**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:*

## March 31, 2022

☐ 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.**<br>(a Wisconsin Corporation)<br>133 South Blair Street<br>Madison, Wisconsin 53788<br>(608) 252-7000 \| mgeenergy.com | 39-2040501 |
| 000-1125 | **Madison Gas and Electric Company**<br>(a Wisconsin Corporation)<br>133 South Blair Street<br>Madison, Wisconsin 53788<br>(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 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 April 30, 2022**

| | |
| --- | --- |
| 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, and words relating to goals, targets and projections, 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' 2021 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 undertake no obligation to release publicly any revision to these forward-looking statements to reflect events or circumstances after the date of this report, except as required by law.

### Where to Find More Information

We file annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K and other information with the SEC. The SEC maintains an internet site at www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

MGE Energy maintains a website at mgeenergy.com, and MGE maintains a website at mge.com. Copies of the reports and other information that we file with the SEC 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 Annual Report on Form 10-K | MGE Energy's and MGE's Annual Report of Form 10-K for the year ended December 31, 2021 |
| 2021 Plan | MGE Energy's 2021 Long-Term Incentive Plan |
| AFUDC | Allowance for Funds Used During Construction |
| 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 |
| CBP | United States Customs and Border Protection |
| CCR | Coal Combustion Residual |
| Columbia | Columbia Energy Center |
| COVID-19 | Coronavirus Disease 2019 |
| CSAPR | Cross-State Air Pollution Rule |
| Dth | Dekatherms, a quantity measure for natural gas |
| EGU | Electric generating unit |
| ELG | Effluent Limitations Guidelines |
| electric margin | Electric revenues less fuel for electric generation and purchased power costs, a non-GAAP measure |
| Elm Road Units | Elm Road Generating Station |
| EPA | United States Environmental Protection Agency |
| FERC | Federal Energy Regulatory Commission |
| FIP | Federal Implementation Plan |
| 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 |
| NOx | 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 |
| ROE | Return on equity |
| Saratoga | Saratoga Wind Farm |
| SCR | Selective Catalytic Reduction |
| SEC | Securities and Exchange Commission |
| SIP | State Implementation Plan |
| SO2 | Sulfur dioxide |
| Stock Plan | Direct Stock Purchase and Dividend Reinvestment Plan of MGE Energy |
| Two Creeks | Two Creeks Solar Farm |
| WCCF | West Campus Cogeneration Facility |
| WDNR | Wisconsin Department of Natural Resources |
| WEPCO | Wisconsin Electric Power Company |
| West Riverside | West Riverside Energy Center in Beloit, Wisconsin |
| working capital | Current assets less current liabilities |
| WPL | Wisconsin Power and Light Company, a subsidiary of Alliant Energy Corporation |
| WRO | Withhold Release Order |
| 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 March 31, | |
|---|---|---|
| | 2022 | 2021 |
| **Operating Revenues:** | | |
| Electric revenues | $ 110,127 | $ 100,645 |
| Gas revenues | 98,811 | 67,270 |
| *Total Operating Revenues* | 208,938 | 167,915 |
| | | |
| **Operating Expenses:** | | |
| Fuel for electric generation | 13,485 | 13,171 |
| Purchased power | 12,543 | 9,355 |
| Cost of gas sold | 64,802 | 37,444 |
| Other operations and maintenance | 49,994 | 45,682 |
| Depreciation and amortization | 21,046 | 18,382 |
| Other general taxes | 5,205 | 4,827 |
| *Total Operating Expenses* | 167,075 | 128,861 |
| **Operating Income** | 41,863 | 39,054 |
| | | |
| Other income, net | 6,972 | 2,078 |
| Interest expense, net | (6,571) | (5,740) |
| Income before income taxes | 42,264 | 35,392 |
| Income tax provision | (7,844) | (459) |
| **Net Income** | $ 34,420 | $ 34,933 |
| | | |
| **Earnings Per Share of Common Stock** | | |
| Basic | $ 0.95 | $ 0.97 |
| Diluted | $ 0.95 | $ 0.97 |
| | | |
| **Dividends per share of common stock** | $ 0.388 | $ 0.370 |
| | | |
| **Weighted Average Shares Outstanding** | | |
| Basic | 36,163 | 36,163 |
| Diluted | 36,171 | 36,165 |

*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)*

| | Three Months Ended March 31, 2022 | Three Months Ended March 31, 2021 |
|---|---|---|
| **Operating Activities:** | | |
| Net income | $ 34,420 | $ 34,933 |
| Items not affecting cash: | | |
| Depreciation and amortization | 21,046 | 18,382 |
| Deferred income taxes | 5,606 | (796) |
| Provision for doubtful receivables | 441 | 388 |
| Employee benefit plan cost (credit) | (1,678) | 1,461 |
| Equity earnings in investments | (2,504) | (2,444) |
| Other items | (486) | (277) |
| Changes in working capital items: | | |
| Decrease (increase) in current assets | 12,332 | (2,851) |
| Decrease in current liabilities | (7,115) | (4,213) |
| Dividends from investments | 2,001 | 1,967 |
| Cash contributions to pension and other postretirement plans | (1,660) | (1,552) |
| Other noncurrent items, net | (304) | (1,115) |
| *Cash Provided by Operating Activities* | 62,099 | 43,883 |
| **Investing Activities:** | | |
| Capital expenditures | (30,778) | (34,746) |
| Capital contributions to investments | (1,546) | (670) |
| Other | 155 | (419) |
| *Cash Used for Investing Activities* | (32,169) | (35,835) |
| **Financing Activities:** | | |
| Cash dividends paid on common stock | (14,013) | (13,380) |
| Repayments of long-term debt | (1,211) | (1,182) |
| (Repayments of) proceeds from short-term debt | (5,500) | 1,500 |
| Other | (492) | (523) |
| *Cash Used for Financing Activities* | (21,216) | (13,585) |
| Change in cash, cash equivalents, and restricted cash | 8,714 | (5,537) |
| Cash, cash equivalents, and restricted cash at beginning of period | 18,835 | 47,039 |
| **Cash, cash equivalents, and restricted cash at end of period** | $ 27,549 | $ 41,502 |
| **Supplemental disclosures of cash flow information:** | | |
| Significant noncash investing activities: | | |
| Accrued capital expenditures | $ 6,735 | $ 8,843 |

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

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

| ASSETS | March 31, 2022 | December 31, 2021 |
|---|---|---|
| **Current Assets:** | | |
| Cash and cash equivalents | $ 26,374 | $ 17,438 |
| Accounts receivable, less reserves of $8,952 and $6,940, respectively | 50,167 | 46,205 |
| Other accounts receivable, less reserves of $1,213 and $1,364, respectively | 15,244 | 16,094 |
| Unbilled revenues | 30,839 | 34,812 |
| Materials and supplies, at average cost | 30,951 | 29,863 |
| Fuel for electric generation, at average cost | 6,331 | 6,429 |
| Stored natural gas, at average cost | 5,580 | 15,668 |
| Prepaid taxes | 15,487 | 20,214 |
| Regulatory assets - current | 2,205 | 1,465 |
| Other current assets | 11,255 | 11,183 |
| *Total Current Assets* | 194,433 | 199,371 |
| Other long-term receivables | 691 | 1,155 |
| Regulatory assets | 108,271 | 107,547 |
| Pension benefit asset | 62,806 | 58,757 |
| Other deferred assets and other | 26,697 | 27,548 |
| **Property, Plant, and Equipment:** | | |
| Property, plant, and equipment, net | 1,843,122 | 1,828,171 |
| Construction work in progress | 40,156 | 50,603 |
| *Total Property, Plant, and Equipment* | 1,883,278 | 1,878,774 |
| **Investments** | 101,365 | 98,754 |
| **Total Assets** | $ 2,377,541 | $ 2,371,906 |
| | | |
| **LIABILITIES AND CAPITALIZATION** | | |
| **Current Liabilities:** | | |
| Long-term debt due within one year | $ 4,920 | $ 4,889 |
| Short-term debt | — | 5,500 |
| Accounts payable | 44,690 | 64,149 |
| Accrued interest and taxes | 9,265 | 10,385 |
| Accrued payroll related items | 9,296 | 12,951 |
| Regulatory liabilities - current | 24,557 | 9,365 |
| Derivative liabilities | 130 | 2,140 |
| Other current liabilities | 5,246 | 8,468 |
| *Total Current Liabilities* | 98,104 | 117,847 |
| **Other Credits:** | | |
| Deferred income taxes | 233,146 | 231,149 |
| Investment tax credit - deferred | 48,773 | 44,836 |
| Regulatory liabilities | 155,096 | 154,298 |
| Accrued pension and other postretirement benefits | 72,881 | 73,085 |
| Finance lease liabilities | 16,920 | 17,322 |
| Other deferred liabilities and other | 91,363 | 91,690 |
| *Total Other Credits* | 618,179 | 612,380 |
| **Capitalization:** | | |
| Common shareholders' equity | 1,048,153 | 1,027,468 |
| Long-term debt | 613,105 | 614,211 |
| *Total Capitalization* | 1,661,258 | 1,641,679 |
| Commitments and contingencies (see Footnote 8) | | |
| **Total Liabilities and Capitalization** | $ 2,377,541 | $ 2,371,906 |

*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 March 31, 2021** | | | | | | |
| Beginning Balance | 36,163 | $ 36,163 | $ 394,408 | $ 545,429 | $ — | $ 976,000 |
| Net income | | | | 34,933 | | 34,933 |
| Common stock dividends declared ($0.370 per share) | | | | (13,380) | | (13,380) |
| Equity-based compensation plans and other | | | 158 | | | 158 |
| Ending Balance - March 31, 2021 | 36,163 | $ 36,163 | $ 394,566 | $ 566,982 | $ — | $ 997,711 |
| **Three Months Ended March 31, 2022** | | | | | | |
| Beginning Balance | 36,163 | $ 36,163 | $ 394,903 | $ 596,402 | $ — | $1,027,468 |
| Net income | | | | 34,420 | | 34,420 |
| Common stock dividends declared ($0.388 per share) | | | | (14,013) | | (14,013) |
| Equity-based compensation plans and other | | | 278 | | | 278 |
| Ending Balance - March 31, 2022 | 36,163 | $ 36,163 | $ 395,181 | $ 616,809 | $ — | $1,048,153 |

*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 March 31, | |
|---|---|---|
| | 2022 | 2021 |
| **Operating Revenues:** | | |
| Electric revenues | $ 110,127 | $ 100,645 |
| Gas revenues | 98,811 | 67,270 |
| *Total Operating Revenues* | 208,938 | 167,915 |
| **Operating Expenses:** | | |
| Fuel for electric generation | 13,485 | 13,171 |
| Purchased power | 12,543 | 9,355 |
| Cost of gas sold | 64,802 | 37,444 |
| Other operations and maintenance | 49,746 | 45,538 |
| Depreciation and amortization | 21,046 | 18,382 |
| Other general taxes | 5,205 | 4,827 |
| *Total Operating Expenses* | 166,827 | 128,717 |
| **Operating Income** | 42,111 | 39,198 |
| Other income (expense), net | 3,519 | (104) |
| Interest expense, net | (6,577) | (5,753) |
| Income before income taxes | 39,053 | 33,341 |
| Income tax (provision) benefit | (7,000) | 433 |
| **Net Income** | $ 32,053 | $ 33,774 |
| Less: Net Income Attributable to Noncontrolling Interest, net of tax | (4,756) | (5,501) |
| **Net Income Attributable to MGE** | $ 27,297 | $ 28,273 |

*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)*

| | Three Months Ended March 31, 2022 | 2021 |
|---|---|---|
| **Operating Activities:** | | |
| Net income | $ 32,053 | $ 33,774 |
| Items not affecting cash: | | |
| Depreciation and amortization | 21,046 | 18,382 |
| Deferred income taxes | 5,230 | (1,766) |
| Provision for doubtful receivables | 441 | 388 |
| Employee benefit plan cost (credit) | (1,678) | 1,461 |
| Other items | 587 | (252) |
| Changes in working capital items: | | |
| Decrease (increase) in current assets | 11,810 | (3,037) |
| Decrease in current liabilities | (4,648) | (4,037) |
| Cash contributions to pension and other postretirement plans | (1,660) | (1,552) |
| Other noncurrent items, net | (500) | (1,380) |
| *Cash Provided by Operating Activities* | 62,681 | 41,981 |
| **Investing Activities:** | | |
| Capital expenditures | (30,778) | (34,746) |
| Other | (164) | (462) |
| *Cash Used for Investing Activities* | (30,942) | (35,208) |
| **Financing Activities:** | | |
| Cash dividends paid to parent by MGE | (5,000) | — |
| Distributions to parent from noncontrolling interest | (9,000) | (5,000) |
| Repayments of long-term debt | (1,211) | (1,182) |
| (Repayments of) proceeds from short-term debt | (5,500) | 1,500 |
| Other | (492) | (523) |
| *Cash Used for Financing Activities* | (21,203) | (5,205) |
| Change in cash, cash equivalents, and restricted cash | 10,536 | 1,568 |
| Cash, cash equivalents, and restricted cash at beginning of period | 7,798 | 6,404 |
| **Cash, cash equivalents, and restricted cash at end of period** | $ 18,334 | $ 7,972 |
| **Supplemental disclosures of cash flow information:** | | |
| Significant noncash investing activities: | | |
| Accrued capital expenditures | $ 6,735 | $ 8,843 |

*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 | March 31, 2022 | December 31, 2021 |
|---|---|---|
| **Current Assets:** | | |
| Cash and cash equivalents | $ 17,159 | $ 6,401 |
| Accounts receivable, less reserves of $8,952 and $6,940, respectively | 50,167 | 46,205 |
| Affiliate receivables | 530 | 558 |
| Other accounts receivable, less reserves of $1,213 and $1,364, respectively | 15,242 | 16,092 |
| Unbilled revenues | 30,839 | 34,812 |
| Materials and supplies, at average cost | 30,951 | 29,863 |
| Fuel for electric generation, at average cost | 6,331 | 6,429 |
| Stored natural gas, at average cost | 5,580 | 15,668 |
| Prepaid taxes | 15,193 | 19,379 |
| Regulatory assets - current | 2,205 | 1,465 |
| Other current assets | 11,152 | 11,071 |
| *Total Current Assets* | 185,349 | 187,943 |
| Affiliate receivable long-term | 1,456 | 1,589 |
| Regulatory assets | 108,271 | 107,547 |
| Pension benefit asset | 62,806 | 58,757 |
| Other deferred assets and other | 26,806 | 27,907 |
| **Property, Plant, and Equipment:** | | |
| Property, plant, and equipment, net | 1,843,150 | 1,828,199 |
| Construction work in progress | 40,156 | 50,603 |
| *Total Property, Plant, and Equipment* | 1,883,306 | 1,878,802 |
| **Investments** | 177 | 230 |
| **Total Assets** | $ 2,268,171 | $ 2,262,775 |
| | | |
| **LIABILITIES AND CAPITALIZATION** | | |
| **Current Liabilities:** | | |
| Long-term debt due within one year | $ 4,920 | $ 4,889 |
| Short-term debt | — | 5,500 |
| Accounts payable | 44,672 | 64,130 |
| Accrued interest and taxes | 9,417 | 10,649 |
| Accrued payroll related items | 9,296 | 12,951 |
| Regulatory liabilities - current | 24,557 | 9,365 |
| Derivative liabilities | 130 | 2,140 |
| Other current liabilities | 5,324 | 5,968 |
| *Total Current Liabilities* | 98,316 | 115,592 |
| **Other Credits:** | | |
| Deferred income taxes | 200,507 | 198,885 |
| Investment tax credit - deferred | 48,773 | 44,836 |
| Regulatory liabilities | 155,096 | 154,298 |
| Accrued pension and other postretirement benefits | 72,881 | 73,085 |
| Finance lease liabilities | 16,920 | 17,322 |
| Other deferred liabilities and other | 92,126 | 92,152 |
| *Total Other Credits* | 586,303 | 580,578 |
| **Capitalization:** | | |
| Common shareholder's equity | 826,104 | 803,807 |
| Noncontrolling interest | 144,343 | 148,587 |
| *Total Equity* | 970,447 | 952,394 |
| Long-term debt | 613,105 | 614,211 |
| *Total Capitalization* | 1,583,552 | 1,566,605 |
| Commitments and contingencies (see Footnote 8) | | |
| **Total Liabilities and Capitalization** | $ 2,268,171 | $ 2,262,775 |

*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 March 31, 2021** | | | | | | | |
| Beginning balance | 17,348 | $ 17,348 | $ 252,917 | $ 460,151 | $ — | $ 141,196 | $ 871,612 |
| Net income | | | | 28,273 | | 5,501 | 33,774 |
| Distributions to parent from noncontrolling interest | | | | | | (5,000) | (5,000) |
| Ending Balance - March 31, 2021 | 17,348 | $ 17,348 | $ 252,917 | $ 488,424 | $ — | $ 141,697 | $ 900,386 |
| **Three Months Ended March 31, 2022** | | | | | | | |
| Beginning balance | 17,348 | $ 17,348 | $ 252,917 | $ 533,542 | $ — | $ 148,587 | $ 952,394 |
| Net income | | | | 27,297 | | 4,756 | 32,053 |
| Cash dividends paid to parent by MGE | | | | (5,000) | | | (5,000) |
| Distributions to parent from noncontrolling interest | | | | | | (9,000) | (9,000) |
| Ending Balance - March 31, 2022 | 17,348 | $ 17,348 | $ 252,917 | $ 555,839 | $ — | $ 144,343 | $ 970,447 |

*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 2021 Annual Report on Form 10-K (the 2021 Annual Report on Form 10-K).

The accompanying consolidated financial statements as of March 31, 2022, and during the three months ended March 31, 2022, 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 2021 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 61 through 115 of the 2021 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)* | March 31, 2022 | December 31, 2021 | March 31, 2022 | December 31, 2021 |
| Cash and cash equivalents | $ 26,374 | $ 17,438 | $ 17,159 | $ 6,401 |
| Restricted cash | 641 | 847 | 641 | 847 |
| Receivable - margin account | 534 | 550 | 534 | 550 |
| Cash, cash equivalents, and restricted cash | $ 27,549 | $ 18,835 | $ 18,334 | $ 7,798 |

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

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

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

**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 are subject to change depending on operational, regulatory, and other factors. As of March 31, 2022, early retirement of Columbia was probable.

The net book value of our ownership share of this generating unit was $156.7 million as of March 31, 2022. 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. MGE is currently seeking approval from the PSCW in its 2023 electric limited reopener to revise the depreciation schedule for Columbia Unit 2 to 2029 to align with Unit 1. See Footnote 9 for further details on MGE's rate proceedings.

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 March 31, 2022.

**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 their 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 March 31, | |
|---|---|---|
| *(In thousands)* | 2022 | 2021 |
| Equity earnings from investment in ATC | $ 2,478 | $ 2,420 |
| Dividends received from ATC | 2,001 | 1,967 |
| Capital contributions to ATC | 1,243 | — |

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

In April 2022, MGE Transco made a $0.5 million capital contribution to ATC.

ATC's summarized financial data is as follows:

| *(In thousands)* | Three Months Ended March 31, 2022 | 2021 |
|---|---|---|
| Operating revenues | $ 190,999 | $ 188,694 |
| Operating expenses | (95,491) | (95,104) |
| Other income, net | 404 | 378 |
| Interest expense, net | (28,440) | (28,871) |
| Earnings before members' income taxes | $ 67,472 | $ 65,097 |

MGE receives transmission and other related services from ATC. During the three months ended March 31, 2022 and 2021, MGE recorded $7.9 million and $8.0 million, respectively, for transmission services. MGE also provides a variety of operational, maintenance, and project management work for ATC, which is reimbursed by ATC. As of March 31, 2022, and December 31, 2021, MGE had a receivable due from ATC of $8.1 million and $7.0 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 March 31,** | 2022 | 2021 | 2022 | 2021 |
| Statutory federal income tax rate | 21.0 % | 21.0 % | 21.0 % | 21.0 % |
| State income taxes, net of federal benefit | 6.3 | 6.3 | 6.3 | 6.3 |
| Amortized investment tax credits | (0.7) | (1.6) | (0.8) | (1.8) |
| Credit for electricity from wind energy | (5.4) | (7.1) | (6.0) | (7.8) |
| AFUDC equity, net | (0.5) | (0.6) | (0.5) | (0.6) |
| Amortization of utility excess deferred tax - tax reform[(a)] | (1.9) | (16.7) | (1.8) | (18.3) |
| Other, net, individually insignificant | (0.2) | — | (0.3) | (0.1) |
| Effective income tax rate | 18.6 % | 1.3 % | 17.9 % | (1.3) % |

(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 March 31, 2022 and 2021, MGE recognized $1.0 million and $0.7 million, respectively. 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 months ended March 31, 2021, MGE recognized $3.3 million. Included in the 2022 and 2023 rate settlement was a net collection from customers of the gas portion of deficient deferred taxes related to the 2017 Tax Act not restricted by IRS normalization rules. For the three months ended March 31, 2022, MGE recognized $0.3 million.

## 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 March 31, | |
|---|---|---|
| *(In thousands)* | 2022 | 2021 |
| **Pension Benefits** | | |
| Components of net periodic benefit cost: | | |
| Service cost | $ 1,337 | $ 1,422 |
| Interest cost | 2,796 | 2,272 |
| Expected return on assets | (7,851) | (7,375) |
| Amortization of: | | |
| Prior service credit | (5) | (31) |
| Actuarial loss | 724 | 1,580 |
| Net periodic benefit (credit) cost | $ (2,999) | $ (2,132) |
| | | |
| **Postretirement Benefits** | | |
| Components of net periodic benefit cost: | | |
| Service cost | $ 333 | $ 351 |
| Interest cost | 491 | 384 |
| Expected return on assets | (843) | (817) |
| Amortization of: | | |
| Transition obligation | 1 | 1 |
| Prior service credit | (74) | (380) |
| Actuarial loss | 48 | 109 |
| Net periodic benefit (credit) cost | $ (44) | $ (352) |

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 months ended March 31, 2022 and 2021, MGE recovered $0.3 million and $3.4 million of pension and other postretirement costs, respectively. The recovery of these costs reduced the amount previously deferred and has not been reflected in the table above.

During the three months ended March 31, 2022, MGE returned $1.0 million of savings from 2021 employee benefit plan costs. 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 months ended March 31, 2022 and 2021, MGE Energy issued no new shares of common stock under the Stock Plan.

### b. Dilutive Shares Calculation - MGE Energy.

As of March 31, 2022, 7,492 shares were included in the calculation of diluted earnings per share related to nonvested equity awards. See Footnote 7 for additional information on share-based compensation awards.

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

During the three months ended March 31, 2022 and 2021, MGE recorded $0.4 million and $0.7 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).

In January 2022, cash payments of $1.8 million were distributed related to awards that were granted in 2019, for the 2013 Director Incentive Plan, and in 2017, for the 2006 Performance Unit Plan.

In February 2022, MGE issued 10,395 performance units and 15,931 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 are subject to change depending on operational, regulatory, and other factors. 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.

  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 (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 ELG rule's requirements no later than December 2023, as determined by the permitting authority. In December 2021, the PSCW approved a CA application for installation of additional wastewater treatment equipment to comply with the ELG Rule. MGE's share of the estimated costs to comply with the rule is estimated to be approximately $4 million. Construction began in March 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 WPDES permit assumes that the plant meets BTA standards for the duration of the permit, which expires in 2023. Before the next permit renewal, MGE is required to complete an entrainment study and recommend a BTA along with alternative technologies considered. MGE completed the entrainment study in 2021 and submitted the results to the WDNR. The WDNR will make the final BTA determination and include any BTA requirements in Blount's next permit renewal, which is expected to be completed by the end of 2022 and effective in 2023. Management believes that the BTA determination at Blount will not be material for MGE.

Columbia's river intakes are subject to this rule. BTA improvements may not be required given that the owners are planning to retire both units by the end of 2024. 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 October 2021, as part of the Biden administration's Unified Agenda, the EPA announced their intention to introduce a new set of emission guidelines for states to follow in submitting state plans to establish and implement standards of performance for greenhouse gas emissions from existing fossil fuel-fired EGUs. In late 2021, the US Supreme Court agreed to hear arguments regarding the extent of EPA's authority to regulate greenhouse gases from electric generation units under the Clean Air Act. MGE will continue to evaluate greenhouse gas rule developments, including any further Supreme Court decisions on the EPA's authority to regulate greenhouse gases.

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

  The Elm Road Units are located in Milwaukee County, Wisconsin, a nonattainment area. The Wisconsin Department of Natural Resources (WDNR) must develop a State Implementation Plan (SIP) for the area, which will likely result in more stringent requirements for both constructing new development and modifying or expanding existing plants in the area. MGE will continue to 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. This is accomplished in the CSAPR through a reduction in $SO_2$ and $NO_x$ from qualifying fossil-fuel fired power plants in upwind "contributing" states. $NO_x$ and $SO_2$ contribute to fine particulate pollution and $NO_x$ contributes to ozone formation in downwind areas. Reductions are generally achieved through a cap-and-trade system. Individual plants can meet their caps through reducing emissions and/or buying allowances on the market.

  In April 2022, the EPA published a proposed Federal Implementation Plan (FIP) to address state obligations under the Clean Air Act "good neighbor" provisions for the 2015 Ozone NAAQS. This proposed rule impacts 26 states, including Wisconsin, and is designed to both revise the current $NO_x$ CSAPR ozone season cap-and-trade obligations for fossil-fuel generated power plants and add $NO_x$ limitations for certain industries in specified states. For Wisconsin, the proposed rule includes revisions to the current obligations for fossil-fuel power generation as well as the new limitations for certain industries.

  If finalized, the proposed rule would be effective beginning with the 2023 ozone season and start with emissions budgets that can be achieved with what the EPA has defined as immediately available measures, including consistently operating emissions controls already installed at power plants. In 2026, additional obligations would go into effect, including potential daily emissions limits and technology upgrades to coal-fired power plants without existing emission controls.

Wisconsin would need to submit a State Implementation Plan (SIP) to meet its obligations or accept the EPA's proposed FIP.

MGE is currently evaluating the proposed rule to determine potential impacts to our business. MGE expects the rule, if finalized as written, to impact our fossil-fueled generation assets. However, we will not know the impact of this rule with any certainty until it is finalized. We will continue to monitor rule developments.

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.

- 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. The CCR rule requires 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 initiate closure by October 2022. The EPA has not formally approved the extension. The Columbia owners anticipate that the EPA will approve the extension request. However, we will not know the outcome of the extension request with any certainty until the EPA makes a final decision on this request. In the interim, the EPA determined that the extension demonstration is complete and confirmed that the deadline to cease placement of CCR and non-CCR wastewaters in the primary pond is tolled pending a final decision.

  Review of the Elm Road Units has indicated that the costs to comply with the CCR rule are not expected to be significant. 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. Pending the EPA's final approval of closure plans at Columbia, 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.

Certain environmental groups filed petitions against the PSCW regarding MGE's two most recent rate settlements. MGE has intervened in the petitions 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 March 31, 2022:

| *(In thousands)* | **2022** | **2023** | **2024** | **2025** | **2026** | **Thereafter** |
|---|---|---|---|---|---|---|
| Coal[(a)] | $ 17,825 | $ 14,023 | $ 8,299 | $ 2,862 | $ — | $ — |

(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.

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

### a. Rate Proceedings.

In April 2022, MGE filed with the PSCW a proposed electric limited 2023 rate case reopener. The limited reopener proposes a 4.38% increase for electric rates in 2023. The electric rate increase is driven by generation assets including our investments in Badger Hollow II (solar), Paris (solar and battery), Red Barn (wind), and West Riverside (natural gas). In addition, the reopener request includes a reduction in fuel costs, which MGE has partially offset with the recovery of deferred 2021 fuel costs. The reopener also revises the depreciation schedule for Columbia Unit 2 and shared equipment to 2029 to align with the depreciation schedule for Columbia Unit 1. PSCW approval of the 2023 limited reopener is pending. A final order is expected before the end of the year.

In December 2021, the PSCW approved a settlement agreement for MGE's 2022 rate case. The settlement agreement provides for an 8.81% increase for electric rates and a 2.15% increase for gas rates in 2022. The electric and gas rate increases were 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 were higher fuel and purchased power costs as well as the completion in 2021 of the one-time return of the electric excess deferred tax credit related to the 2017 Tax Act not restricted by IRS normalization rules. Included in the electric residential rate is a reduction in the customer charge. As part of the settlement agreement, for 2023, the PSCW approved a 0.96% increase in gas rates and to address a potential electric rate change through a limited rate case reopener. The return on common stock equity for 2022 and 2023 is 9.8% based on a capital structure consisting of 55.6% common equity.

In December 2020, the PSCW approved a settlement agreement for MGE's 2021 rate case. The settlement agreement provided for a zero percent increase for electric rates and an approximately 4% increase for gas rates in 2021. The electric rate settlement included an increase in rate base but the associated rate increase was primarily offset by lower fuel and purchased 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 included lower forecasted electric sales for 2021 to reflect changes to customer usage during the COVID-19 pandemic. The gas rate increase covered infrastructure costs and technology improvements. The settlement agreement also included 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 a future rate filing. Any difference would be recorded as a regulatory asset or regulatory liability. The return on common stock equity for 2021 was 9.8% based on a capital structure of 55.8% common equity in 2021.

Sierra Club and Vote Solar have filed petitions with the Dane County Circuit Court seeking review of the PSCW decision approving MGE's two most recent rate settlements (2021 and 2022/2023). The PSCW is named as the responding party; MGE is not named as a party. The petitions challenge the process the PSCW used to approve the portion of the settlements 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 settlements have not been challenged. The PSCW is expected to vigorously defend its approval of the rate case settlements. MGE has intervened in the proceedings to further defend the PSCW's decision.

### 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%. 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. 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.

In September 2021, the PSCW issued a final decision in the 2020 fuel rules proceedings for MGE to refund $3.2 million of additional fuel savings realized during 2020 plus accrued interest to its retail electric customers over a one-month period in October 2021. There was no change to the refund in the fuel rules proceedings from the amount MGE deferred in the previous year.

MGE has under recovered fuel costs in 2021. As of December 31, 2021, MGE had deferred $3.3 million of 2021 fuel costs. These costs will be subject to the PSCW's annual review of 2021 fuel costs, expected to be completed in 2022. MGE has proposed to include these costs as part of the 2023 electric limited reopener.

As of March 31, 2022, MGE had no deferred 2022 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:

| | March 31, 2022 | | December 31, 2021 | |
|---|---|---|---|---|
| Commodity derivative contracts | 369,960 | MWh | 278,000 | MWh |
| Commodity derivative contracts | 3,260,000 | Dth | 5,735,000 | Dth |
| FTRs | 858 | MW | 2,127 | MW |
| PPA | 100 | MW | 250 | 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 March 31, 2022, and December 31, 2021, the fair value of exchange traded derivatives and FTRs exceeded their cost basis by $9.8 million and $2.8 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 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 March 31, 2022, and December 31, 2021, reflected a loss position of $0.1 million and $2.1 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 |
|---|---|---|---|
| **March 31, 2022** | | | |
| Commodity derivative contracts[(a)] | $ 9,518 | $ 325 | Other current assets |
| Commodity derivative contracts[(a)] | 626 | 32 | Other deferred charges |
| FTRs[(a)] | — | 16 | Derivative liability (current) |
| PPA | N/A | 130 | Derivative liability (current) |
| | | | |
| **December 31, 2021** | | | |
| Commodity derivative contracts[(a)] | $ 2,959 | $ 811 | Other current assets |
| Commodity derivative contracts[(a)] | 420 | 38 | Other deferred charges |
| FTRs | 227 | — | Other current assets |
| PPA | N/A | 2,140 | Derivative liability (current) |

(a) As of March 31, 2022 and December 31, 2021, MGE received collateral of $6.9 million and $1.3 million, respectively, from counterparties under a master netting agreement for outstanding exchange traded derivative positions. The fair value of the derivative asset disclosed in this table has not been reduced for the collateral received.

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 |
|---|---|---|---|---|
| **March 31, 2022** | | | | |
| Commodity derivative contracts | $ 10,144 | $ (357) | $ (6,911) | $ 2,876 |
| | | | | |
| **December 31, 2021** | | | | |
| Commodity derivative contracts | $ 3,379 | $ (849) | $ (1,254) | $ 1,276 |
| FTRs | 227 | — | — | 227 |

**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 |
|---|---|---|---|---|
| **March 31, 2022** | | | | |
| Commodity derivative contracts | $ 357 | $ (357) | $ — | $ — |
| FTRs | 16 | — | (16) | — |
| PPA | 130 | — | — | 130 |
| **December 31, 2021** | | | | |
| Commodity derivative contracts | $ 849 | $ (849) | $ — | $ — |
| PPA | 2,140 | — | — | 2,140 |

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.

| | 2022 | | 2021 | |
|---|---|---|---|---|
| (In thousands) | Current and Long-Term Regulatory Asset (Liability) | Other Current Assets | Current and Long-Term Regulatory Asset (Liability) | Other Current Assets |
| **Three Months Ended March 31:** | | | | |
| Balance as of January 1, | $ (617) | $ 770 | $ 13,989 | $ 1,162 |
| Unrealized gain | (11,333) | — | (3,588) | — |
| Realized gain (loss) reclassified to a deferred account | 1,279 | (1,279) | (50) | 50 |
| Realized gain (loss) reclassified to income statement | 1,030 | 776 | 708 | (1,039) |
| Balance as of March 31, | $ (9,641) | $ 267 | $ 11,059 | $ 173 |

| | Realized Losses (Gains) | | | |
|---|---|---|---|---|
| | 2022 | | 2021 | |
| (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 March 31:** | | | | |
| Commodity derivative contracts | $ (312) | $ (881) | $ (195) | $ 1,022 |
| FTRs | 3 | — | (256) | — |
| PPA | (616) | — | (240) | — |

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 March 31, 2022, 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 March 31, 2022 and December 31, 2021, 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 March 31, 2022, 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:

| | March 31, 2022 | | December 31, 2021 | |
|---|---|---|---|---|
| *(In thousands)* | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Long-term debt[(a)] | 622,238 | 643,259 | 623,449 | 729,914 |

(a) Includes long-term debt due within one year. Excludes debt issuance costs and unamortized discount of $4.2 million and $4.3 million as of March 31, 2022, and December 31, 2021, respectively.

**b. Recurring Fair Value Measurements.**

The following table presents the balances of assets and liabilities measured at fair value on a recurring basis.

| | Fair Value as of March 31, 2022 | | | |
|---|---|---|---|---|
| *(In thousands)* | Total | Level 1 | Level 2 | Level 3 |
| **MGE Energy** | | | | |
| Assets: | | | | |
| Derivatives, net[(b)] | $ 10,144 | $ 3,183 | $ — | $ 6,961 |
| Exchange-traded investments | 1,443 | 1,443 | — | — |
| Total Assets | $ 11,587 | $ 4,626 | $ — | $ 6,961 |
| Liabilities: | | | | |
| Derivatives, net[(b)] | $ 503 | $ 321 | $ — | $ 182 |
| Deferred compensation | 3,613 | — | 3,613 | — |
| Total Liabilities | $ 4,116 | $ 321 | $ 3,613 | $ 182 |
| **MGE** | | | | |
| Assets: | | | | |
| Derivatives, net[(b)] | $ 10,144 | $ 3,183 | $ — | $ 6,961 |
| Exchange-traded investments | 177 | 177 | — | — |
| Total Assets | $ 10,321 | $ 3,360 | $ — | $ 6,961 |
| Liabilities: | | | | |
| Derivatives, net[(b)] | $ 503 | $ 321 | $ — | $ 182 |
| Deferred compensation | 3,613 | — | 3,613 | — |
| Total Liabilities | $ 4,116 | $ 321 | $ 3,613 | $ 182 |

| | Fair Value as of December 31, 2021 | | | |
|---|---|---|---|---|
| *(In thousands)* | Total | Level 1 | Level 2 | Level 3 |
| **MGE Energy** | | | | |
| Assets: | | | | |
| Derivatives, net[(b)] | $ 3,606 | $ 1,170 | $ — | $ 2,436 |
| Exchange-traded investments | 1,296 | 1,296 | — | — |
| Total Assets | $ 4,902 | $ 2,466 | $ — | $ 2,436 |
| Liabilities: | | | | |
| Derivatives, net[(b)] | $ 2,989 | $ 731 | $ — | $ 2,258 |
| Deferred compensation | 3,653 | — | 3,653 | — |
| Total Liabilities | $ 6,642 | $ 731 | $ 3,653 | $ 2,258 |
| **MGE** | | | | |
| Assets: | | | | |
| Derivatives, net[(b)] | $ 3,606 | $ 1,170 | $ — | $ 2,436 |
| Exchange-traded investments | 230 | 230 | — | — |
| Total Assets | $ 3,836 | $ 1,400 | $ — | $ 2,436 |
| Liabilities: | | | | |
| Derivatives, net[(b)] | $ 2,989 | $ 731 | $ — | $ 2,258 |
| Deferred compensation | 3,653 | — | 3,653 | — |
| Total Liabilities | $ 6,642 | $ 731 | $ 3,653 | $ 2,258 |

(b) As of March 31, 2022 and December 31, 2021 MGE received collateral of $6.9 million and $1.3 million, respectively, from counterparties under a master netting agreement for outstanding exchange traded derivative positions. The fair value of the derivative asset disclosed in this table has not been reduced for the collateral received.

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 | March 31, 2022 | December 31, 2021 |
| Basis adjustment: | | |
| On peak | 92.1% | 94.1% |
| Off peak | 90.0% | 92.4% |
| Counterparty fuel mix: | | |
| Internal generation - range | 41%-66% | 41%-66% |
| Internal generation - weighted average | 49.5% | 56.6% |
| Purchased power - range | 59%-34% | 59%-34% |
| Purchased power - weighted average | 50.5% | 43.4% |

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 March 31, | |
|---|---|---|
| *(In thousands)* | 2022 | 2021 |
| Beginning balance | $ 178 | $ (14,055) |
| Realized and unrealized gains (losses): | | |
| Included in regulatory assets | — | 2,688 |
| Included in regulatory liability | 6,600 | — |
| Included in other comprehensive income | — | — |
| Included in earnings | 855 | 307 |
| Included in current assets | 73 | 355 |
| Purchases | 7,026 | 5,884 |
| Sales | — | — |
| Issuances | — | — |
| Settlements | (7,953) | (6,546) |
| Balance as of March 31, | $ 6,779 | $ (11,367) |
| Total gains (losses) included in earnings attributed to the change in unrealized gains (losses) related to assets and liabilities held as of March 31,[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 March 31, | |
|---|---|---|
| *(In thousands)* | 2022 | 2021 |
| Purchased power expense | $ 973 | $ 702 |
| Cost of gas sold expense | (118) | (395) |
| Total | $ 855 | $ 307 |

(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[a] | Costs incurred as of March 31, 2022[a] | Estimated Date of Commercial Operation |
|---|---|---|---|---|---|
| Red Barn[b] | 10% | 9.16 MW | $18 million | $0.6 million | December 2022 |
| Badger Hollow II[c] | 33% | 50 MW | $65 million | $23.8 million[d] | First Half of 2023 |

(a) Excluding AFUDC.
(b) The Red Barn Wind Farm is located in the Towns of Wingville and Clifton in Grant County, Wisconsin.
(c) The Badger Hollow II solar farm is located in southwestern Wisconsin in Iowa County, near the villages of Montfort and Cobb.
(d) Includes an allocation of common facilities at Badger Hollow placed in service in November 2021.

MGE received specific approval to recover 100% AFUDC on Badger Hollow II. During the three months ended March 31, 2022 and 2021, MGE recognized $0.4 million and $0.1 million, respectively, after tax, in AFUDC for Badger Hollow II.

## 13. Revenue - MGE Energy and MGE.

Revenues disaggregated by revenue source were as follows:

| (In thousands) | Three Months Ended March 31, 2022 | 2021 |
|---|---|---|
| **Electric revenues** | | |
| Residential | $ 40,474 | $ 36,694 |
| Commercial | 54,449 | 47,883 |
| Industrial | 3,147 | 3,001 |
| Other-retail/municipal | 8,829 | 8,170 |
| Total retail | 106,899 | 95,748 |
| Sales to the market | 2,882 | 4,639 |
| Other | 308 | 222 |
| Total electric revenues | 110,089 | 100,609 |
| | | |
| **Gas revenues** | | |
| Residential | 56,683 | 39,758 |
| Commercial/Industrial | 40,251 | 25,507 |
| Total retail | 96,934 | 65,265 |
| Gas transportation | 1,876 | 2,002 |
| Other | 1 | 3 |
| Total gas revenues | 98,811 | 67,270 |
| | | |
| Non-regulated energy revenues | 38 | 36 |
| Total Operating Revenue | $ 208,938 | $ 167,915 |

***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.

## 14. 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 2021 Annual Report on Form 10-K for additional discussion of each of these segments.

| *(In thousands)*<br>**MGE Energy** | Electric | Gas | Non-Regulated Energy | Transmission Investment | All Others | Consolidation/ Elimination | Consolidated Total |
|---|---|---|---|---|---|---|---|
| ***Three Months Ended March 31, 2022*** | | | | | | | |
| Operating revenues | $ 110,089 | $ 98,811 | $ 38 | $ — | $ — | $ — | $ 208,938 |
| Interdepartmental revenues | 118 | 6,121 | 10,315 | — | — | (16,554) | — |
| Total operating revenues | 110,207 | 104,932 | 10,353 | — | — | (16,554) | 208,938 |
| Equity in earnings of investments | — | — | — | 2,504 | — | — | 2,504 |
| Net income | 14,617 | 12,084 | 5,352 | 1,822 | 545 | — | 34,420 |
| ***Three Months Ended March 31, 2021*** | | | | | | | |
| Operating revenues | $ 100,609 | $ 67,270 | $ 36 | $ — | $ — | $ — | $ 167,915 |
| Interdepartmental revenues | 273 | 4,811 | 10,173 | — | — | (15,257) | — |
| Total operating revenues | 100,882 | 72,081 | 10,209 | — | — | (15,257) | 167,915 |
| Equity in earnings of investments | — | — | — | 2,444 | — | — | 2,444 |
| Net income (loss) | 18,024 | 10,556 | 5,194 | 1,778 | (619) | — | 34,933 |

| *(In thousands)*<br>**MGE** | Electric | Gas | Non-Regulated Energy | Consolidation/ Elimination | Consolidated Total |
|---|---|---|---|---|---|
| ***Three Months Ended March 31, 2022*** | | | | | |
| Operating revenues | $ 110,089 | $ 98,811 | $ 38 | $ — | $ 208,938 |
| Interdepartmental revenues | 118 | 6,121 | 10,315 | (16,554) | — |
| Total operating revenues | 110,207 | 104,932 | 10,353 | (16,554) | 208,938 |
| Net income attributable to MGE | 14,617 | 12,084 | 5,352 | (4,756) | 27,297 |
| ***Three Months Ended March 31, 2021*** | | | | | |
| Operating revenues | $ 100,609 | $ 67,270 | $ 36 | $ — | $ 167,915 |
| Interdepartmental revenues | 273 | 4,811 | 10,173 | (15,257) | — |
| Total operating revenues | 100,882 | 72,081 | 10,209 | (15,257) | 167,915 |
| Net income attributable to MGE | 18,024 | 10,556 | 5,194 | (5,501) | 28,273 |

## 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 159,000 customers in Dane County, Wisconsin, including the city of Madison, and purchases and distributes natural gas to approximately 169,000 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. As we work toward achieving 80% carbon reduction by 2030 (from 2005 levels), 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 announcements of the retirement of Columbia (a coal generation plant), the change in the Elm Road Units fuel source from coal to natural gas, and its growing ownership of renewable generation sources. MGE will continue to focus on growing earnings while controlling operating and fuel costs. MGE's goal is to provide safe and efficient operations in addition to providing customer value. We believe it is critical to maintain a strong credit rating consistent with financial strength in MGE as well as the parent company in order to accomplish these goals.

We principally 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 2021 Annual Report on Form 10-K.

During the three months ended March 31, 2022, MGE Energy's earnings were $34.4 million or $0.95 per share compared to $34.9 million or $0.97 per share during the same period in the prior year. MGE's earnings during the three months ended March 31, 2022, were $27.3 million compared to $28.3 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 March 31, | |
|---|---|---|
| Business Segment: | 2022 | 2021 |
| Electric Utility | $ 14.6 | $ 18.0 |
| Gas Utility | 12.1 | 10.5 |
| Nonregulated Energy | 5.4 | 5.2 |
| Transmission Investments | 1.8 | 1.8 |
| All Other | 0.5 | (0.6) |
| Net Income | $ 34.4 | $ 34.9 |

Our net income during the three months ended March 31, 2022, compared to the same periods in the prior year primarily reflects the effects of the following factors:

*Electric Utility*
An increase in electric investments contributed to earnings for 2022. Timing of 2021 depreciation and other operations and maintenance costs contributed to higher earnings in the first quarter of 2021. Depreciation and operations and maintenance costs increased during the remainder of 2021 after significant capital projects were completed. The new customer information system went live in September 2021 and Badger Hollow I was completed in November 2021. MGE received approval to recover 100% AFUDC during construction of these projects.

*Gas Utility*
An increase in gas investments contributed to increased earnings for 2022. Higher gas retail sales resulting from colder weather in the first quarter of 2022 contributed to higher earnings for the three months ended March 31, 2022. Heating degree days (a measure for determining the impact of weather during the heating season) increased by approximately 4% in the first quarter 2022 compared to the same period in the prior year.

The following developments affected the first three months of 2022:

2022/2023 Rate Settlement Agreement: In December 2021, the PSCW approved a settlement agreement for MGE's 2022 rate case. The settlement agreement provides for an 8.81% increase to electric rates and a 2.15% increase to gas rates for 2022. As part of the settlement agreement for 2023, the PSCW approved a 0.96% increase in gas rates and to address a potential electric rate change through a limited rate case reopener. See "Other Matters" below for additional information on the 2022/2023 rate case settlement.

Utility Solar: Large solar generation projects were recently completed or are under construction, as shown in the following table. Incurred costs are reflected in "Property, plant, and equipment, net" for projects placed in service or "Construction work in progress" for projects under construction on the consolidated balance sheets.

| Project | Ownership Interest | Share of Generation | Share of Estimated Costs[(a)] | Costs Incurred as of March 31, 2022[(a)] | Estimated Date of Commercial Operation |
|---|---|---|---|---|---|
| Red Barn | 10% | 9.16MW | $18 million | $0.6 million | December 2022 |
| Badger Hollow II | 33% | 50 MW | $65 million | $23.8 million[(b)(c)] | First Half of 2023 |

(a) Excluding AFUDC.
(b) MGE received specific approval to recover 100% AFUDC on Badger Hollow II. After tax, MGE recognized $0.9 million of AFUDC equity through March 31, 2022, on Badger Hollow II, during construction. AFUDC has been excluded from the costs incurred in the table above.
(c) Includes an allocation of common facilities at Badger Hollow placed in service in November 2021.

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

2021 Annual Fuel Proceeding: MGE under recovered fuel costs in 2021. As of December 31, 2021, MGE had deferred $3.3 million of 2021 fuel costs. These costs will be subject to the PSCW's annual review of 2021 fuel costs, expected to be completed during 2022. MGE has proposed to include these costs as part of the 2023 electric limited reopener.

2023 Electric Limited Rate Case Reopener: In April 2022, MGE filed with the PSCW a proposed electric limited rate case reopener. The limited rate case reopener proposes a 4.38% increase to electric rates for 2023. See "Other Matters" below for additional information on the 2023 electric limited reopener.

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 5.1% and 5.0% of our net income during the three months ended March 31, 2022 and 2021, 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. Legislation and rulemaking addressing climate change and related matters 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 and paid.

Future Generation – 80% carbon reduction target by 2030: MGE has outlined initiatives to achieve our new target.

- *Transitioning away from coal.* 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 change depending on operational, regulatory, and other factors. 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.

  Elm Road Units: In November 2021, MGE announced plans to end the use of coal as a primary fuel at the Elm Road Units and transition the plant to natural gas. MGE is a minority owner of Elm Road, owning 8.33%. The approximately 1,230 MW coal-fired plant is co-owned by WEC Energy Group, whose subsidiary serves as operator, and by WPPI Energy, Inc. Transition plans and costs will be subject to PSCW approval. MGE's remaining use of coal is expected to be further reduced as the Elm Road Units transition to natural gas. This transition will help MGE meet its 2030 carbon reduction goals. By 2035, MGE expects that the Elm Road Units will be fully transitioned away from coal, which will eliminate coal as an internal generation source for MGE.

- *Growing renewable generation.* In addition to current projects under construction, MGE is seeking to acquire a joint interest in several renewable generation projects as described below.

| Project | Source | Ownership Interest | Share of Generation/ Battery Storage | Share of Estimated Costs[c][d] | Estimated Date of Commercial Operation |
|---|---|---|---|---|---|
| Paris[a] | Solar/Battery | 10% | 20MW/11MW | $43 million | 2023 |
| Darien[b] | Solar/Battery | 10% | 25MW/7.5MW | $45 million | 2023 |
| Koshkonong[b] | Solar/Battery | 10% | 30MW/16.5MW | $65 million | 2024[e] |

(a) Approved by the PSCW.
(b) Pending approval by the PSCW. There is no certainty that this project will be approved by the PSCW.
(c) Excluding AFUDC

(d) Requested, in the case of projects pending PSCW approval, or received, in the case of Paris, approval to recover 100% AFUDC.
(e) Construction of the project is expected to be completed in phases ranging from May 2024 through December 2024.

- *Natural gas as a fuel source.* West 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 West 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. In January 2022, MGE, along with joint applicants, filed an application with the PSCW requesting approval for a sale and purchase of ownership interests in West Riverside. If approved, MGE's share of West Riverside will be 25 MW at a purchase price of approximately $25 million. The closing and actual transfer of ownership is expected to occur in March 2023. MGE also retains the option to purchase an additional 25 MW of capacity from West Riverside until May 2025. MGE currently expects to exercise this option in a future period.

Solar Procurement Disruptions – In June 2021, the U.S. Customs and Border Protection (CBP) issued a Withhold Release Order (WRO) against silica-based products made by Hoshine Silicon Industry Co. Ltd., a company located in China's Xinjiang Uyghur Autonomous Region. As a result of this WRO, CBP is holding many solar panels imported into the United States until importers can prove that the panels do not contain materials originating from this region. Additionally, in March 2022, the U.S. Department of Commerce announced a solar tariff investigation on solar panels from four Southeast Asian countries. This investigation could result in additional tariffs on solar panels. MGE is currently assessing the potential impact of these disruptions on current and future solar projects which may result in an increase in costs or delays in construction timelines. Any delays or increase in costs will be filed with the PSCW.

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 continue to monitor potential disruptions or constraints in materials and supplies from key suppliers and as well as macroeconomic trends, such as inflation. We could experience increased costs and delays in our ability to perform certain maintenance and capital project activities. We cannot 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 2021 Annual Report on Form 10-K for a description of risk.

The following discussion is based on the business segments as discussed in Footnote 14 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 purchased 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, purchased 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 March 31, 2022 and 2021***

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:

| | Three Months Ended March 31, | | |
|---|---|---|---|
| *(In millions)* | 2022 | 2021 | $ Change |
| Electric revenues | $ 110.1 | $ 100.6 | $ 9.5 |
| Fuel for electric generation | (13.5) | (13.2) | (0.3) |
| Purchased power | (12.5) | (9.4) | (3.1) |
| Total Electric Margins (non-GAAP) | 84.1 | 78.0 | 6.1 |
| | | | |
| Gas revenues | 98.8 | 67.3 | 31.5 |
| Cost of gas sold | (64.8) | (37.4) | (27.4) |
| Total Gas Margins (non-GAAP) | 34.0 | 29.9 | 4.1 |
| | | | |
| Other operating revenues | — | 0.1 | (0.1) |
| Other operations and maintenance | (50.0) | (45.7) | (4.3) |
| Depreciation and amortization | (21.0) | (18.4) | (2.6) |
| Other general taxes | (5.2) | (4.8) | (0.4) |
| Operating Income | $ 41.9 | $ 39.1 | $ 2.8 |

Operating income during the three months ended March 31, 2022, compared to the same period in the prior year, primarily reflects the effects of the following factors:

- Electric revenues and fuel costs
  - A $9.5 million increase in electric revenues primarily driven by higher electric retail rates to recover higher fuel and purchased power costs and other items described in the "Other Matters" section below.
  - A $0.3 million increase in fuel for electric generation reflecting higher market costs offset by lower internal generation.
  - A $3.1 million increase in purchased power driven by higher market purchases as a result of lower internal generation.

- Gas revenues and cost of gas sold
  - A $31.5 million increase in gas revenue driven by higher cost of gas, which is recovered on a pass-through basis in revenues and increase in retail gas deliveries related to favorable weather conditions in the current year.
  - A $27.4 million increase in cost of gas sold driven by higher cost per therm of gas. Average cost per therm increased approximately 56%. An increase in volume of approximately 11% also contributed to the increase in cost.

- A $4.3 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 $2.6 million increase in depreciation and amortization expense. See "Consolidated depreciation expense" section below for a description of the factors contributing to the increase.

***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) | | |
|---|---|---|---|---|---|---|
| | Three Months Ended March 31, | | | Three Months Ended March 31, | | |
| *(In thousands)* | 2022 | 2021 | % Change | 2022 | 2021 | % Change |
| Residential | $ 40,474 | $ 36,694 | 10.3% | 221,884 | 219,770 | 1.0% |
| Commercial | 54,449 | 47,883 | 13.7% | 426,529 | 414,337 | 2.9% |
| Industrial | 3,147 | 3,001 | 4.9% | 39,261 | 39,005 | 0.7% |
| Other-retail/municipal | 8,829 | 8,170 | 8.1% | 80,610 | 76,356 | 5.6% |
| Total retail | 106,899 | 95,748 | 11.6% | 768,284 | 749,468 | 2.5% |
| Sales to the market | 2,882 | 4,639 | (37.9)% | 51,152 | 95,872 | (46.6)% |
| Other | 308 | 222 | 38.7% | — | — | —% |
| Total | $ 110,089 | $ 100,609 | 9.4% | 819,436 | 845,340 | (3.1)% |

Electric margin, a non-GAAP measure, increased $6.1 million during the three months ended March 31, 2022, compared to the same period in 2021, due to the following:

| *(In millions)* | |
|---|---|
| Rate changes | $ 11.3 |
| Customer fixed and demand charges | 0.6 |
| Increase in commercial, industrial and other-retail/municipal volume | 0.6 |
| Increase in residential volume | 0.2 |
| Other | 0.2 |
| Increased fuel costs | (4.8) |
| Revenue subject to refund, net | (2.0) |
| Total | $ 6.1 |

- *Rate changes.* In December 2021, the PSCW authorized MGE to increase 2022 rates for retail electric customers by approximately 8.81%. Rates charged to retail customers during the three months ended March 31, 2022, were $11.3 million higher than those charged during the same period in the prior year.

- *Fuel costs.* Fuel costs increased during the three months ended March 31, 2022, primarily as a result of higher costs to generate electricity in the market and higher customer demand.

- *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.

***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:

| *(In thousands, except HDD and average rate per therm of retail customer)* | Revenues Three Months Ended March 31, 2022 | 2021 | % Change | Therms Delivered Three Months Ended March 31, 2022 | 2021 | % Change |
|---|---|---|---|---|---|---|
| Residential | $ 56,683 | $ 39,758 | 42.6% | 55,661 | 50,305 | 10.6% |
| Commercial/Industrial | 40,251 | 25,507 | 57.8% | 47,892 | 42,254 | 13.3% |
| Total retail | 96,934 | 65,265 | 48.5% | 103,553 | 92,559 | 11.9% |
| Gas transportation | 1,876 | 2,002 | (6.3)% | 26,067 | 23,308 | 11.8% |
| Other | 1 | 3 | (66.7)% | — | — | —% |
| Total | $ 98,811 | $ 67,270 | 46.9% | 129,620 | 115,867 | 11.9% |
| Heating degree days (normal 3,529) | | | | 3,718 | 3,593 | 3.5% |
| Average rate per therm of retail customer | $ 0.936 | $ 0.705 | 32.8% | | | |

Gas margin, a non-GAAP measure, increased $4.1 million during the three months ended March 31, 2022, compared to the same period in 2021, due to the following:

| *(In millions)* | |
|---|---|
| Increase in volume | $ 1.9 |
| Rate changes | 1.7 |
| Other | 0.5 |
| Total | $ 4.1 |

- *Volume.* For 2022, retail gas deliveries increased 11.9% compared to the same period in the prior year primarily related to favorable weather conditions in the current year.

- *Rate changes.* In December 2021, the PSCW authorized MGE to increase 2022 rates for retail gas customers by approximately 2.15%.

  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 driving higher rates during the three months ended March 31, 2022.

***Consolidated operations and maintenance expenses***

During the three months ended March 31, 2022, operations and maintenance expenses increased $4.3 million, compared to the same period in the prior year. The following contributed to the net change:

| *(In millions)* | |
|---|---|
| Increased administrative and general costs | $ 2.3 |
| Increased electric production expenses | 1.1 |
| Increased customer accounts costs | 1.0 |
| Increased other expenses | 0.1 |
| Decreased electric distribution expenses | (0.2) |
| Total | $ 4.3 |

- Increase in administration and general costs are primarily related to increase in pension and OPEB service costs.

- Increased electric production expenses are primarily related to increased maintenance costs for Saratoga, Two Creeks, and Badger Hollow I.

- Increased customer accounts costs are related to increased costs associated with the new customer information system, which went live in September 2021.

***Consolidated depreciation expense***

Electric depreciation expense increased $2.0 million and gas depreciation expense increased $0.7 million during the three months ended March 31, 2022, compared to the same period in the prior year. MGE placed in service Badger Hollow I in November 2021. The timing of the in-service date contributed to the increase in electric depreciation expense. The new customer information system went live in September 2021 increasing depreciation costs for both electric and gas in 2022.

***Electric and gas other income***

Electric and gas other income increased $2.3 million and $1.3 million, respectively, during the three months ended March 31, 2022, compared to the same period in the prior year, primarily related to the collection in 2021 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 three months ended March 31, 2022 and 2021, 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 that 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 March 31, 2022 and 2021, other income at the transmission investment segment primarily reflects ATC's operations and was $2.5 million and $2.4 million, respectively. 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 2022, the effective electric tax rate increased 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 March 31, | |
|---|---|---|
| *(In millions)* | 2022 | 2021 |
| MGE Power Elm Road | $ 3.0 | $ 3.7 |
| MGE Power West Campus | 1.8 | 1.8 |

**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 three months ended March 31, 2022, 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 2021 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 March 31, 2022, 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.

## *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 working 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 2021 Annual Report on Form 10-K 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 three months ended March 31, 2022 and 2021:

| | MGE Energy | | MGE | |
|---|---|---|---|---|
| *(In thousands)* | 2022 | 2021 | 2022 | 2021 |
| Cash provided by (used for): | | | | |
| Operating activities | $ 62,099 | $ 43,883 | $ 62,681 | $ 41,981 |
| Investing activities | (32,169) | (35,835) | (30,942) | (35,208) |
| Financing activities | (21,216) | (13,585) | (21,203) | (5,205) |

**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 three months ended March 31, 2022, was $62.1 million, an increase of $18.2 million when compared to the same period in the prior year.

MGE Energy's net income decreased $0.5 million during the three months ended March 31, 2022, when compared to the same period in the prior year.

MGE Energy's federal and state taxes paid increased $1.0 million during the three months ended March 31, 2022, when compared to the prior year.

Working capital accounts (excluding prepaid and accrued taxes) resulted in $0.2 million in cash provided by operating activities during the three months ended March 31, 2022. Actual purchased gas costs were $5.9 million lower than the amount collected in rates. MGE Energy paid a $2.5 million contribution to the MGE Foundation in 2022. In addition, working capital accounts were impacted by decreased inventories and decreased unbilled revenues, partially offset by increased accounts receivable and decreased accounts payable.

Working capital accounts (excluding prepaid and accrued taxes) resulted in $11.4 million in cash used for operating activities during the three months ended March 31, 2021. Actual purchased gas costs were $13.0 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 increased accounts receivable and decreased other current liabilities, partially offset by decreased gas inventories and decreased unbilled revenues.

Hosted software asset expenditures during the three months ended March 31, 2022, were $0.1 million. This amount represents a decrease of $1.2 million of cash used when compared to the prior year.

***MGE***

Cash provided by operating activities during the three months ended March 31, 2022, was $62.7 million, an increase of $20.7 million when compared to the same period in the prior year.

Net income decreased $1.7 million during the three months ended March 31, 2022, when compared to the same period in the prior year.

MGE's federal and state taxes paid increased $1.0 million during the three months ended March 31, 2022, when compared to the prior year.

Working capital accounts (excluding prepaid and accrued taxes) resulted in $2.8 million in cash provided by operating activities during the three months ended March 31, 2022. Actual purchased gas costs were $5.9 million lower than the amount collected in rates. In addition, working capital accounts were impacted by decreased inventories and decreased unbilled revenues, partially offset by increased accounts receivable and decreased accounts payable.

Working capital accounts (excluding prepaid and accrued taxes) resulted in $11.3 million in cash used for operating activities during the three months ended March 31, 2021. Actual purchased gas costs were $13.0 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 increased accounts receivable and decreased other current liabilities, partially offset by decreased gas inventories and decreased unbilled revenues.

Hosted software asset expenditures during the three months ended March 31, 2022, were $0.1 million. This amount represents a decrease of $1.2 million of cash used when compared to the prior year.

**Capital Requirements and Investing Activities**

***MGE Energy***

MGE Energy's cash used for investing activities decreased $3.7 million during the three months ended March 31, 2022, when compared to the same period in the prior year.

Capital expenditures during the three months ended March 31, 2022, were $30.8 million. This amount represents a decrease of $4.0 million from the expenditures made in the same period in the prior year. This decrease primarily reflects the reduction of utility expenditures.

***MGE***

MGE's cash used for investing activities decreased $4.3 million during the three months ended March 31, 2022, when compared to the same period in the prior year.

Capital expenditures during the three months ended March 31, 2022, were $30.8 million. This amount represents a decrease of $4.0 million from the expenditures made in the same period in the prior year. This decrease primarily reflects the reduction of utility expenditures.

**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 three months ended March 31, 2022, capital expenditures for MGE Energy and MGE totaled $30.8 million, which included $30.2 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 2022 through 2025 capital expenditure forecast included under Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources in the 2021 Annual Report on Form 10-K.

**Cash Used for Financing Activities**

***MGE Energy***

Cash used for MGE Energy's financing activities was $21.2 million during the three months ended March 31, 2022, compared to $13.6 million for the same period in the prior year.

During the three months ended March 31, 2022, dividends paid were $14.0 million compared to $13.4 million in the prior year. The increase reflected a higher dividend rate per share ($0.388 vs. $0.370).

During the three months ended March 31, 2022, net short-term debt repayments were $5.5 million, compared to $1.5 million of net short-term debt borrowings in the prior year.

***MGE***

During the three months ended March 31, 2022, cash used for MGE's financing activities was $21.2 million, compared to $5.2 million for the same period in the prior year.

Cash dividends to parent (MGE Energy) were $5.0 million during the three months ended March 31, 2022. There were no cash dividends to parent in the prior year.

Distributions to parent from noncontrolling interest, which represent distributions from MGE Power Elm Road and MGE Power West Campus to MGE Energy, were $9.0 million during the three months ended March 31, 2022, compared to $5.0 million in the prior year.

During the three months ended March 31, 2022, net short-term debt repayments were $5.5 million, compared to $1.5 million of net short-term debt borrowings in the prior year.

**Capitalization Ratios**

MGE Energy's capitalization ratios were as follows:

| | MGE Energy | |
|---|---|---|
| | March 31, 2022 | December 31, 2021 |
| Common shareholders' equity | 62.9% | 62.2% |
| Long-term debt[(a)] | 37.1% | 37.5% |
| Short-term debt | —% | 0.3% |

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

**Credit Ratings**

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

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

**Environmental Matters**

The following discussion is limited to updates or developments in environmental matters that occurred during the three months ended March 31, 2022. Further discussion of environmental matters is included in the 2021 Annual Report on Form 10-K and Footnote 8.a. of Notes to Consolidated Financial Statements in this Report.

**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. This is accomplished in the CSAPR through a reduction in $SO_2$ and $NO_x$ from qualifying fossil-fuel fired power plants in upwind "contributing" states. $NO_x$ and $SO_2$ contribute to fine particulate pollution and $NO_x$ contributes to ozone formation in downwind areas. Reductions are achieved through a cap-and-trade system. Individual plants can meet their caps through emission reductions and/or buying allowances on the market.

In April 2022, the EPA published a proposed federal implementation plan (FIP) to address state obligations under the Clean Air Act "good neighbor" provisions for the 2015 Ozone NAAQS. This proposed rule impacts 26 states, including Wisconsin, and is designed to both revise the current $NO_x$ CSAPR ozone season cap-and-trade obligations for fossil-fuel generated power plants and add $NO_x$ limitations for certain industries in specified states. For Wisconsin, the proposed rule includes revisions to the current obligations for fossil-fuel power generation as well as the new limitations for certain industries.

If finalized, the proposed rule would be effective beginning with the 2023 ozone season and start with emissions budgets that can be achieved with what the EPA has defined as immediately available measures, including consistently operating emissions controls already installed at power plants. In 2026, additional obligations would go into effect, including potential daily emissions limits and technology upgrades to coal-fired power plants without existing emission controls. Wisconsin would need to submit a State Implementation Plan (SIP) to meet its obligations or accept the EPA's proposed FIP.

MGE is currently evaluating the proposed rule to determine potential impacts to our business. MGE expects the rule, if finalized as written, to impact our fossil-fueled generation assets. However, MGE will not know the impacts of this rule with any certainty until the rule is finalized. We will continue to monitor rule developments.

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.

**Other Matters**

***Rate Matters***

In December 2021, the PSCW approved a settlement agreement for MGE's 2022 rate case. The settlement agreement provides for an 8.81% increase to electric rates and a 2.15% increase to gas rates for 2022. The electric and gas rate increases are driven by an increase in rate base including our investments in Badger Hollow I and a new customer information system. Also driving the electric increase are higher fuel and purchased power costs as well as the completion in 2021 of the one-time return of the electric excess deferred tax credit related to the 2017

Tax Act not restricted by IRS normalization rules. Included in the electric residential rate is a reduction in the customer charge. As part of the settlement agreement for 2023, the PSCW approved a 0.96% increase in gas rates and to address a potential electric rate change through a limited rate case reopener.

In April 2022, MGE filed a limited reopener with a proposed a 4.38% increase to electric rates for 2023. The electric rate increase is driven by generation assets including our investments in Badger Hollow II (solar), Paris (solar and battery), Red Barn (wind), and West Riverside (natural gas). In addition, the reopener request includes a reduction in fuel costs, which MGE has partially offset with the recovery of deferred 2021 fuel costs. The reopener also revises the depreciation schedule for Columbia Unit 2 and shared equipment to 2029 to align with the depreciation schedule for Columbia Unit 1. PSCW approval of the limited reopener is pending. A final order is expected before the end of the year.

Details related to MGE's 2022/2023 approved settlement agreement and pending electric limited reopener:

| *(Dollars in thousands)* | Authorized Average Rate Base[(a)] | Authorized Average CWIP[(b)] | Authorized Return on Common Equity[(c)] | Common Equity Component of Regulatory Capital Structure | Effective Date |
|---|---|---|---|---|---|
| Electric (2022 Test Period) | $ 1,044,362 | $ 19,976 | 9.8% | 55.63% | 1/1/2022 |
| Gas (2022 Test Period) | $ 299,319 | $ 11,410 | 9.8% | 55.63% | 1/1/2022 |
| Electric (2023 Test Period)[(d)] | $ 1,159,155 | $ 19,976 | 9.8% | 55.63% | 1/1/2023 |
| Gas (2023 Test Period) | $ 312,270 | $ 8,228 | 9.8% | 55.63% | 1/1/2023 |

(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.

(d) Pending approval by the PSCW.

***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 5.1% and 5.0% of our net income during the three months ended March 31, 2022 and 2021, 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. MGE is subject to a plus or minus 1% range. MGE assumes the risks and benefits of variances that are within the cost tolerance band. For 2022, $82.7 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.b. 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 March 31, 2022, the fair value of exchange traded derivatives and FTRs exceeded their cost basis by $9.8 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 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 March 31, 2022, reflected a loss position of $0.1 million.

**Interest Rate Risk**

Both MGE Energy and MGE may have short-term borrowings at varying interest rates. MGE issues commercial paper for its short-term borrowings, while MGE Energy draws from its current credit facility to meet our short-term borrowing needs. Borrowing levels vary from period to period depending upon capital investments and other factors. Future short-term interest expense and payments will reflect both future short-term interest rates and borrowing levels. MGE Energy and MGE manage interest rate risk by limiting their variable rate exposure and continually monitoring the effects of market changes on interest rates. MGE is not exposed to changes in interest rates on a substantial portion of its long-term debt until that debt matures and is refinanced at market rates.

**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 declined by approximately 7% during the three months ended March 31, 2022.

**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 March 31, 2022, 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, 2021, 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 first quarter of 2022, 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 March 31, 2022, 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 March 31, 2022, 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)] |
|---|---|---|---|---|
| January 1-31, 2022 | 7,264 | $ 79.44 | — | — |
| February 1-28, 2022 | 7,020 | 74.05 | — | — |
| March 1-31, 2022 | 39,234 | 76.76 | — | — |
| Total | 53,518 | $ 76.77 | — | — |

(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 2022, 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 3. Defaults Upon Senior Securities.

None.

### Item 4. Mine Safety Disclosures.

Not applicable to MGE Energy and MGE.

### Item 5. Other Information.

None.

## 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: May 5, 2022

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

Date: May 5, 2022

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

Date: May 5, 2022

/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: May 5, 2022

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

Date: May 5, 2022

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

Date: May 5, 2022

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

**EXHIBIT 31.1**

Certification Pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934

I, Jeffrey M. Keebler, certify that:

1. I have reviewed this quarterly report on Form 10-Q of MGE Energy, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Jeffrey M. Keebler

Jeffrey M. Keebler
Chairman, President and Chief Executive Officer

Date: May 5, 2022

**EXHIBIT 31.2**

Certification Pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934

I, Jared J. Bushek, certify that:

1. I have reviewed this quarterly report on Form 10-Q of MGE Energy, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Jared J. Bushek

Jared J. Bushek
Vice President - Finance, Chief Information Officer and Treasurer

Date: May 5, 2022

**EXHIBIT 31.3**

Certification Pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934

I, Jeffrey M. Keebler, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Madison Gas and Electric Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Jeffrey M. Keebler

Jeffrey M. Keebler
Chairman, President and Chief Executive Officer

Date: May 5, 2022

**EXHIBIT 31.4**

Certification Pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934

I, Jared J. Bushek, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Madison Gas and Electric Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Jared J. Bushek

Jared J. Bushek
Vice President - Finance, Chief Information Officer and Treasurer

Date: May 5, 2022

**EXHIBIT 32.1**

**Certification Pursuant to 18 U.S.C. Section 1350,**
**as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the quarterly report on Form 10-Q of MGE Energy, Inc. (the "Company"), for the period ended March 31, 2022, as filed with the Securities and Exchange Commission on the date hereof ("the Report"), I, Jeffrey M. Keebler, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Jeffrey M. Keebler
Jeffrey M. Keebler
Chairman, President and Chief Executive Officer

Date: May 5, 2022

**EXHIBIT 32.2**

**Certification Pursuant to 18 U.S.C. Section 1350,**
**as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the quarterly report on Form 10-Q of MGE Energy, Inc. (the "Company"), for the period ended March 31, 2022, as filed with the Securities and Exchange Commission on the date hereof ("the Report"), I, Jared J. Bushek, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Jared J. Bushek

Jared J. Bushek
Vice President - Finance, Chief Information Officer and Treasurer

Date: May 5, 2022

**EXHIBIT 32.3**

**Certification Pursuant to 18 U.S.C. Section 1350,
as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the quarterly report on Form 10-Q of Madison Gas and Electric Company (the "Company"), for the period ended March 31, 2022, as filed with the Securities and Exchange Commission on the date hereof ("the Report"), I, Jeffrey M. Keebler, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Jeffrey M. Keebler
Jeffrey M. Keebler
Chairman, President and Chief Executive Officer

Date: May 5, 2022