0.4)
Other general taxes	(9.9)	(9.9)	-
Operating Income	$ 62.4	$ 53.0	$ 9.4

Operating income during the six months ended June 30, 2021, compared to the same period in the prior year primarily reflects the effects of the following factors:

- Electric revenues and fuel costs
    - Electric revenues increased $15.8 million primarily driven by an increase in electric retail sales due to warmer weather and economic recovery from the COVID-19 in MGE's service territory.

- A $5.7 million increase in fuel for electric generation reflecting higher internal generation and market costs.
- A $1.0 million decrease in purchased power costs driven by lower market purchases as a result of higher internal generation.

- Gas revenues and cost of gas sold
  - A $16.0 million increase in gas revenue driven by higher customer demand resulting from colder weather in the first quarter of 2021 and higher rates reflecting a higher cost of gas, which is recovered on a pass-through basis in revenues.
  - An $11.8 million increase in cost of gas sold driven by higher cost per therm of gas. Average cost per therm increased approximately 27%. Payments for natural gas increased due to the significant increase in natural gas costs seen throughout the central part of the country in February 2021 related to extreme weather conditions. MGE expects these costs will be recovered by the end of 2021 through our existing recovery mechanism, on a pass-through basis in customer rates. An increase in volume of approximately 4% also contributed to the increased cost.

- A $5.5 million increase in other operations and maintenance. See consolidated operations and maintenance expenses section below for a description of the factors contributing to the decrease.

- A $0.4 million increase in depreciation and amortization expense.

Electric sales and revenues

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

	Revenues			Sales (kWh)		
	Six Months Ended June 30,			Six Months Ended June 30,		
(In thousands, except cooling degree days)	2021	2020	% Change	2021	2020	% Change
Residential	$ 72,831	$ 68,302	6.6 %	429,906	409,909	4.9 %
Commercial	100,274	95,022	5.5 %	851,657	829,695	2.6 %
Industrial	6,089	5,563	9.5 %	80,093	78,849	1.6 %
Other-retail/municipal	16,862	16,254	3.7 %	170,031	165,536	2.7 %
Total retail	196,056	185,141	5.9 %	1,531,687	1,483,989	3.2 %
Sales to the market	5,783	1,050	n.m.%	134,366	43,500	n.m.%
Other revenues	632	546	15.8 %	-	-	- %
Total	$ 202,471	$ 186,737	8.4 %	1,666,053	1,527,489	9.1 %
Cooling degree days (normal 184)				309	213	45.1 %

n.m. not meaningful

Electric margin, a non-GAAP measure, increased $11.1 million during the six months ended June 30, 2021, compared to the same period in 2020, due to the following:

(In millions)	
Revenue subject to refund, net	$ 5.0
Increase in residential volume	2.2
Rate changes	2.2
Increase in commercial, industrial and other-retail/municipal volume	1.6
Decreased fuel costs	1.1
Customer fixed and demand charges	(1.0)
Total	$ 11.1

- *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. In the year the over-collection is refunded, rates are reduced and offset as revenue subject to refund. There is no margin impact in the year the costs are refunded.

- *Residential volume.* During the six months ended June 30, 2021, there was approximately 5% increase in residential sales driven by favorable weather conditions.

- *Rate changes.* MGE's PSCW approved 2020 Fuel Cost Plan resulted in a fuel credit that decreased rates 0.84% in 2020. Rates charged to retail customers during the six months ended June 30, 2021, were $2.2 million higher than those charged during the same period in the prior year as a result of the fuel credit from 2020 ending.

- *Commercial, industrial, and other-retail/municipal volume.* During the six months ended June 30, 2021, there was approximately 3% increase in commercial sales compared to the same period in the prior year driven by economic recovery from the COVID-19 pandemic and associated governmental regulations and restrictions on activity.

- *Fuel costs.* Fuel costs decreased during the six months ended June 30, 2021, primarily as a result of lower costs to generate and purchase electricity in the market.

- *Customer fixed and demand charges.* During the six months ended June 30, 2021, fixed and demand charges decreased $1.0 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.

Gas deliveries and revenues

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

	Revenues			Therms Delivered		
(In thousands, except HDD and average rate per therm of retail customer)	Six Months Ended June 30,			Six Months Ended June 30,		
	2021	2020	% Change	2021	2020	% Change
Residential	$ 57,643	$ 48,892	17.9 %	62,804	61,857	1.5 %
Commercial/Industrial	34,903	27,909	25.1 %	55,290	53,213	3.9 %
Total retail	92,546	76,801	20.5 %	118,094	115,070	2.6 %
Gas transportation	3,333	3,026	10.1 %	39,938	38,910	2.6 %
Other revenues	45	97	(53.6)%	-	-	- %
Total	$ 95,924	$ 79,924	20.0 %	158,032	153,980	2.6 %
Heating degree days (normal 4,349)				4,354	4,140	5.2 %
Average rate per therm of retail customer	$ 0.784	$ 0.667	17.5 %			

Gas margin, a non-GAAP measure, increased $4.2 million during the six months ended June 30, 2021, compared to the same period in 2020, due to the following:

(In millions)	
Rate changes	$ 3.6
Increase in volume	0.5
Other	0.5
Revenue subject to refund, net	(0.4)
Total	$ 4.2

- *Rate changes.* In December 2020, the PSCW authorized MGE to increase 2021 rates for retail gas customers by 4.0%.

  MGE recovers the cost of natural gas in its gas 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. Changes in PGA recoveries affect revenues but do not change net income. Payments for natural gas increased due to the significant increase in natural gas costs seen throughout the central part of the country in February 2021 related to extreme weather conditions driving higher rates during the six months ended June 30, 2021. MGE expects the increase in natural gas costs from February 2021 to be recovered by the end of 2021 through the PGA.

- *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.

Consolidated operations and maintenance expenses

During the six months ended June 30, 2021, operations and maintenance expenses increased $5.5 million, compared to the same period in the prior year. The following contributed to the net change:

(In millions)		
Increased electric production expenses	$	4.4
Increased transmission costs		2.7
Increased customer services		0.4
Increased customer accounts costs		0.2
Decreased administrative and general costs		(1.5)
Decreased electric distribution expenses		(0.4)
Decreased gas distribution expenses		(0.3)
Total	$	5.5

- Increased electric production expenses are related to increased maintenance costs for the Saratoga and Two Creeks solar farms and Columbia. 2021 scheduled maintenance outage for Columbia was completed in spring. The outage for 2020 was rescheduled for fall of 2020. Also contributing to the increase is $2.6 million additional expense recorded for Columbia inventory obsolescence and employee severance reserves. MGE anticipates requesting PSCW approval for regulatory recovery of these costs at a future date.

- Increased transmission costs are related to higher transmission rates in 2021 compared to rates in 2020. The 2020 transmission rates reflect adjustments from a lower return on equity, ordered in FERC proceedings, for prior year rates.

- Decreased administrative and general costs are primarily related to timing of the collection of deferred pension and other postretirement service costs in customer rates.

Electric and gas other income

Electric and gas other income decreased $1.8 million and $2.0 million, respectively, during the six months ended June 30, 2021, compared to the same period in the prior year, primarily related to the collection of the deferred pension and other postretirement other than service costs from 2019.

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. During the six months ended June 30, 2021 and 2020, net income at the nonregulated energy operations segment was $10.5 million and $10.3 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 transmission development activities have been suspended for the near term. During the six months ended June 30, 2021 and 2020, other income at the transmission investment segment was $4.9 million and $5.4 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, which adjusted ATC's ROE to 10.02%. See Footnote 3 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 2021, the effective electric tax rate decreased as a result of the return of electric excess deferred taxes related to the 2017 Tax Act not governed by IRS normalization rules in 2021. These costs were recorded as a regulatory liability in the year of remeasurement. See Footnote 4 of the Notes to Consolidated Financial Statements in this Report for the effective tax rate reconciliation.

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:

	Six Months Ended June 30,	
(In millions)	2021	2020
MGE Power Elm Road	$ 7.5	$ 7.7
MGE Power West Campus	3.6	3.6

Contractual Obligations and Commercial Commitments - MGE Energy and MGE

There were no material changes, other than from the normal course of business, to MGE Energy's and MGE's contractual obligations (representing cash obligations that are considered to be firm commitments) and commercial commitments (representing commitments triggered by future events) during the six months ended June 30, 2021, except as noted below. Further discussion of the contractual obligations and commercial commitments is included in Footnote 16 of the Notes to Consolidated Financial Statements and "Contractual Obligations and Commercial Commitments for MGE Energy and MGE" under "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the 2020 Annual Report on Form 10-K.

Purchase Contracts – MGE Energy and MGE

See item c. within Footnote 8 of Notes to Consolidated Financial Statements in this Report for a description of commitments as of June 30, 2021, that MGE Energy and MGE have entered with respect to various commodity supply and transportation contracts to meet their obligations to deliver electricity and natural gas to customers.

Long-term Debt - MGE Energy and MGE

In May 2021, MGE entered into a private placement Note Purchase Agreement in which it committed to issue $60 million of new long-term debt (Series A) carrying an interest rate of 2.48% per annum over its 10-year life; and $40 million of new long-term debt (Series B) carrying an interest rate of 2.63% per annum over its 12-year life. Funding occurred on June 15, 2021, for Series B and funding for Series A is expected to occur in August 2021. See Footnote 6 of the Notes to Consolidated Financial Statements in this Report for further discussion of these debt issuances.

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, short-term debt financing, and if needed, could issue new shares through our Direct Stock Purchase and Dividend Reinvestment Plan. See "Credit Facilities" under Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources in the 2020 Annual Report on Form 10-K and "Liquidity" under "COVID-19 Update" above for information regarding MGE Energy's and

MGE's credit facilities.

Cash Flows

The following summarizes cash flows for MGE Energy and MGE during the six months ended June 30, 2021 and 2020:

	MGE Energy		MGE	
(In thousands)	2021	2020	2021	2020
Cash provided by (used for):				
Operating activities	$ 78,533	$ 85,450	$ 71,146	$ 82,645
Investing activities	(78,008)	(88,693)	(76,622)	(86,107)
Financing activities	(11,970)	51,321	7,291	18,185

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 during the six months ended June 30, 2021, was $78.5 million, a decrease of $6.9 million when compared to the same period in the prior year.

MGE Energy's net income increased $13.0 million during the six months ended June 30, 2021, when compared to the same period in the prior year.

MGE Energy's federal and state taxes paid were $1.5 million during the six months ended June 30, 2021. No payments were made during the six months ended June 30, 2020. The CARES act extended the first and second quarter tax payments until July 15, 2020, at which time $2.8 million was paid.

Working capital accounts (excluding prepaid and accrued taxes) resulted in $20.7 million in cash used for operating activities during the six months ended June 30, 2021. Actual purchase gas costs were $9.6 million higher than the amount collected in rates primarily due to the extreme cold weather experienced in the U.S. in February 2021. These costs were deferred as a regulatory asset and will be recovered in a future period. In addition, working capital accounts were impacted by decreased accounts payable, partially offset by decreased accounts receivable and decreased unbilled revenues.

Working capital accounts (excluding prepaid and accrued taxes) resulted in $1.8 million in cash used for operating activities during the six months ended June 30, 2020, primarily due to decreased other current liabilities and decreased accounts payable, partially offset by decreased accounts receivable and decreased unbilled revenues.

Hosted software asset expenditures during the six months ended June 30, 2021 were $1.6 million. This amount represents an increase of $0.5 million of cash used when compared to the prior year.

MGE

Cash provided by operating activities during the six months ended June 30, 2021, was $71.1 million, a decrease of $11.5 million when compared to the same period in the prior year.

Net income increased $13.6 million during the six months ended June 30, 2021, when compared to the same period in the prior year.

MGE's federal and state taxes paid were $5.3 million during the six months ended June 30, 2021. No payments were made during the six months ended June 30, 2020. The CARES act extended the first and second quarter tax payments until July 15, 2020, at which time $2.8 million was paid.

Working capital accounts (excluding prepaid and accrued taxes) resulted in $23.5 million in cash used for operating activities during the six months ended June 30, 2021. Actual purchase gas costs were $9.6 million higher than the amount collected in rates primarily due to the extreme cold weather experienced in the U.S. in February 2021. These costs were deferred as a regulatory asset and will be recovered in a future period. In addition, working capital accounts were impacted by decreased accounts payable and increased accounts receivable, partially offset by decreased unbilled revenues.

Working capital accounts (excluding prepaid and accrued taxes) resulted in $0.1 million in cash used for operating activities during the six months ended June 30, 2020, primarily due to decreased other current liabilities and decreased accounts payable, partially offset by decreased accounts receivable and decreased unbilled revenues.

Hosted software asset expenditures during the six months ended June 30, 2021 were $1.6 million. This amount represents an increase of $0.5 million of cash used when compared to the prior year.

Cash Used for Investing Activities

MGE Energy

MGE Energy's cash used for investing activities decreased $10.7 million during the six months ended June 30, 2021, when compared to the same period in the prior year.

Capital expenditures during the six months ended June 30, 2021, were $75.7 million. This amount represents a decrease of $9.6 million from the expenditures made in the same period in the prior year. This decrease primarily reflects the reduction of expenditures on the construction of Badger Hollow I due to timing of expenditures.

Proceeds from the sale of investments increased $0.8 million during the six months ended June 30, 2021, when compared to the same period in the prior year.

MGE

MGE's cash used for investing activities decreased $9.5 million during the six months ended June 30, 2021, when compared to the same period in the prior year.

Capital expenditures during the six months ended June 30, 2021, were $75.7 million. This amount represents a decrease of $9.6 million from the expenditures made in the same period in the prior year. This decrease primarily reflects the reduction of expenditures on the construction of Badger Hollow I due to timing of expenditures.

Cash Used for/Provided by Financing Activities

MGE Energy

Cash used for MGE Energy's financing activities was $12.0 million during the six months ended June 30, 2021, compared to $51.3 million of cash provided by MGE Energy's financing activities for the same period in the prior year.

During the six months ended June 30, 2021, dividends paid were $26.8 million compared to $25.0 million in the prior year. The increase reflected a higher dividend rate per share ($0.740 vs. $0.705) and a greater number of outstanding shares since the completion of the public offering of shares in May 2020.

During the six months ended June 30, 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 the six months ended June 30, 2021, MGE borrowed $40.0 million of senior unsecured notes which was used to assist with financing additional capital expenditures and other corporate obligations. During the six months ended June 30, 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 the six months ended June 30, 2021, net short-term debt repayments were $21.5 million. There were no net short-term debt borrowings during the six months ended June 30, 2020.

MGE

During the six months ended June 30, 2021, cash provided by MGE's financing activities was $7.3 million, compared to $18.2 million for the same period in the prior year.

Capital contributions made by MGE Energy to MGE were $30.0 million during the six months ended June 30, 2020. There were no capital contributions made by MGE Energy to MGE during the six months ended June 30, 2021.

Distributions to parent from noncontrolling interest, which represent distributions from MGE Power Elm Road and MGE Power West Campus to MGE Energy, were $7.5 million during the six months ended June 30, 2021, compared to $8.5 million in the prior year.

During the six months ended June 30, 2021, MGE borrowed $40.0 million of senior unsecured notes which was used to assist with financing additional capital expenditures and other corporate obligations. During the six months ended June 30, 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 the six months ended June 30, 2021, net short-term debt repayments were $21.5 million. There were no net short-term debt borrowings during the six months ended June 30, 2020.

Capitalization Ratios

MGE Energy's capitalization ratios were as follows:

	MGE Energy	
	June 30,2021	December 31, 2020
Common shareholders' equity	63.0%	62.9%
Long-term debt[(a)]	35.1%	33.7%
Short-term debt	1.9%	3.4%

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

MGE Energy's and MGE's Capital Requirements

MGE Energy's and MGE's liquidity are primarily affected by their capital expenditure requirements. During the six months ended June 30, 2021, capital expenditures for MGE Energy and MGE totaled $75.7 million, which included $74.2 million of utility capital expenditures.

MGE does not currently expect any material changes resulting from the COVID-19 pandemic and associated governmental regulations to its construction plans as presented in the 2021-2023 capital expenditure forecast included under Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources in the 2020 Annual Report on Form 10-K.

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 borrowings are subject to default or prepayment as a result of a downgrading of credit ratings, although a downgrading of MGE's credit ratings could increase fees and interest charges under both MGE Energy's and MGE's credit agreements.

Environmental Matters

The following discussion is limited to updates or developments in environmental matters that occurred during the six months ended June 30, 2021. Further discussion of environmental matters is included in the 2020 Annual Report on Form 10-K and Footnote 8.a. of Notes to Consolidated Financial Statements in this Report.

Ozone National Ambient Air Quality Standards (NAAQS)

In May 2021, the EPA published a final rule that expands several nonattainment areas in Wisconsin to include all of Milwaukee County where MGE's Elm Road Units are located. The WDNR will need to develop a State Implementation Plan (SIP) for the area, which will likely result in more stringent requirements for both new development and existing plants in the area. MGE will monitor the WDNR's SIP development and the extent to which the requirements will impact the Elm Road Units. At this time, MGE does not expect that the 2015 Ozone NAAQS will have a material effect on its existing plants based on final designations.

Other Matters

Rate Matters

In May 2021, MGE filed an application with the PSCW requesting a 5.9% increase to electric rates and a 3.0% increase to gas rates for 2022. The proposed electric and gas rate increases are primarily driven by an increase in rate base including our investments in Badger Hollow I and a new customer information system. Also driving the requested electric increase is the completion of the one-time return of the electric excess deferred tax credit related to the 2017 Tax Act not restricted by IRS normalization rules. In its application, MGE is proposing to address potential 2023 rate changes through an electric limited rate case re-opener and a 1.65% increase in gas rates. PSCW approval of the application is pending. A final order is expected before the end of the year.

Details related to MGE's 2022/2023 proposed rate case:

(Dollars in thousands)	Proposed Average Rate Base[(a)]	Proposed Average CWIP[(b)]	Proposed Return on Common Equity[(c)]	Proposed Common Equity Component of Regulatory Capital Structure
Electric (2022 Test Period)	1,048,440	19,308	9.8%	55.63%
Gas (2022 Test Period)	300,797	9,928	9.8%	55.63%

(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) 50% of the forecasted 13-month average CWIP for the test periods which earns an AFUDC return. Projects eligible to earn 100% AFUDC are excluded from this balance and discussed further in the Management Discussion and Analysis - Executive Overview section.

(c) 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.

Proposed electric (2023 Test Period) average rate base will be subject to a limited reopener expected to be filed in 2022 and proposed gas (2023 Test Period) average rate base is $317.6 million. MGE has proposed to maintain 2022 levels for return on common stock equity and capital structure for electric and gas rates in 2023.

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 downward change to ATC's ROE could result in lower equity earnings and distributions from ATC in the future.

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 5.8% and 8.6% of our net income during the six months ended June 30, 2021 and 2020, respectively, from our investment in ATC.

Adoption of Accounting Principles and Recently Issued Accounting Pronouncements

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

Item 3. 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, $64.1 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 June 30, 2021, the fair value of exchange traded derivatives and FTRs exceeded their cost basis by $4.1 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 June 30, 2021, reflected a loss position of $6.7 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.

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. The value of employee benefit plan assets has increased by approximately 9.5% during the six months ended June 30, 2021.

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 June 30, 2021, 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 4. Controls and Procedures.

During the second quarter of 2021, 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 June 30, 2021, 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.

During the quarter ended June 30, 2021, 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.

PART II. OTHER INFORMATION.

Item 1. 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 Footnote 8.a. and 8.b. of Notes to Consolidated Financial Statements in this Report for more information.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[(a)]	Maximum number (or Approximate Dollar Value) of Shares That May Yet Be Purchased Under the Plans or Programs[(a)]
April 1-30, 2021	6,344	$ 72.86	-	-
May 1-31, 2021	7,213	74.86	-	-
June 1-30, 2021	40,407	76.67	-	-
Total	53,964	$ 75.98	-	-

(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 2021, 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.

Item 4. Mine Safety Disclosures.

Not applicable to MGE Energy and MGE.

Item 5. Other Information.

Not applicable to MGE Energy and MGE.

Item 6. Exhibits.

Ex. No.		Exhibit Description
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
104.1		Included in the cover page, formatted in Inline XBRL

* Filed herewith.

** Furnished herewith.

Signatures - MGE Energy, Inc.

Pursuant to the requirements 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.

Date: August 5, 2021 /s/ Jeffrey M. Keebler
Jeffrey M. Keebler
Chairman, President and Chief Executive Officer
(Duly Authorized Officer)

Date: August 5, 2021 /s/ Jared J. Bushek
Jared J. Bushek
Vice President - Finance, Chief Information Officer and Treasurer
(Chief Financial Officer)

Date: August 5, 2021 /s/ Tamara J. Johnson
Tamara J. Johnson
Vice President - Accounting and Controller
(Chief Accounting Officer)

Signatures – Madison Gas and Electric Company

Pursuant to the requirements 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

Date: August 5, 2021

/s/ Jeffrey M. Keebler
Jeffrey M. Keebler
Chairman, President and Chief Executive Officer
(Duly Authorized Officer)

Date: August 5, 2021

/s/ Jared J. Bushek
Jared J. Bushek
Vice President - Finance, Chief Information Officer and Treasurer
(Chief Financial Officer)

Date: August 5, 2021

/s/ Tamara J. Johnson
Tamara J. Johnson
Vice President - Accounting and Controller
(Chief Accounting Officer)