**United States**

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

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

*For the quarterly period ended:*

# June 30, 2023

☐ 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 July 31, 2023**

| | |
|---|---|
| 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.). |

## Table of Contents

## 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 and rate recovery, 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' 2022 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 |
| 2022 Annual Report on Form 10-K | MGE Energy's and MGE's Annual Report on Form 10-K for the year ended December 31, 2022 |
| 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 |
| CASAC | Clean Air Scientific Advisory Committee |
| CBP | U.S. Customs and Border Protection |
| CCR | Coal Combustion Residual |
| Columbia | Columbia Energy Center |
| cooling degree days (CDD) | Measure of the extent to which the average daily temperature is above 65 degrees Fahrenheit, which is considered an indicator of possible increased demand for energy to provide cooling |
| CSAPR | Cross-State Air Pollution Rule |
| D.C. Circuit | United States Court of Appeals for the District of Columbia Circuit |
| Darien | Darien Solar Energy Center |
| Dth | Dekatherms, a quantity measure for natural gas |
| EGU | Electric generating unit |
| ELG | Effluent Limitations Guidelines |
| Elm Road Units | Elm Road Generating Station |
| EPA | United States Environmental Protection Agency |
| FASB | Financial Accounting Standards Board |
| FERC | Federal Energy Regulatory Commission |
| FIP | Federal Implementation Plan |
| FTR | Financial Transmission Rights |
| 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 |
| Nasdaq | The Nasdaq Stock Market |
| $NO_x$ | Nitrogen oxide |
| NSPS | New Source Performance Standards |
| Paris | Paris Solar and Battery Park |
| the Petition | Petition for Judicial Review of Agency Action |
| PGA | Purchased Gas Adjustment clause, a regulatory mechanism used to reconcile natural gas costs recovered in rates to actual costs |
| PM | Particulate Matter |

| | |
|---|---|
| PPA | Purchased Power Agreement |
| PSCW | Public Service Commission of Wisconsin |
| ROE | Return on equity |
| SEC | Securities and Exchange Commission |
| SIP | State Implementation Plan |
| $SO_2$ | Sulfur dioxide |
| Stock Plan | Direct Stock Purchase and Dividend Reinvestment Plan of MGE Energy |
| UFLPA | Uyghur Forced Labor Protection Act |
| USDOC | U.S. Department of Commerce |
| WCCF | West Campus Cogeneration Facility |
| WDNR | Wisconsin Department of Natural Resources |
| WEPCO | Wisconsin Electric Power Company, a subsidiary of WEC Energy Group, Inc. |
| West Riverside | West Riverside Energy Center in Beloit, Wisconsin |
| working capital | Current assets less current liabilities |
| WPDES | Wisconsin Pollutant Discharge Elimination System |
| 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 June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2023** | **2022** | **2023** | **2022** |
| **Operating Revenues:** | | | | |
| Electric revenues | $ 121,707 | $ 112,164 | $ 238,998 | $ 222,291 |
| Gas revenues | 26,291 | 40,184 | 126,253 | 138,995 |
| *Total Operating Revenues* | 147,998 | 152,348 | 365,251 | 361,286 |
| | | | | |
| **Operating Expenses:** | | | | |
| Fuel for electric generation | 13,599 | 13,880 | 27,406 | 27,365 |
| Purchased power | 5,845 | 13,621 | 21,231 | 26,164 |
| Cost of gas sold | 7,289 | 21,313 | 75,136 | 86,115 |
| Other operations and maintenance | 52,049 | 51,526 | 102,007 | 101,520 |
| Depreciation and amortization | 25,119 | 21,287 | 49,730 | 42,333 |
| Other general taxes | 5,707 | 5,263 | 11,317 | 10,468 |
| *Total Operating Expenses* | 109,608 | 126,890 | 286,827 | 293,965 |
| **Operating Income** | 38,390 | 25,458 | 78,424 | 67,321 |
| | | | | |
| Other income, net | 4,937 | 7,696 | 10,292 | 14,668 |
| Interest expense, net | (7,760) | (6,463) | (15,247) | (13,034) |
| Income before income taxes | 35,567 | 26,691 | 73,469 | 68,955 |
| Income tax provision | (6,886) | (4,930) | (13,710) | (12,774) |
| **Net Income** | $ 28,681 | $ 21,761 | $ 59,759 | $ 56,181 |
| | | | | |
| **Earnings Per Share of Common Stock** | | | | |
| Basic | $ 0.79 | $ 0.60 | $ 1.65 | $ 1.55 |
| Diluted | $ 0.79 | $ 0.60 | $ 1.65 | $ 1.55 |
| | | | | |
| **Dividends per share of common stock** | $ 0.408 | $ 0.388 | $ 0.815 | $ 0.775 |
| | | | | |
| **Weighted Average Shares Outstanding** | | | | |
| Basic | 36,163 | 36,163 | 36,163 | 36,163 |
| Diluted | 36,186 | 36,174 | 36,183 | 36,173 |

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

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

| | Six Months Ended June 30, | |
|---|---|---|
| | **2023** | **2022** |
| **Operating Activities:** | | |
| Net income | $ 59,759 | $ 56,181 |
| Items not affecting cash: | | |
| Depreciation and amortization | 49,730 | 42,333 |
| Deferred income taxes | 12,713 | 11,990 |
| Provision for doubtful receivables | 882 | 882 |
| Employee benefit plan cost (credit) | (1,227) | (4,146) |
| Equity earnings in investments | (5,240) | (5,127) |
| Other items | (885) | (865) |
| Changes in working capital items: | | |
| Decrease in current assets | 34,098 | 4,800 |
| Decrease in accounts payable | (20,508) | (610) |
| (Decrease) increase in other current liabilities | (2,105) | 7,059 |
| Dividends from investments | 4,248 | 3,959 |
| Cash contributions to pension and other postretirement plans | (3,540) | (3,351) |
| Other noncurrent items, net | (934) | (1,829) |
| *Cash Provided by Operating Activities* | 126,991 | 111,276 |
| **Investing Activities:** | | |
| Capital expenditures | (107,701) | (65,959) |
| Capital contributions to investments | (3,376) | (3,330) |
| Other | (682) | 226 |
| *Cash Used for Investing Activities* | (111,759) | (69,063) |
| **Financing Activities:** | | |
| Cash dividends paid on common stock | (29,473) | (28,027) |
| Repayments of long-term debt | (21,791) | (2,429) |
| Issuance of long-term debt | 69,300 | — |
| Repayments of short-term debt | (28,500) | (5,500) |
| Other | (1,479) | (612) |
| *Cash Used for Financing Activities* | (11,943) | (36,568) |
| Change in cash, cash equivalents, and restricted cash | 3,289 | 5,645 |
| Cash, cash equivalents, and restricted cash at beginning of period | 17,968 | 18,835 |
| **Cash, cash equivalents, and restricted cash at end of period** | $ 21,257 | $ 24,480 |
| **Supplemental disclosures of cash flow information:** | | |
| Significant noncash investing activities: | | |
| Accrued capital expenditures | $ 6,446 | $ 40,434 |

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

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

| ASSETS | | June 30, 2023 | | December 31, 2022 |
|---|---|---|---|---|
| **Current Assets:** | | | | |
| Cash and cash equivalents | $ | 16,507 | $ | 11,604 |
| Accounts receivable, less reserves of $6,147 and $7,050, respectively | | 41,025 | | 55,407 |
| Other accounts receivable, less reserves of $1,472 and $1,323, respectively | | 15,198 | | 11,418 |
| Unbilled revenues | | 26,650 | | 43,086 |
| Materials and supplies, at average cost | | 33,757 | | 33,465 |
| Fuel for electric generation, at average cost | | 12,524 | | 7,962 |
| Stored natural gas, at average cost | | 25,601 | | 32,848 |
| Prepaid taxes | | 20,025 | | 19,132 |
| Regulatory assets - current | | 16,347 | | 9,541 |
| Other current assets | | 14,897 | | 19,017 |
| *Total Current Assets* | | 222,531 | | 243,480 |
| Regulatory assets | | 97,801 | | 103,900 |
| Pension benefit asset | | 72,349 | | 68,872 |
| Other deferred assets and other | | 22,326 | | 24,365 |
| **Property, Plant, and Equipment:** | | | | |
| Property, plant, and equipment, net | | 1,903,143 | | 1,865,352 |
| Construction work in progress | | 132,980 | | 105,748 |
| *Total Property, Plant, and Equipment* | | 2,036,123 | | 1,971,100 |
| **Investments** | | 108,938 | | 105,883 |
| **Total Assets** | $ | 2,560,068 | $ | 2,517,600 |

| LIABILITIES AND CAPITALIZATION | | | | |
|---|---|---|---|---|
| **Current Liabilities:** | | | | |
| Long-term debt due within one year | $ | 35,079 | $ | 54,314 |
| Short-term debt | | 42,000 | | 70,500 |
| Accounts payable | | 38,571 | | 59,334 |
| Accrued interest and taxes | | 8,750 | | 7,868 |
| Accrued payroll related items | | 10,337 | | 13,064 |
| Regulatory liabilities - current | | 15,831 | | 11,925 |
| Other current liabilities | | 8,831 | | 8,057 |
| *Total Current Liabilities* | | 159,399 | | 225,062 |
| **Other Credits:** | | | | |
| Deferred income taxes | | 266,807 | | 252,190 |
| Investment tax credit - deferred | | 47,785 | | 48,735 |
| Regulatory liabilities | | 153,549 | | 156,988 |
| Accrued pension and other postretirement benefits | | 54,179 | | 53,607 |
| Finance lease liabilities | | 17,860 | | 17,108 |
| Other deferred liabilities and other | | 96,251 | | 96,990 |
| *Total Other Credits* | | 636,431 | | 625,618 |
| **Capitalization:** | | | | |
| Common shareholders' equity | | 1,112,584 | | 1,081,674 |
| Long-term debt | | 651,654 | | 585,246 |
| *Total Capitalization* | | 1,764,238 | | 1,666,920 |
| Commitments and contingencies (see Footnote 8) | | | | |
| **Total Liabilities and Capitalization** | $ | 2,560,068 | $ | 2,517,600 |

*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 | | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income/(Loss) | Total |
|---|---|---|---|---|---|---|
| | Shares | Value | | | | |
| **Three Months Ended June 30, 2022** | | | | | | |
| Beginning Balance | 36,163 | $ 36,163 | $ 395,181 | $ 616,809 | $ — | $1,048,153 |
| Net income | | | | 21,761 | | 21,761 |
| Common stock dividends declared ($0.388 per share) | | | | (14,014) | | (14,014) |
| Equity-based compensation plans and other | | | 157 | | | 157 |
| Ending Balance - June 30, 2022 | 36,163 | $ 36,163 | $ 395,338 | $ 624,556 | $ — | $1,056,057 |
| **Three Months Ended June 30, 2023** | | | | | | |
| Beginning Balance | 36,163 | $ 36,163 | $ 396,011 | $ 666,196 | $ — | $1,098,370 |
| Net income | | | | 28,681 | | 28,681 |
| Common stock dividends declared ($0.408 per share) | | | | (14,737) | | (14,737) |
| Equity-based compensation plans and other | | | 270 | | | 270 |
| Ending Balance - June 30, 2023 | 36,163 | $ 36,163 | $ 396,281 | $ 680,140 | $ — | $1,112,584 |
| **Six Months Ended June 30, 2022** | | | | | | |
| Beginning Balance | 36,163 | $ 36,163 | $ 394,903 | $ 596,402 | $ — | $1,027,468 |
| Net income | | | | 56,181 | | 56,181 |
| Common stock dividends declared ($0.775 per share) | | | | (28,027) | | (28,027) |
| Equity-based compensation plans and other | | | 435 | | | 435 |
| Ending Balance - June 30, 2022 | 36,163 | $ 36,163 | $ 395,338 | $ 624,556 | $ — | $1,056,057 |
| **Six Months Ended June 30, 2023** | | | | | | |
| Beginning Balance | 36,163 | $ 36,163 | $ 395,657 | $ 649,854 | $ — | $1,081,674 |
| Net income | | | | 59,759 | | 59,759 |
| Common stock dividends declared ($0.815 per share) | | | | (29,473) | | (29,473) |
| Equity-based compensation plans and other | | | 624 | | | 624 |
| Ending Balance - June 30, 2023 | 36,163 | $ 36,163 | $ 396,281 | $ 680,140 | $ — | $1,112,584 |

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

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2023** | **2022** | **2023** | **2022** |
| **Operating Revenues:** | | | | |
| Electric revenues | $ 121,707 | $ 112,164 | $ 238,998 | $ 222,291 |
| Gas revenues | 26,291 | 40,184 | 126,253 | 138,995 |
| *Total Operating Revenues* | 147,998 | 152,348 | 365,251 | 361,286 |
| **Operating Expenses:** | | | | |
| Fuel for electric generation | 13,599 | 13,880 | 27,406 | 27,365 |
| Purchased power | 5,845 | 13,621 | 21,231 | 26,164 |
| Cost of gas sold | 7,289 | 21,313 | 75,136 | 86,115 |
| Other operations and maintenance | 51,835 | 51,289 | 101,404 | 101,034 |
| Depreciation and amortization | 25,119 | 21,287 | 49,730 | 42,333 |
| Other general taxes | 5,707 | 5,263 | 11,317 | 10,468 |
| *Total Operating Expenses* | 109,394 | 126,653 | 286,224 | 293,479 |
| **Operating Income** | 38,604 | 25,695 | 79,027 | 67,807 |
| Other income, net | 3,254 | 4,519 | 6,161 | 8,037 |
| Interest expense, net | (7,815) | (6,470) | (15,335) | (13,047) |
| Income before income taxes | 34,043 | 23,744 | 69,853 | 62,797 |
| Income tax provision | (6,436) | (4,117) | (12,603) | (11,117) |
| **Net Income** | $ 27,607 | $ 19,627 | $ 57,250 | $ 51,680 |
| Less: Net Income Attributable to Noncontrolling Interest, net of tax | (5,375) | (5,588) | (10,895) | (10,344) |
| **Net Income Attributable to MGE** | $ 22,232 | $ 14,039 | $ 46,355 | $ 41,336 |

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

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

| | Six Months Ended June 30, 2023 | Six Months Ended June 30, 2022 |
|---|---|---|
| **Operating Activities:** | | |
| Net income | $ 57,250 | $ 51,680 |
| Items not affecting cash: | | |
| Depreciation and amortization | 49,730 | 42,333 |
| Deferred income taxes | 11,955 | 11,248 |
| Provision for doubtful receivables | 882 | 882 |
| Employee benefit plan cost (credit) | (1,227) | (4,146) |
| Other items | (1,344) | 851 |
| Changes in working capital items: | | |
| Decrease in current assets | 33,520 | 3,605 |
| Decrease in accounts payable | (20,560) | (623) |
| (Decrease) increase in other current liabilities | (188) | 9,303 |
| Cash contributions to pension and other postretirement plans | (3,540) | (3,351) |
| Other noncurrent items, net | (1,428) | (2,233) |
| *Cash Provided by Operating Activities* | 125,050 | 109,549 |
| **Investing Activities:** | | |
| Capital expenditures | (107,701) | (65,959) |
| Other | (805) | (341) |
| *Cash Used for Investing Activities* | (108,506) | (66,300) |
| **Financing Activities:** | | |
| Cash dividends paid to parent by MGE | (21,000) | (12,000) |
| Distributions to parent from noncontrolling interest | (10,250) | (13,250) |
| Repayments of long-term debt | (21,791) | (2,429) |
| Issuance of long-term debt | 69,300 | — |
| Repayments of short-term debt | (28,500) | (5,500) |
| Other | (1,479) | (612) |
| *Cash Used for Financing Activities* | (13,720) | (33,791) |
| Change in cash, cash equivalents, and restricted cash | 2,824 | 9,458 |
| Cash, cash equivalents, and restricted cash at beginning of period | 10,500 | 7,798 |
| **Cash, cash equivalents, and restricted cash at end of period** | $ 13,324 | $ 17,256 |
| **Supplemental disclosures of cash flow information:** | | |
| Significant noncash investing activities: | | |
| Accrued capital expenditures | $ 6,446 | $ 40,434 |

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

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

| ASSETS | June 30, 2023 | December 31, 2022 |
|---|---|---|
| **Current Assets:** | | |
| Cash and cash equivalents | $ 8,574 | $ 4,136 |
| Accounts receivable, less reserves of $6,147 and $7,050, respectively | 41,025 | 55,407 |
| Other accounts receivable, less reserves of $1,472 and $1,323, respectively | 15,195 | 11,416 |
| Unbilled revenues | 26,650 | 43,086 |
| Materials and supplies, at average cost | 33,757 | 33,465 |
| Fuel for electric generation, at average cost | 12,524 | 7,962 |
| Stored natural gas, at average cost | 25,601 | 32,848 |
| Prepaid taxes | 19,885 | 18,467 |
| Regulatory assets - current | 16,347 | 9,541 |
| Other current assets | 15,413 | 19,479 |
| *Total Current Assets* | 214,971 | 235,807 |
| Regulatory assets | 97,801 | 103,900 |
| Pension benefit asset | 72,349 | 68,872 |
| Other deferred assets and other | 22,528 | 24,817 |
| **Property, Plant, and Equipment:** | | |
| Property, plant, and equipment, net | 1,903,171 | 1,865,380 |
| Construction work in progress | 132,980 | 105,748 |
| *Total Property, Plant, and Equipment* | 2,036,151 | 1,971,128 |
| **Investments** | 108 | 115 |
| **Total Assets** | $ 2,443,908 | $ 2,404,639 |

| LIABILITIES AND CAPITALIZATION | June 30, 2023 | December 31, 2022 |
|---|---|---|
| **Current Liabilities:** | | |
| Long-term debt due within one year | $ 35,079 | $ 54,314 |
| Short-term debt | 42,000 | 70,500 |
| Accounts payable | 38,501 | 59,317 |
| Accrued interest and taxes | 8,705 | 7,912 |
| Accrued payroll related items | 10,337 | 13,064 |
| Regulatory liabilities - current | 15,831 | 11,925 |
| Other current liabilities | 8,841 | 6,062 |
| *Total Current Liabilities* | 159,294 | 223,094 |
| **Other Credits:** | | |
| Deferred income taxes | 233,117 | 219,258 |
| Investment tax credit - deferred | 47,785 | 48,735 |
| Regulatory liabilities | 153,549 | 156,988 |
| Accrued pension and other postretirement benefits | 54,179 | 53,607 |
| Finance lease liabilities | 17,860 | 17,108 |
| Other deferred liabilities and other | 98,084 | 98,217 |
| *Total Other Credits* | 604,574 | 593,913 |
| **Capitalization:** | | |
| Common shareholder's equity | 879,578 | 854,223 |
| Noncontrolling interest | 148,808 | 148,163 |
| *Total Equity* | 1,028,386 | 1,002,386 |
| Long-term debt | 651,654 | 585,246 |
| *Total Capitalization* | 1,680,040 | 1,587,632 |
| Commitments and contingencies (see Footnote 8) | | |
| **Total Liabilities and Capitalization** | $ 2,443,908 | $ 2,404,639 |

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

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

| | Common Stock | | Additional Paid-in | Retained | Accumulated Other Comprehensive | Non-Controlling | |
|---|---|---|---|---|---|---|---|
| | Shares | Value | Capital | Earnings | Income/(Loss) | Interest | Total |
| **Three Months Ended June 30, 2022** | | | | | | | |
| Beginning balance | 17,348 | $ 17,348 | $ 252,917 | $ 555,839 | $ — | $ 144,343 | $ 970,447 |
| Net income | | | | 14,039 | | 5,588 | 19,627 |
| Cash dividends paid to parent by MGE | | | | (7,000) | | | (7,000) |
| Distributions to parent from noncontrolling interest | | | | | | (4,250) | (4,250) |
| Ending Balance - June 30, 2022 | 17,348 | $ 17,348 | $ 252,917 | $ 562,878 | $ — | $ 145,681 | $ 978,824 |
| **Three Months Ended June 30, 2023** | | | | | | | |
| Beginning balance | 17,348 | $ 17,348 | $ 252,917 | $ 595,581 | $ — | $ 147,683 | $ 1,013,529 |
| Net income | | | | 22,232 | | 5,375 | 27,607 |
| Cash dividends paid to parent by MGE | | | | (8,500) | | | (8,500) |
| Distributions to parent from noncontrolling interest | | | | | | (4,250) | (4,250) |
| Ending Balance - June 30, 2023 | 17,348 | $ 17,348 | $ 252,917 | $ 609,313 | $ — | $ 148,808 | $ 1,028,386 |
| **Six Months Ended June 30, 2022** | | | | | | | |
| Beginning balance | 17,348 | $ 17,348 | $ 252,917 | $ 533,542 | $ — | $ 148,587 | $ 952,394 |
| Net income | | | | 41,336 | | 10,344 | 51,680 |
| Cash dividends paid to parent by MGE | | | | (12,000) | | | (12,000) |
| Distributions to parent from noncontrolling interest | | | | | | (13,250) | (13,250) |
| Ending Balance - June 30, 2022 | 17,348 | $ 17,348 | $ 252,917 | $ 562,878 | $ — | $ 145,681 | $ 978,824 |
| **Six Months Ended June 30, 2023** | | | | | | | |
| Beginning balance | 17,348 | $ 17,348 | $ 252,917 | $ 583,958 | $ — | $ 148,163 | $ 1,002,386 |
| Net income | | | | 46,355 | | 10,895 | 57,250 |
| Cash dividends paid to parent by MGE | | | | (21,000) | | | (21,000) |
| Distributions to parent from noncontrolling interest | | | | | | (10,250) | (10,250) |
| Ending Balance - June 30, 2023 | 17,348 | $ 17,348 | $ 252,917 | $ 609,313 | $ — | $ 148,808 | $ 1,028,386 |

*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 2022 Annual Report on Form 10-K (the 2022 Annual Report on Form 10-K).

The accompanying consolidated financial statements as of June 30, 2023, and during the three and six months ended, are unaudited but include all adjustments that MGE Energy and MGE management consider necessary for a fair statement of their respective financial statements. All adjustments are of a normal, recurring nature except as otherwise disclosed. The year-end consolidated balance sheet information was derived from the audited balance sheet appearing in the 2022 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 57 through 107 of the 2022 Annual Report on Form 10-K.

### b. Cash, Cash Equivalents, and Restricted Cash.

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

| | MGE Energy | | MGE | |
|---|---|---|---|---|
| *(In thousands)* | June 30, 2023 | December 31, 2022 | June 30, 2023 | December 31, 2022 |
| Cash and cash equivalents | $ 16,507 | $ 11,604 | $ 8,574 | $ 4,136 |
| Restricted cash | 838 | 867 | 838 | 867 |
| Receivable - margin account | 3,912 | 5,497 | 3,912 | 5,497 |
| Cash, cash equivalents, and restricted cash | $ 21,257 | $ 17,968 | $ 13,324 | $ 10,500 |

*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 and Unit 2 by June 2026. Final timing and retirement dates are subject to change depending on operational, regulatory, and other factors. As of June 30, 2023, early retirement of Columbia was probable.

The net book value of our ownership share of this generating unit was $139.0 million as of June 30, 2023. 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 both Units.

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 to the extent that the remaining net book value of the generating unit exceeds the present value of the amount expected to be recovered from ratepayers. No impairment was recorded as of June 30, 2023.

## 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 June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| *(In thousands)* | 2023 | 2022 | 2023 | 2022 |
| Equity earnings from investment in ATC | $ 2,599 | $ 2,592 | $ 5,182 | $ 5,070 |
| Dividends received from ATC | 2,042 | 1,958 | 4,248 | 3,959 |
| Capital contributions to ATC | 1,601 | 540 | 1,958 | 1,783 |

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

In July 2023, MGE Transco made a $1.1 million capital contribution to ATC.

ATC's summarized financial data is as follows:

| *(In thousands)* | Three Months Ended June 30, 2023 | Three Months Ended June 30, 2022 | Six Months Ended June 30, 2023 | Six Months Ended June 30, 2022 |
|---|---|---|---|---|
| Operating revenues | $ 203,776 | $ 191,605 | $ 404,202 | $ 382,604 |
| Operating expenses | (101,517) | (95,256) | (200,593) | (190,747) |
| Other income, net | 565 | 344 | 956 | 748 |
| Interest expense, net | (33,504) | (29,059) | (66,414) | (57,499) |
| Earnings before members' income taxes | $ 69,320 | $ 67,634 | $ 138,151 | $ 135,106 |

MGE receives transmission and other related services from ATC. During the three and six months ended June 30, 2023, MGE recorded $8.5 million and $16.9 million, respectively, for transmission service compared to $7.8 million and $15.7 million for comparable periods in 2022. MGE also provides a variety of operational, maintenance, and project management work for ATC, which is reimbursed by ATC. As of June 30, 2023, and December 31, 2022, MGE had a receivable due from ATC of $5.2 million and $4.8 million, respectively. The receivable is primarily related to transmission interconnection activities at Badger Hollow and Paris solar generation sites. MGE will be 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:

| **Three Months Ended June 30,** | MGE Energy 2023 | MGE Energy 2022 | MGE 2023 | MGE 2022 |
|---|---|---|---|---|
| Statutory federal income tax rate | 21.0 % | 21.0 % | 21.0 % | 21.0 % |
| State income taxes, net of federal benefit | 6.2 | 6.2 | 6.2 | 6.2 |
| Amortized investment tax credits | (0.7) | (0.7) | (0.7) | (0.7) |
| Credit for electricity from renewable energy | (5.2) | (5.7) | (5.6) | (6.2) |
| AFUDC equity, net | (0.4) | (0.4) | (0.4) | (0.4) |
| Amortization of utility excess deferred tax - tax reform[a] | (1.6) | (1.9) | (1.7) | (2.6) |
| Other, net, individually insignificant | 0.1 | — | 0.1 | — |
| Effective income tax rate | 19.4 % | 18.5 % | 18.9 % | 17.3 % |

| **Six Months Ended June 30,** | MGE Energy 2023 | MGE Energy 2022 | MGE 2023 | MGE 2022 |
|---|---|---|---|---|
| Statutory federal income tax rate | 21.0 % | 21.0 % | 21.0 % | 21.0 % |
| State income taxes, net of federal benefit | 6.2 | 6.2 | 6.2 | 6.2 |
| Amortized investment tax credits | (0.7) | (0.7) | (0.7) | (0.8) |
| Credit for electricity from renewable energy | (5.6) | (5.6) | (6.1) | (6.1) |
| AFUDC equity, net | (0.4) | (0.4) | (0.5) | (0.5) |
| Amortization of utility excess deferred tax - tax reform[a] | (1.7) | (1.9) | (1.8) | (2.0) |
| Other, net, individually insignificant | (0.1) | (0.1) | (0.1) | (0.1) |
| Effective income tax rate | 18.7 % | 18.5 % | 18.0 % | 17.7 % |

(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 both the three months ended June 30, 2023 and 2022, MGE recognized $0.9 million. For the six months ended June 30, 2023 and 2022, MGE recognized $1.8 million and $1.9 million, respectively. 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 both the three months ended June 30, 2023 and 2022, MGE recognized $0.4 million. For both the six months ended June 30, 2023 and 2022, MGE recognized $0.7 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 June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| *(In thousands)* | 2023 | 2022 | 2023 | 2022 |
| **Pension Benefits** | | | | |
| Components of net periodic benefit cost: | | | | |
| Service cost | $ 694 | $ 1,195 | $ 1,446 | $ 2,532 |
| Interest cost | 4,337 | 2,784 | 8,659 | 5,580 |
| Expected return on assets | (6,302) | (7,844) | (12,624) | (15,695) |
| Amortization of: | | | | |
| Prior service credit | — | (5) | — | (10) |
| Actuarial loss | 492 | 484 | 880 | 1,208 |
| Net periodic benefit (credit) cost | $ (779) | $ (3,386) | $ (1,639) | $ (6,385) |
| | | | | |
| **Postretirement Benefits** | | | | |
| Components of net periodic benefit cost: | | | | |
| Service cost | $ 190 | $ 314 | $ 390 | $ 647 |
| Interest cost | 835 | 479 | 1,654 | 970 |
| Expected return on assets | (646) | (839) | (1,297) | (1,682) |
| Amortization of: | | | | |
| Transition obligation | — | — | 1 | 1 |
| Prior service credit | — | (75) | — | (149) |
| Actuarial (gain) loss | (65) | 24 | (95) | 72 |
| Net periodic benefit (credit) cost | $ 314 | $ (97) | $ 653 | $ (141) |

As approved by the PSCW, MGE is allowed to defer differences between actual employee benefit plan costs and costs reflected in current rates. The deferred costs may be recovered or refunded in MGE's next rate filing. During the three and six months ended June 30, 2023, MGE deferred $0.4 million and $0.8 million, respectively, of pension and other postretirement costs. During the three and six months ended June 30, 2022, MGE recovered $0.3 million and $0.6 million, respectively, of pension and other postretirement costs previously deferred. These costs have not been reflected in the table above.

## 6. Equity and Financing Arrangements.

### a. Common Stock - MGE Energy.

Shares of MGE Energy common stock are sold through MGE Energy's 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. Sales of newly issued shares under the Stock Plan are covered by a shelf registration statement that MGE Energy filed with the SEC. During the three and six months ended June 30, 2023 and 2022, MGE Energy issued no new shares of common stock under the Stock Plan.

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

As of June 30, 2023, 19,290 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.

**c. Long-Term Debt - MGE Energy and MGE.**

In March 2023, $19.3 million of City of Madison, Wisconsin Industrial Development Revenue Refunding Bonds (Madison Gas and Electric Company Project), Series 2020A were remarketed. As a result of the remarketing, the Series 2020A Bonds will carry an interest rate of 3.75% per annum over its remaining 5-year life. The remarketed Series 2020A Bonds will not be subject to further remarketing or optional redemption prior to their maturity.

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

During the three and six months ended June 30, 2023, MGE recorded $0.7 million and $1.8 million, respectively, in compensation expense related to share-based compensation awards compared to $0.3 million and $0.7 million for the comparable periods in 2022.

In the first quarter of 2023, cash payments of $3.6 million were distributed related to awards that were granted in 2020 under the 2013 Director Incentive Plan, 2018 under the 2006 Performance Unit Plan, and 2020 under the 2020 Performance Unit Plan.

In March 2023, MGE issued 11,320 performance units and 20,472 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 - MGE Energy and MGE.**

**a. Environmental.**

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 and Unit 2 by June 2026. Final timing and retirement dates are subject to change depending on operational, regulatory, and other factors. Effects of the 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.

  With the closure of the wet pond system (as described in further detail in the CCR section below), 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 costs to comply with the rule is estimated to be approximately $4 million. Construction began in March 2022 and is scheduled to be completed by the end of 2023.

In March 2023, the EPA published a proposed update to this rule that further regulates the wastewater discharges associated with coal-fired power plants. The proposed rule focuses on wastewater discharges from flue gas desulfurization, bottom ash transport water, and combustion residual leachate. The proposed rule includes some flexibility for plants that have already installed pollution controls based on previous versions of the rule, and flexibility for plants that will be retiring or switching to natural gas by certain dates. MGE expects this rule, if finalized as proposed, to impact our Elm Road Units. However, we will not know the impact of this rule with any certainty until the rule is finalized.

- 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 its permit which expires in 2023. The Wisconsin Department of Natural Resources (WDNR) will include any BTA requirements in Blount's next permit renewal, which is expected to be completed and effective in 2023. Once the WDNR determines the BTA requirements at Blount, MGE will be able to determine any compliance costs of meeting Blount's permit requirements.

  Intakes at Columbia are subject to this rule. The Columbia operator's most recent permit requires that studies of intake structures be submitted to the WDNR by November 2023 to help determine BTA. Columbia's permit renewal application is due in 2024. BTA improvements may be limited or not required in the renewal permit given the owners' plan to retire both units by June of 2026. MGE will continue to work with Columbia's operator to evaluate regulatory requirements applicable to the planned retirements. MGE does not expect this rule to have a material effect on Columbia.

- Greenhouse Gas (GHG) new source performance standards (NSPS) and emission guidelines 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 May 2023, the EPA proposed a rule under section 111 of the Clean Air Act to establish NSPS and emission guidelines to limit GHG emissions from existing fossil fuel-fired EGUs and new, modified, and/or reconstructed fossil fuel-fired power plants. The EPA anticipates promulgating a final rule in 2024. MGE fossil fuel-fired generation units would be subject to the rule as proposed. MGE expects larger-sized units with long range retirement plans, West Riverside and the Elm Road units, may need to employ technology to achieve reduction. Columbia may not be impacted due to the owners' planned retirement of the existing fossil fuel fired units by 2026. However, we will not know the impact of this rule with any certainty until the rule is finalized. MGE will continue to evaluate greenhouse gas rule developments, including any new EPA actions towards final rule development.

- 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 "moderate" nonattainment area. The deadline for moderate classified areas to meet attainment standards is August 2024. MGE will continue to monitor the WDNR State Implementation Plan development, summer Ozone levels in Milwaukee County, and the extent to which any requirements will impact the Elm Road

Units. At this time, the operator of the Elm Road Units does not expect that the 2015 Ozone NAAQS will have a material effect on the Units based on final designations.

- The EPA's proposed rule to regulate Fine Particulate Matter (PM2.5).

  In January 2023, the EPA published a proposed rule to lower the average annual PM2.5 NAAQS from its current level. The EPA has also solicited comments on whether to lower the annual standard further than the proposed level, and whether or not to also lower the maximum 24-hour limit to be consistent with recommendations from its Clean Air Scientific Advisory Committee (CASAC). Neither the proposed annual PM2.5 NAAQS or the 24-hour limit recommended by the CASAC are expected to impact the counties where Columbia and the Elm Road Units are located. However, if the annual PM2.5 NAAQS is lowered further than the EPA's currently proposed value, Milwaukee County may be in nonattainment with the standard. A nonattainment designation would require the State of Wisconsin to develop a plan to get into attainment, which may include additional emission limitations for the Elm Road units. However, we will not know the impact of this rule until it is finalized, the EPA determines the attainment status of Wisconsin counties, and the State of Wisconsin develops an attainment implementation plan. MGE will continue to follow the rule's developments.

- 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 PM2.5 ambient air levels in areas that the EPA has determined as being significantly impacted by pollution from upwind states. This is accomplished through a reduction in $NO_x$ and $SO_2$ 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 March 2023, the EPA finalized its Federal Implementation Plan (FIP) to address state obligations under the Clean Air Act "good neighbor" provisions for the 2015 Ozone NAAQS. The final rule impacts 23 states, including Wisconsin. For Wisconsin, the rule includes revisions to the current obligations for fossil-fuel power generation, which includes Blount, Columbia, the Elm Road Units, WCCF, West Riverside, and West Marinette. The final rule is effective partway through the 2023 ozone season on August 1, 2023. Emissions budgets can be met with planned retirements, fuel switching, and immediately available measures, including consistently operating emissions controls already installed at power plants. MGE expects to meet the emission reductions with immediately available measures. In 2026, additional obligations would go into effect, including a further reduction in emissions budgets. Wisconsin would need to submit a State Implementation Plan (SIP) to meet its obligations or accept the EPA's FIP. MGE is reviewing the final rule. Based on our current evaluation, the 2026 additional emission reductions may impact the Elm Road Units and additional upgrades may be needed to comply, however, we will not know the final impact until evaluations are completed.

- The EPA's Coal Combustion Residuals (CCR) Rule.

  The CCR rule regulates the disposal of solid waste coal ash 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. A site-specific extension to initiate closure of the primary ash pond at Columbia by March 31, 2023, was requested, and was met. The EPA has confirmed that Columbia met the required extension requirements, has documented that Columbia ceased the receipt of waste on March 23, 2023, and has noted that Columbia's obligations under this portion of the CCR Rule are now complete.

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. The coal combustion residuals system that replaced the unlined surface impoundment was placed in-service in March 2023. MGE's share of the costs of the project is approximately $4 million.

Review of the Elm Road Units has indicated that the costs to comply with the CCR rule are not expected to be significant.

**b. Legal Matters.**

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 rate settlement and electric limited reopener. 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 have entered into various commodity supply, transportation, and storage contracts to meet their obligations to deliver electricity and natural gas to customers. Management expects to recover these costs in future customer rates. The following table shows future commitments related to purchase contracts as of June 30, 2023:

| *(In thousands)* | **2023** | **2024** | **2025** | **2026** | **2027** | **Thereafter** |
|---|---|---|---|---|---|---|
| Coal[(a)] | $ 20,814 | $ 23,039 | $ 14,426 | $ 2,868 | $ — | $ — |
| Natural gas[(b)] | 22,107 | 41,377 | 25,517 | 14,873 | 2,165 | 11,995 |
| | $ 42,921 | $ 64,416 | $ 39,943 | $ 17,741 | $ 2,165 | $ 11,995 |

(a) Total coal commitments for MGE's share of the Columbia and Elm Road Units, including transportation. Fuel procurement for MGE's jointly owned Columbia and Elm Road Units is handled by WPL and WEPCO, respectively, who are the operators of those facilities.

(b) MGE's natural gas transportation and storage contracts require fixed monthly payments for firm supply pipeline transportation and storage capacity. The pricing components of the fixed monthly payments for the transportation and storage contracts are approved by FERC but may be subject to change. MGE's natural gas supply commitments include market-based pricing.

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

### a. Rate Proceedings.

| | Rate increase | Return on Common Equity | Common Equity Component of Regulatory Capital Structure | Effective Date |
|---|---|---|---|---|
| **Approved 2022/2023 settlement[(a)]** | | | | |
| Electric | 8.81% | 9.8% | 55.6% | 1/1/2022 |
| Gas | 2.15% | 9.8% | 55.6% | 1/1/2022 |
| Gas | 0.96% | 9.8% | 55.6% | 1/1/2023 |
| **Approved limited 2023 reopener[(b)]** | | | | |
| Electric | 9.01% | 9.8% | 55.6% | 1/1/2023 |
| **Proposed 2024/2025 rate proceeding[(c)]** | | | | |
| Electric[(d)] | 3.75% | 9.8% | 56.1% | 1/1/2024 |
| Gas[(d)] | 2.56% | 9.8% | 56.1% | 1/1/2024 |
| Electric[(e)] | 3.41% | 9.8% | 56.1% | 1/1/2025 |
| Gas[(e)] | 1.66% | 9.8% | 56.1% | 1/1/2025 |

(a) 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.

(b) The electric rate increase was driven by additions to 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 included an increase in fuel costs and the recovery of deferred 2021 fuel costs. The reopener also revised the depreciation schedule for Columbia Unit 2 and shared equipment to 2029 to align with the depreciation schedule for Unit 1.

(c) In April 2023, MGE filed a proposed 2-year rate case and PSCW approval is pending. A final order is expected before the end of the year.

(d) The proposed electric rate increase is driven by an increase in rate base including our investments made in West Riverside, local solar, and continued investment in grid modernization. Also driving the requested electric increase are higher costs for transmission, pension and OPEB, and uncollectible costs (including costs previously deferred from prior years). This increase in electric costs is offset by a decrease in fuel costs and benefit from lower tax expense (including impacts from the Inflation Reduction Act). The proposed gas rate increase is also attributable to our investment made in grid modernization and higher pension and OPEB and uncollectible costs (including costs previously deferred from prior years). The proposed gas increase is offset by a tax benefit related to excess deferred taxes.

(e) The proposed electric and gas rate increases are driven by an increase in rate base for our continued investment in grid modernization projects and an increase in labor costs.

Sierra Club and Vote Solar have filed petitions with the Dane County Circuit Court seeking review of the PSCW decisions approving MGE's electric and gas 2022/2023 rate settlement and 2023 electric limited reopener. The Dane County Circuit Court affirmed the PSCW's decision to approve the 2022/2023 rate settlement, and Sierra Club and Vote Solar have now appealed that decision to the Wisconsin Court of Appeals. The PSCW is named as the responding party; MGE is not named as a party. The Petitions challenge the amount of customer fixed charge that does not vary with usage. The requested relief is unclear. The revenue requirement approved by the PSCW in the settlement and limited reopener have not been challenged. The PSCW is expected to vigorously defend its approval of the rate case settlement and limited reopener. 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 2% in 2023 and 1% in 2022. The electric fuel-related costs are subject to an excess revenues test. 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 recovery of under-collected electric fuel-related costs would be reduced by the amount that exceeds the excess revenue test. These costs are subject to the PSCW's annual review of fuel costs completed in the year following the deferral. The following table summarizes deferred electric fuel-related costs:

| | Fuel Costs (*in millions*) | Refund or Recovery Period |
|---|---|---|
| 2021 deferred fuel costs | $3.3[(a)] | January 2023 through December 2023[(b)] |
| 2022 deferred fuel costs | $8.8 | (c) |
| 2023 deferred fuel savings | ($1.2) | (d) |

(a) There was no change to the recovery in the fuel rules proceedings from the amount MGE deferred.

(b) In August 2022, the PSCW issued a final decision in the 2021 fuel rules proceedings for MGE to include the recovery of these costs as part of the 2023 electric limited reopener.

(c) These costs will be subject to the PSCW's annual review of 2022 fuel costs, expected to be completed in 2023. MGE has proposed to recover these costs over a 12-month period from October 2023 through September 2024.

(d) These costs will be subject to the PSCW's annual review of 2023 fuel costs, expected to be completed in 2024.

## 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 refundable or recoverable in gas rates through the PGA or in electric rates as a component of the fuel rules mechanism.

### b. Notional Amounts.

The gross notional volume of open derivatives is as follows:

| | June 30, 2023 | | December 31, 2022 | |
|---|---|---|---|---|
| Commodity derivative contracts | 391,760 | MWh | 353,600 | MWh |
| Commodity derivative contracts | 6,960,000 | Dth | 8,070,000 | Dth |
| FTRs | 4,018 | MW | 1,945 | MW |

### c. Financial Statement Presentation.

MGE purchases and sells exchange-traded and over-the-counter options, swaps, and future contracts. These arrangements are primarily entered into to help stabilize the price risk associated with gas or power purchases. These transactions are employed by both MGE's gas and electric segments. Additionally, as a result of the firm transmission agreements that MGE holds on electricity transmission paths in the MISO market, MGE holds financial transmission rights (FTRs). An FTR is a financial instrument that entitles the holder to a stream of revenues or charges based on the differences in hourly day-ahead energy prices between two points on the transmission grid. The fair values of these instruments are offset with a corresponding regulatory asset/liability depending on whether they are in a net loss/gain position. Depending on the nature of the instrument, the gain or loss associated with these transactions will be reflected as cost of gas sold, fuel for electric generation, or purchased power expense in the delivery month applicable to the instrument. As of June 30, 2023, and December 31, 2022, the cost basis of exchange traded derivatives and FTRs exceeded their fair value by $5.0 million and $5.1 million, respectively.

MGE was a party to a purchased power agreement that provided MGE with firm capacity and energy during a base term from June 1, 2012, through May 31, 2022. The agreement was accounted for as a derivative contract and was recognized at its fair value on the consolidated balance sheets. However, the derivative qualified for regulatory deferral and was recognized with a corresponding regulatory asset or liability depending on whether the fair value was in a loss or gain position. The actual cost was recognized in purchased power expense in the month of purchase.

The following table summarizes the fair value of the derivative instruments on the consolidated balance sheets. All derivative instruments in this table are presented on a gross basis and are calculated prior to the netting of instruments with the same counterparty under a master netting agreement as well as the netting of collateral. For financial statement purposes, instruments are netted with the same counterparty under a master netting agreement as well as the netting of collateral.

| *(In thousands)* | Derivative Assets | Derivative Liabilities | Balance Sheet Location |
|---|---|---|---|
| **June 30, 2023** | | | |
| Commodity derivative contracts[(a)] | $ 1,016 | $ 5,881 | Other current liabilities |
| Commodity derivative contracts[(a)] | 28 | 581 | Other deferred liabilities and other |
| FTRs | 401 | — | Other current assets |
| | | | |
| **December 31, 2022** | | | |
| Commodity derivative contracts[(a)] | $ 2,164 | $ 7,687 | Other current liabilities |
| Commodity derivative contracts[(a)] | 802 | 476 | Other deferred liabilities and other |
| FTRs | 103 | — | Other current assets |

(a) As of June 30, 2023, and December 31, 2022, collateral of $5.4 million and $5.2 million, respectively, was posted against and netted with derivative liability positions on the consolidated balance sheets. The fair value of the derivative liability disclosed in this table has not been reduced for the collateral posted.

The following tables show the effect of netting arrangements for recognized derivative assets and liabilities that are subject to a master netting arrangement or similar arrangement on the consolidated balance sheets.

**Offsetting of Derivative Assets**

| *(In thousands)* | Gross Amounts | Gross Amounts Offset in Balance Sheets | Collateral Posted Against Derivative Positions | Net Amount Presented in Balance Sheets |
|---|---|---|---|---|
| **June 30, 2023** | | | | |
| Commodity derivative contracts | $ 1,044 | $ (1,044) | $ — | $ — |
| FTRs | 401 | — | — | 401 |
| | | | | |
| **December 31, 2022** | | | | |
| Commodity derivative contracts | $ 2,966 | $ (2,966) | $ — | $ — |
| FTRs | 103 | — | — | 103 |

**Offsetting of Derivative Liabilities**

| *(In thousands)* | Gross Amounts | Gross Amounts Offset in Balance Sheets | Collateral Posted Against Derivative Positions | Net Amount Presented in Balance Sheets |
|---|---|---|---|---|
| **June 30, 2023** | | | | |
| Commodity derivative contracts | $ 6,462 | $ (1,044) | $ (5,418) | $ — |
| | | | | |
| **December 31, 2022** | | | | |
| Commodity derivative contracts | $ 8,163 | $ (2,966) | $ (5,197) | $ — |

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.

| | 2023 | | 2022 | |
|---|---|---|---|---|
| *(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 June 30:** | | | | |
| Balance as of April 1, | $ 7,813 | $ 455 | $ (9,641) | $ 267 |
| Unrealized loss (gain) | 92 | — | (5,988) | — |
| Realized (loss) gain reclassified to a deferred account | (1,988) | 1,988 | 1,551 | (1,551) |
| Realized (loss) gain reclassified to income statement | (900) | (1,369) | 5,594 | 1,123 |
| Balance as of June 30, | $ 5,017 | $ 1,074 | $ (8,484) | $ (161) |
| | | | | |
| **Six Months Ended June 30:** | | | | |
| Balance as of January 1, | $ 5,094 | $ 2,747 | $ (617) | $ 770 |
| Unrealized loss (gain) | 14,395 | — | (17,321) | — |
| Realized (loss) gain reclassified to a deferred account | (8,905) | 8,905 | 2,830 | (2,830) |
| Realized (loss) gain reclassified to income statement | (5,567) | (10,578) | 6,624 | 1,899 |
| Balance as of June 30, | $ 5,017 | $ 1,074 | $ (8,484) | $ (161) |

| | Realized Losses (Gains) | | | |
|---|---|---|---|---|
| | 2023 | | 2022 | |
| *(In thousands)* | Fuel for Electric Generation/ Purchased Power | Cost of Gas Sold | Fuel for Electric Generation/ Purchased Power | Cost of Gas Sold |
| **Three Months Ended June 30:** | | | | |
| Commodity derivative contracts | $ 2,942 | $ — | $ (5,333) | $ 45 |
| FTRs | (673) | — | 597 | — |
| PPA | — | — | (2,026) | — |
| | | | | |
| **Six Months Ended June 30:** | | | | |
| Commodity derivative contracts | $ 10,387 | $ 6,451 | $ (5,645) | $ (836) |
| FTRs | (693) | — | 600 | — |
| PPA | — | — | (2,642) | — |

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.

Certain counterparties extend MGE a credit limit. If MGE exceeds these limits, the counterparties may require collateral to be posted. As of June 30, 2023, and December 31, 2022, no counterparties were in a net liability position.

Nonperformance of counterparties to the non-exchange traded derivatives could expose MGE to credit loss. However, MGE enters into transactions only with companies that meet or exceed strict credit guidelines, and it monitors these counterparties on an ongoing basis to mitigate nonperformance risk in its portfolio. As of June 30, 2023, no counterparties had defaulted.

**11. Fair Value of Financial Instruments - MGE Energy and MGE.**

Fair value is defined as the price that would be received to sell an asset or would be paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. The accounting standard clarifies that fair value should be based on the assumptions market participants would use when pricing the asset or liability including assumptions about risk. The standard also establishes a three-level fair value hierarchy based upon the observability of the assumptions used and requires the use of observable market data when available. The levels are:

Level 1 - Pricing inputs are quoted prices within active markets for identical assets or liabilities.

Level 2 - Pricing inputs are quoted prices within active markets for similar assets or liabilities; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations that are correlated with or otherwise verifiable by observable market data.

Level 3 - Pricing inputs are unobservable and reflect management's best estimate of what market participants would use in pricing the asset or liability.

**a. Fair Value of Financial Assets and Liabilities Recorded at the Carrying Amount.**

The carrying amount of cash, cash equivalents, and outstanding commercial paper approximates fair market value due to the short maturity of those investments and obligations. The estimated fair market value of long-term debt is based on quoted market prices for similar financial instruments. Since long-term debt is not traded in an active market, it is classified as Level 2. The estimated fair market value of financial instruments are as follows:

| | June 30, 2023 | | December 31, 2022 | |
|---|---|---|---|---|
| *(In thousands)* | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Long-term debt[(a)] | $ 691,069 | $ 623,604 | $ 643,560 | $ 571,374 |

(a) Includes long-term debt due within one year. Excludes debt issuance costs and unamortized discount of $4.3 million and $4.0 million as of June 30, 2023, and December 31, 2022, 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 June 30, 2023 | | | |
|---|---|---|---|---|
| *(In thousands)* | Total | Level 1 | Level 2 | Level 3 |
| **MGE Energy** | | | | |
| Assets: | | | | |
| Derivatives, net[(b)] | $ 1,445 | $ 881 | $ — | $ 564 |
| Exchange-traded investments | 1,816 | 1,816 | — | — |
| Total Assets | $ 3,261 | $ 2,697 | $ — | $ 564 |
| Liabilities: | | | | |
| Derivatives, net[(b)] | $ 6,462 | $ 3,006 | $ — | $ 3,456 |
| Deferred compensation | 5,050 | — | 5,050 | — |
| Total Liabilities | $ 11,512 | $ 3,006 | $ 5,050 | $ 3,456 |
| **MGE** | | | | |
| Assets: | | | | |
| Derivatives, net[(b)] | $ 1,445 | $ 881 | $ — | $ 564 |
| Exchange-traded investments | 108 | 108 | — | — |
| Total Assets | $ 1,553 | $ 989 | $ — | $ 564 |
| Liabilities: | | | | |
| Derivatives, net[(b)] | $ 6,462 | $ 3,006 | $ — | $ 3,456 |
| Deferred compensation | 5,050 | — | 5,050 | — |
| Total Liabilities | $ 11,512 | $ 3,006 | $ 5,050 | $ 3,456 |

| | Fair Value as of December 31, 2022 | | | |
|---|---|---|---|---|
| *(In thousands)* | Total | Level 1 | Level 2 | Level 3 |
| **MGE Energy** | | | | |
| Assets: | | | | |
| Derivatives, net[b] | $ 3,069 | $ 1,353 | $ — | $ 1,716 |
| Exchange-traded investments | 1,516 | 1,516 | — | — |
| Total Assets | $ 4,585 | $ 2,869 | $ — | $ 1,716 |
| Liabilities: | | | | |
| Derivatives, net[b] | $ 8,163 | $ 5,581 | $ — | $ 2,582 |
| Deferred compensation | 4,743 | — | 4,743 | — |
| Total Liabilities | $ 12,906 | $ 5,581 | $ 4,743 | $ 2,582 |
| | | | | |
| **MGE** | | | | |
| Assets: | | | | |
| Derivatives, net[b] | $ 3,069 | $ 1,353 | $ — | $ 1,716 |
| Exchange-traded investments | 115 | 115 | — | — |
| Total Assets | $ 3,184 | $ 1,468 | $ — | $ 1,716 |
| Liabilities: | | | | |
| Derivatives, net[b] | $ 8,163 | $ 5,581 | $ — | $ 2,582 |
| Deferred compensation | 4,743 | — | 4,743 | — |
| Total Liabilities | $ 12,906 | $ 5,581 | $ 4,743 | $ 2,582 |

(b) As of June 30, 2023, and December 31, 2022, collateral of $5.4 million and $5.2 million, respectively, was posted against and netted with derivative liability positions on the consolidated balance sheets. The fair value of the derivative liability disclosed in this table has not been reduced for the collateral posted.

**Exchange-traded Investments.** Investments include exchange-traded investment securities valued using quoted prices on active exchanges and are therefore classified as Level 1.

**Deferred Compensation.** The deferred compensation plans allow participants to defer certain cash compensation into notional investment accounts. These amounts are included within other deferred liabilities in the consolidated balance sheets. The value of certain deferred compensation obligations is based on the market value of the participants' notional investment accounts. The underlying notional investments are comprised primarily of equities, mutual funds, and fixed income securities which are based on directly and indirectly observable market prices. Since the deferred compensation obligations themselves are not exchanged in an active market, they are classified as Level 2.

The value of legacy deferred compensation obligations are based on notional investments that 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.** 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, with a term ended May 2022, (see Footnote 10) was valued using an internal pricing model and therefore was classified as Level 3. See the 2022 Annual Report on Form 10-K for details on the internal pricing model and significant unobservable inputs.

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| *(In thousands)* | 2023 | 2022 | 2023 | 2022 |
| Beginning balance | $ (3,740) | $ 6,779 | $ (866) | $ 178 |
| Realized and unrealized gains (losses): | | | | |
| Included in regulatory assets | 848 | — | (2,026) | — |
| Included in regulatory liability | — | 2,180 | — | 8,780 |
| Included in other comprehensive income | — | — | — | — |
| Included in earnings | (903) | 6,143 | (5,574) | 6,998 |
| Included in current assets | — | 45 | — | 118 |
| Purchases | — | 4,777 | — | 11,803 |
| Sales | — | — | — | — |
| Issuances | — | — | — | — |
| Settlements | 903 | (10,965) | 5,574 | (18,918) |
| Balance as of June 30, | $ (2,892) | $ 8,959 | $ (2,892) | $ 8,959 |
| Total gains (losses) included in earnings attributed to the change in unrealized gains (losses) related to assets and liabilities held as of June 30,[(c)] | $ — | $ — | $ — | $ — |

The following table presents total realized and unrealized gains (losses) included in income for Level 3 assets and liabilities measured at fair value on a recurring basis[(c)].

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| *(In thousands)* | 2023 | 2022 | 2023 | 2022 |
| Purchased power expense | $ (903) | $ 6,188 | $ (5,574) | $ 7,161 |
| Cost of gas sold expense | — | (45) | — | (163) |
| Total | $ (903) | $ 6,143 | $ (5,574) | $ 6,998 |

(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 has purchased, completed, or ongoing jointly-owned generation construction projects, as shown in the following table. Incurred costs are reflected in "Property, plant, and equipment, net" or "Construction work in progress" on the consolidated balance sheets.

| Project | Ownership Interest | Source | Share of Generation | Share of Estimated Costs[(a)] | Costs incurred as of June 30, 2023[(a)] | Date of Commercial Operation |
|---|---|---|---|---|---|---|
| Red Barn[(b)] | 10% | Wind | 9.16 MW | $18 million | $16.4 million | April 2023 |
| Badger Hollow II[(c)] | 33% | Solar | 50 MW | $86 million[(j)] | $53.3 million[(f)] | Late 2023 or early 2024[(g)] |
| Paris[(d)] | 10% | Solar/Battery | 20 MW/11 MW | $61 million[(j)] | $25.8 million | 2024[(g)(h)] |
| Darien[(e)] | 10% | Solar/Battery | 25 MW/ 7.5 MW | $50 million[(j)] | $11.4 million | 2024[(g)(h)] |
| West Riverside | 3.4% | Natural Gas | 25 MW | $25 million | $24.7 million | (i) |

(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) Paris Solar-Battery Park is located in the Town of Paris in Kenosha County, Wisconsin.
(e) Darien Solar Energy Center is located in Walworth and Rock Counties in southern Wisconsin.
(f) Includes an allocation of common facilities at Badger Hollow placed in service in November 2021.
(g) Estimated date of commercial operation.
(h) Battery storage timing to be determined.

(i) In March 2023, MGE purchased an ownership interest in West Riverside, a natural gas-fired facility located in Beloit, WI, from WPL, operator and co-owner of the plant. West Riverside was placed in-service in 2020.

(j) Estimated costs are expected to exceed PSCW previously approved CA levels. Notifications are provided to the PSCW when costs increase above CA levels. MGE has and will continue to request recovery of the updates in its rate case proceedings.

MGE received specific approval to recover 100% AFUDC on Badger Hollow II, Paris, and Darien. During the three and six months ended June 30, 2023, MGE recognized $1.5 million and $2.9 million, respectively, after tax, in AFUDC for these projects compared to $0.6 million and $1.0 million for the comparable periods in 2022.

## 13. Revenue - MGE Energy and MGE.

Revenues disaggregated by revenue source were as follows:

| *(In thousands)* | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| **Electric revenues** | 2023 | 2022 | 2023 | 2022 |
| Residential | $ 40,324 | $ 37,555 | $ 81,544 | $ 78,029 |
| Commercial | 63,428 | 57,960 | 122,965 | 112,409 |
| Industrial | 3,577 | 3,476 | 6,863 | 6,623 |
| Other-retail/municipal | 10,243 | 9,376 | 19,862 | 18,205 |
| Total retail | 117,572 | 108,367 | 231,234 | 215,266 |
| Sales to the market | 3,554 | 3,198 | 6,312 | 6,080 |
| Other | 366 | 385 | 1,190 | 693 |
| Total electric revenues | 121,492 | 111,950 | 238,736 | 222,039 |
| | | | | |
| **Gas revenues** | | | | |
| Residential | 16,688 | 23,648 | 72,412 | 80,331 |
| Commercial/Industrial | 8,207 | 15,172 | 49,710 | 55,423 |
| Total retail | 24,895 | 38,820 | 122,122 | 135,754 |
| Gas transportation | 1,235 | 1,340 | 3,767 | 3,216 |
| Other | 161 | 24 | 364 | 25 |
| Total gas revenues | 26,291 | 40,184 | 126,253 | 138,995 |
| | | | | |
| Non-regulated energy revenues | 215 | 214 | 262 | 252 |
| Total Operating Revenue | $ 147,998 | $ 152,348 | $ 365,251 | $ 361,286 |

## 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 2022 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 June 30, 2023*** | | | | | | | |
| Operating revenues | $ 121,492 | $ 26,291 | $ 215 | $ — | $ — | $ — | $ 147,998 |
| Interdepartmental revenues | 193 | 2,770 | 10,195 | — | — | (13,158) | — |
| Total operating revenues | 121,685 | 29,061 | 10,410 | — | — | (13,158) | 147,998 |
| Equity in earnings of investments | — | — | — | 2,629 | — | — | 2,629 |
| Net income (loss) | 21,556 | 581 | 5,470 | 1,914 | (840) | — | 28,681 |
| ***Three Months Ended June 30, 2022*** | | | | | | | |
| Operating revenues | $ 111,950 | $ 40,184 | $ 214 | $ — | $ — | $ — | $ 152,348 |
| Interdepartmental revenues | (66) | 8,058 | 10,353 | — | — | (18,345) | — |
| Total operating revenues | 111,884 | 48,242 | 10,567 | — | — | (18,345) | 152,348 |
| Equity in earnings of investments | — | — | — | 2,623 | — | — | 2,623 |
| Net income | 13,012 | 1,093 | 5,522 | 1,908 | 226 | — | 21,761 |
| ***Six Months Ended June 30, 2023*** | | | | | | | |
| Operating revenues | $ 238,736 | $ 126,253 | $ 262 | $ — | $ — | $ — | $ 365,251 |
| Interdepartmental revenues | 141 | 9,431 | 20,745 | — | — | (30,317) | — |
| Total operating revenues | 238,877 | 135,684 | 21,007 | — | — | (30,317) | 365,251 |
| Equity in earnings of investments | — | — | — | 5,240 | — | — | 5,240 |
| Net income (loss) | 34,870 | 11,340 | 11,040 | 3,813 | (1,304) | — | 59,759 |
| ***Six Months Ended June 30, 2022*** | | | | | | | |
| Operating revenues | $ 222,039 | $ 138,995 | $ 252 | $ — | $ — | $ — | $ 361,286 |
| Interdepartmental revenues | 52 | 14,179 | 20,668 | — | — | (34,899) | — |
| Total operating revenues | 222,091 | 153,174 | 20,920 | — | — | (34,899) | 361,286 |
| Equity in earnings of investments | — | — | — | 5,127 | — | — | 5,127 |
| Net income | 27,629 | 13,177 | 10,874 | 3,730 | 771 | — | 56,181 |

| *(In thousands)*<br>**MGE** | Electric | Gas | Non-Regulated Energy | Consolidation/ Elimination | Consolidated Total |
|---|---|---|---|---|---|
| ***Three Months Ended June 30, 2023*** | | | | | |
| Operating revenues | $ 121,492 | $ 26,291 | $ 215 | $ — | $ 147,998 |
| Interdepartmental revenues | 193 | 2,770 | 10,195 | (13,158) | — |
| Total operating revenues | 121,685 | 29,061 | 10,410 | (13,158) | 147,998 |
| Net income attributable to MGE | 21,556 | 581 | 5,470 | (5,375) | 22,232 |
| ***Three Months Ended June 30, 2022*** | | | | | |
| Operating revenues | $ 111,950 | $ 40,184 | $ 214 | $ — | $ 152,348 |
| Interdepartmental revenues | (66) | 8,058 | 10,353 | (18,345) | — |
| Total operating revenues | 111,884 | 48,242 | 10,567 | (18,345) | 152,348 |
| Net income attributable to MGE | 13,012 | 1,093 | 5,522 | (5,588) | 14,039 |
| ***Six Months Ended June 30, 2023*** | | | | | |
| Operating revenues | $ 238,736 | $ 126,253 | $ 262 | $ — | $ 365,251 |
| Interdepartmental revenues | 141 | 9,431 | 20,745 | (30,317) | — |
| Total operating revenues | 238,877 | 135,684 | 21,007 | (30,317) | 365,251 |
| Net income attributable to MGE | 34,870 | 11,340 | 11,040 | (10,895) | 46,355 |
| ***Six Months Ended June 30, 2022*** | | | | | |
| Operating revenues | $ 222,039 | $ 138,995 | $ 252 | $ — | $ 361,286 |
| Interdepartmental revenues | 52 | 14,179 | 20,668 | (34,899) | — |
| Total operating revenues | 222,091 | 153,174 | 20,920 | (34,899) | 361,286 |
| Net income attributable to MGE | 27,629 | 13,177 | 10,874 | (10,344) | 41,336 |

## 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 161,000 customers in Dane County, Wisconsin, including the city of Madison, and purchases and distributes natural gas to approximately 173,000 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 planned 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 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, and
- Other factors listed in "Item 1A. Risk Factors" in our 2022 Annual Report on Form 10-K.

During the three months ended June 30, 2023, MGE Energy's earnings were $28.7 million or $0.79 per share compared to $21.8 million or $0.60 per share during the same period in the prior year. MGE's earnings during the three months ended June 30, 2023, were $22.2 million compared to $14.0 million during the same period in the prior year.

During the six months ended June 30, 2023, MGE Energy's earnings were $59.8 million or $1.65 per share compared to $56.2 million or $1.55 per share during the same period in the prior year. MGE's earnings during the six months ended June 30, 2023, were $46.4 million compared to $41.3 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 June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| Business Segment: | 2023 | 2022 | 2023 | 2022 |
| Electric Utility | $ 21.6 | $ 13.0 | $ 34.9 | $ 27.6 |
| Gas Utility | 0.6 | 1.1 | 11.4 | 13.2 |
| Nonregulated Energy | 5.4 | 5.5 | 11.0 | 10.9 |
| Transmission Investments | 1.9 | 1.9 | 3.8 | 3.7 |
| All Other | (0.8) | 0.3 | (1.3) | 0.8 |
| Net Income | $ 28.7 | $ 21.8 | $ 59.8 | $ 56.2 |

Our net income during the three and six months ended June 30, 2023, 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 2023. Timing of 2023 depreciation expense and lower fuel costs also contributed to higher earnings in the first half of 2023. Depreciation expense is expected to increase during the remainder of 2023 after significant capital projects (Badger Hollow II and Paris) are completed. The increase in earnings in 2023 was partially offset by lower electric retail sales attributable to warmer than normal weather during the heating season in the first quarter of 2023. Electric retail sales decreased approximately 3% during the first quarter of 2023 compared to the same period in the prior year.

*Gas Utility*
Lower gas retail sales resulting from warmer than normal weather in the first quarter of 2023 contributed to lower gas earnings for the six months ended June 30, 2023. Gas retail sales decreased approximately 12%. Heating degree days (a measure for determining the impact of weather during the heating season) decreased by approximately 14% in the first half of 2023 compared to the same period in the prior year.

*All Other*
Investment distribution losses from our venture capital funds resulted in lower earnings in 2023 compared to the same period in the prior year. These venture capital investments support early-stage companies working to advance smart technologies, the customer experience, distributed energy resources, electrification, cybersecurity and other priorities for utility companies such as greater sustainability.

The following developments affected the first six months of 2023:

2022/2023 Rate Settlement Agreement and 2023 Electric Limited Rate Case Reopener: In December 2021, the PSCW approved a settlement agreement for MGE's 2022 rate case. As part of that settlement agreement, the PSCW approved a 0.96% increase in 2023 gas rates and a 2023 electric rate change to be addressed through a limited rate case reopener. In December 2022, the PSCW approved an 9.01% increase to electric rates for 2023. See "Other Matters" below for additional information on the 2022/2023 rate case settlement and 2023 Electric Limited Rate Case reopener.

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

| Project | Ownership Interest | Source | Share of Generation | Share of Estimated Costs[a] | Costs incurred as of June 30, 2023[a] | Date of Commercial Operation |
|---|---|---|---|---|---|---|
| Red Barn | 10% | Wind | 9.16 MW | $18 million | $16.4 million | April 2023 |
| Badger Hollow II | 33% | Solar | 50 MW | $86 million[f] | $53.3 million[b][c] | Late 2023 or early 2024[d] |
| Paris | 10% | Solar/Battery | 20 MW/11 MW | $61 million[f] | $25.8 million[b] | 2024[d][e] |
| Darien | 10% | Solar/Battery | 25 MW/ 7.5 MW | $50 million[f] | $11.4 million[b] | 2024[d][e] |

(a) Excluding AFUDC.
(b) MGE received specific approval to recover 100% AFUDC. After tax, MGE recognized $4.0 million, $1.3 million, and $0.1 million of AFUDC equity through June 30, 2023, on Badger Hollow II, Paris, and Darien, respectively, 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.
(d) Estimated date of commercial operation.
(e) Battery storage timing to be determined.
(f) Estimated costs are expected to exceed PSCW previously approved CA levels. Notifications are provided to the PSCW when costs increase above CA levels. MGE has and will continue to request recovery of the updates in its rate case proceedings.

West Riverside: In March 2023, MGE purchased a 3.4% ownership interest in the natural gas-fired facility West Riverside from WPL, the operator of the plant for approximately $25 million. MGE's share of the generation capacity of West Riverside is 25 MW.

Deferred Fuel Savings: MGE has deferred fuel savings through the six months ended June 30, 2023. As of June 30, 2023, MGE had deferred $1.2 million of 2023 fuel savings. These costs will be subject to the PSCW's annual review of 2023 fuel costs, expected to be completed during 2024. See Footnote 9 of the Notes to the Consolidated Financial Statements in this Report for further information regarding fuel cost proceedings.

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

2022 Annual Fuel Proceeding: MGE under-recovered fuel costs in 2022. As of December 31, 2022, MGE had deferred $8.8 million of 2022 fuel costs. These costs will be subject to the PSCW's annual review of 2022 fuel costs, expected to be completed during 2023. MGE has proposed to recover these costs over a 12-month period from October 2023 through September 2024.

2024/2025 Rate Proceeding: In April 2023, MGE filed with the PSCW a proposed 2024/2025 rate application. MGE has proposed for a 3.75% increase for electric rates and a 2.56% increase to gas rates for 2024. The proceeding addresses rates for 2025 proposing a 3.41% increase for electric rates and a 1.66% increase to gas rates for 2025. A final order is expected before the end of the year. See "Other Matters" below for additional information on the 2024/2025 rate proceeding.

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 6.2% and 6.4% of our net income during the six months ended June 30, 2023 and 2022, 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 (from 2005 levels): MGE has outlined initiatives to achieve our target.

- *Transitioning away from coal.* Columbia: MGE, along with the other plant co-owners, announced plans to retire Columbia Unit 1 and Unit 2 by June 2026. 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: MGE, along with the plant co-owners, announced plans to end the use of coal as a primary fuel at the Elm Road Units and transition the plant to natural gas. 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. By the end of 2030, MGE expects coal to be used only as a backup fuel at the Elm Road Units. 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.* During 2023 through 2027 MGE has forecasted over 40% of its total capital expenditures will be for several renewable generation projects. The forecasted capital expenditures include announced projects such as Red Barn (Wind; 9.16 MW), Badger Hollow II (Solar; 50 MW), Paris (Solar and Battery; 20 MW/11 MW), Darien (Solar and Battery; 25 MW/7.5 MW), recently PSCW approved solar project Koshkonong (Solar and Battery; 30 MW/16.5 MW), and other projects to be announced in the future. See the 2023-2027 capital expenditures forecast disclosed in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2022 Annual Report on Form 10-K.

- *Natural gas as a fuel source.* West Riverside: In March 2023, MGE purchased 25 MW of capacity of West Riverside and 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.

Environmental Initiatives – Natural gas distribution: Building upon our long-standing commitment to providing affordable, sustainable energy, MGE has set a goal to achieve net-zero methane emissions from its natural gas distribution system by 2035. If MGE can accelerate plans to achieve net-zero methane emissions from its natural gas system—through the evolution of new technologies, such as renewable natural gas—it will. MGE is working to reduce overall emissions from its natural gas distribution system cost-effectively as quickly as possible.

Solar Procurement Disruptions: MGE is monitoring import regulations under the Uyghur Forced Labor Protection Act and the U.S. Department of Commerce investigation on whether to impose new solar tariffs. These disruptions have a potential to impact current and future solar projects which may result in an increase in costs or delays in construction timelines. In the event that such disruptions cause costs to exceed the levels approved for specific projects, we expect to file a notification with the PSCW and expect to request recovery of any increases in MGE's next rate proceeding. See "Other Matters" below for additional information on the solar procurement disruptions.

Financing Plans: As of June 30, 2023, MGE has $86 million of remaining regulatory authority from the PSCW to issue long-term debt to finance authorized utility capital expenditures and maturing long-term debt. MGE expects to use a portion of the remaining authority during the second half of 2023 to refinance $30 million long-term debt maturing in September 2023.

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

### *Three Months Ended June 30, 2023 and 2022*

#### *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 June 30, | | | Three Months Ended June 30, | | |
| *(In thousands, except CDD)* | 2023 | 2022 | % Change | 2023 | 2022 | % Change |
| Residential | $ 40,324 | $ 37,555 | 7.4% | 201,892 | 204,967 | (1.5)% |
| Commercial | 63,428 | 57,960 | 9.4% | 438,953 | 446,387 | (1.7)% |
| Industrial | 3,577 | 3,476 | 2.9% | 38,354 | 40,262 | (4.7)% |
| Other-retail/municipal | 10,243 | 9,376 | 9.2% | 92,796 | 91,685 | 1.2% |
| Total retail | 117,572 | 108,367 | 8.5% | 771,995 | 783,301 | (1.4)% |
| Sales to the market | 3,554 | 3,198 | 11.1% | 50,207 | 22,064 | 127.6% |
| Other | 366 | 385 | (4.9)% | — | — | —% |
| Total | $ 121,492 | $ 111,950 | 8.5% | 822,202 | 805,365 | 2.1% |
| | | | | | | |
| Cooling degree days (normal 194) | | | | 205 | 277 | (26.0)% |

Electric revenue increased $9.5 million during the three months ended June 30, 2023, compared to the same period in the prior year, due to the following:

| *(In millions)* | |
|---|---|
| Rate changes | $ 10.2 |
| Revenue subject to refund, net | 1.8 |
| Sales to the market | 0.4 |
| Customer fixed and demand charges | (1.6) |
| Net decrease in commercial, industrial and other-retail/municipal volume | (0.8) |
| Decrease in residential volume | (0.5) |
| Total | $ 9.5 |

- *Rate changes.* In December 2022, the PSCW authorized MGE to increase 2023 rates for retail electric customers by approximately 9.01%. Rates charged to retail customers during the three months ended June 30, 2023 were $10.2 million higher than those charged during the same period in the prior year. See Footnote 9 of the Notes to Consolidated Financial Statements in this Report for further information on the rate increase. Any increase in rates associated with fuel or purchase power costs are generally offset in fuel and purchased power costs and do not have a significant impact on net income.

- *Revenue subject to refund.* For cost recovery mechanisms, any over-collection of revenues resulting from 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 net income impact in the year the costs are refunded.

- *Sales to the market.* Sales to the market typically occur when MGE has more generation and purchases in the MISO market than are needed for its customer demand. The excess electricity is then sold to other utilities or power marketers in the MISO market. During the three months ended June 30, 2023, sales made at higher market volumes were partially offset by decreased market prices compared to the same period in the prior year, reflecting an increase in sales. The revenue generated from these sales is included in fuel rules costs. See fuel rules discussion in Footnote 9 of the Notes to Consolidated Financial Statements.

- *Customer fixed and demand charges.* During the three months ended June 30, 2023, fixed and demand charges decreased $1.6 million primarily attributable to the decrease in demand charges for commercial customers and decreased fixed residential customer charge.

***Electric fuel and purchased power***

| | Three Months Ended June 30, | | |
|---|---|---|---|
| *(In millions)* | 2023 | 2022 | $ Change |
| Fuel for electric generation | $ 13.6 | $ 13.9 | $ (0.3) |
| Purchased power | 5.8 | 13.6 | (7.8) |

The $0.3 million decrease in fuel for electric generation was due to an approximately 21% decrease in the average cost offset by an approximately 24% increase in internal generation. Columbia generation was higher during the three months ended June 30, 2023, compared to the same period in the prior year as a result of market prices.

The $7.8 million decrease in purchased power was due to an approximately 39% decrease in market purchases as a result of higher internal generation and an approximately 53% decrease in average cost.

Fuel and purchased power costs are generally offset by electric revenue and do not have a significant impact on net income. MGE expects to seek and receive recovery of fuel and purchased power costs that exceed the fuel rules bandwidth in customer rates. See Footnote 9 of the Notes to Consolidated Financial Statements in this Report for further information on the fuel rules bandwidth.

***Gas deliveries and revenues***

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

| | Revenues | | | Therms Delivered | | |
|---|---|---|---|---|---|---|
| *(In thousands, except HDD and average* | Three Months Ended June 30, | | | Three Months Ended June 30, | | |
| *rate per therm of retail customer)* | 2023 | 2022 | % Change | 2023 | 2022 | % Change |
| Residential | $ 16,688 | $ 23,648 | (29.4)% | 13,593 | 15,263 | (10.9)% |
| Commercial/Industrial | 8,207 | 15,172 | (45.9)% | 14,794 | 15,902 | (7.0)% |
| Total retail | 24,895 | 38,820 | (35.9)% | 28,387 | 31,165 | (8.9)% |
| Gas transportation | 1,235 | 1,340 | (7.8)% | 16,032 | 16,810 | (4.6)% |
| Other | 161 | 24 | n.m.% | — | — | —% |
| Total | $ 26,291 | $ 40,184 | (34.6)% | 44,419 | 47,975 | (7.4)% |
| Heating degree days (normal 812) | | | | 739 | 870 | (15.1)% |
| Average rate per therm of retail customer | $ 0.877 | $ 1.246 | (29.6)% | | | |

n.m. not meaningful

Gas revenue decreased $13.9 million during the three months ended June 30, 2023, compared to the same period in the prior year, due to the following:

| *(In millions)* | |
|---|---|
| Rate changes | $ (10.7) |
| Decrease in volume | (3.7) |
| Other | 0.5 |
| Total | $ (13.9) |

- *Rate changes.* In December 2021, the PSCW authorized MGE to increase 2023 rates for retail gas customers by approximately 0.96%.

  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 in view of the pass-through treatment of the costs. Payments for natural gas decreased driving lower rates during the three months ended June 30, 2023.

The average retail rate per therm for the three months ended June 30, 2023, decreased approximately 30% compared to the same period in the prior year, reflecting a decrease in natural gas commodity costs (recovered through the PGA).

- *Volume.* For the three months ended June 30, 2023, retail gas deliveries decreased approximately 9% compared to the same period in the prior year primarily attributable to favorable weather conditions during the second quarter of 2022.

***Cost of gas sold***

Cost of gas sold decreased $14.0 million during the three months ended June 30, 2023, compared to the same period in the prior year. Average cost per therm decreased approximately 62% and therms delivered decreased approximately 11%. MGE recovers the cost of natural gas in its gas segment through the PGA as described under gas deliveries and revenue above.

***Consolidated operations and maintenance expenses***

During the three months ended June 30, 2023, operations and maintenance expenses increased $0.5 million, compared to the same period in the prior year. The following contributed to the net change:

| *(In millions)* | | |
|---|---|---|
| Increased electric production expenses | $ | 1.1 |
| Increased other expenses | | 0.6 |
| Increased administrative and general costs | | 0.3 |
| Decreased electric distribution expenses | | (1.1) |
| Decreased customer accounts costs | | (0.4) |
| Total | $ | 0.5 |

- Increased electric production expenses are primarily related to an increase in Columbia maintenance costs.

- Electric distribution expenses were higher in 2022 primarily related to June 2022 storm response costs.

***Consolidated depreciation expense***

Electric depreciation expense increased $3.7 million and gas depreciation expense increased $0.1 million during the three months ended June 30, 2023, compared to the same period in the prior year. As part of the PSCW approved electric limited reopener for 2023, MGE accelerated the depreciation schedule for Columbia Unit 2 from 2038 to 2029 to align with the depreciation schedule approved for Columbia Unit 1. The accelerated depreciation schedule, which began in 2023, for Columbia Unit 2 contributed to the increase in electric depreciation expense.

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

The nonregulated energy operations are conducted through MGE Energy's subsidiaries: MGE Power Elm Road (the Elm Road Units) and MGE Power West Campus (WCCF), which have been formed to own and lease electric generating capacity to assist MGE. During both the three months ended June 30, 2023 and 2022, net income at the nonregulated energy operations segment was $5.5 million.

**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 both the three months ended June 30, 2023 and 2022, other income at the transmission investment segment primarily reflects ATC's operations and was $2.6 million. See Footnote 3 of the Notes to Consolidated Financial

Statements in this Report for summarized financial information regarding ATC and "Other Matters" below for additional information concerning ATC.

**All Other Operations - MGE Energy**

***Other income***

The decrease of $1.5 million in other income from all other operations during the three months ended June 30, 2023 primarily results from increased investment distribution losses from our venture capital funds compared to the same period in the prior year. These venture capital investments support early-stage companies working to advance smart technologies, the customer experience, distributed energy resources, electrification, cybersecurity and other priorities for utility companies such as greater sustainability.

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

See Footnote 4 of the Notes to Consolidated Financial Statements in this Report for the effective tax rate reconciliation.

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

Noncontrolling interest, net of tax, reflects the accounting required for MGE Energy's interest in MGE Power Elm Road (the Elm Road Units) and MGE Power West Campus (WCCF). MGE Energy owns 100% of MGE Power Elm Road and MGE Power West Campus. They are not owned by MGE. Due to the contractual agreements for these projects with MGE, the entities are considered VIEs with respect to MGE and their results are consolidated with those of MGE, the primary beneficiary of the VIEs. The following table shows MGE Energy's noncontrolling interest, net of tax, reflected on MGE's consolidated statement of income:

| | Three Months Ended June 30, | |
|---|---|---|
| *(In millions)* | 2023 | 2022 |
| MGE Power Elm Road | $ 3.6 | $ 3.8 |
| MGE Power West Campus | 1.8 | 1.8 |

## Results of Operations

### *Six Months Ended June 30, 2023 and 2022*

***Electric sales and revenues***

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

| | Revenues | | | Sales (kWh) | | |
|---|---|---|---|---|---|---|
| | Six Months Ended June 30, | | | Six Months Ended June 30, | | |
| *(In thousands, except CDD)* | 2023 | 2022 | % Change | 2023 | 2022 | % Change |
| Residential | $ 81,544 | $ 78,029 | 4.5% | 408,082 | 426,851 | (4.4)% |
| Commercial | 122,965 | 112,409 | 9.4% | 860,125 | 872,916 | (1.5)% |
| Industrial | 6,863 | 6,623 | 3.6% | 74,606 | 79,523 | (6.2)% |
| Other-retail/municipal | 19,862 | 18,205 | 9.1% | 172,475 | 172,295 | 0.1% |
| Total retail | 231,234 | 215,266 | 7.4% | 1,515,288 | 1,551,585 | (2.3)% |
| Sales to the market | 6,312 | 6,080 | 3.8% | 53,823 | 73,216 | (26.5)% |
| Other revenues | 1,190 | 693 | 71.7% | — | — | —% |
| Total | $ 238,736 | $ 222,039 | 7.5% | 1,569,111 | 1,624,801 | (3.4)% |
| | | | | | | |
| Cooling degree days (normal 194) | | | | 205 | 277 | (26.0)% |

Electric revenue increased $16.7 million during the six months ended June 30, 2023, compared to the same period in the prior year, due to the following:

| *(In millions)* | | |
|---|---|---|
| Rate changes | $ | 20.3 |
| Revenue subject to refund, net | | 2.6 |
| Other | | 0.5 |
| Sales to the market | | 0.2 |
| Decrease in residential volume | | (2.8) |
| Customer fixed and demand charges | | (2.4) |
| Net decrease in commercial, industrial and other-retail/municipal volume | | (1.7) |
| Total | $ | 16.7 |

- *Rate changes.* In December 2022, the PSCW authorized MGE to increase 2023 rates for retail electric customers by approximately 9.01%. Rates charged to retail customers during the six months ended June 30, 2023 were $20.3 million higher than those charged during the same period in the prior year. See Footnote 9 of the Notes to Consolidated Financial Statements in this Report for further information on the rate increase. Any increase in rates associated with fuel or purchase power costs are generally offset in fuel and purchased power costs and do not have a significant impact on net income.

- *Revenue subject to refund.* For cost recovery mechanisms, any over-collection of revenues resulting from 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 net income impact in the year the costs are refunded.

- *Sales to the market.* Sales to the market typically occur when MGE has more generation and purchases in the MISO market than are needed for its customer demand. The excess electricity is then sold to other utilities or power marketers in the MISO market. During the six months ended June 30, 2023, sales were made at higher market prices and partially offset by decreased market volumes compared to the same period in the prior year, reflecting a decrease in sales. The revenue generated from these sales is included in fuel rules  costs. See fuel rules discussion in Footnote 9 of the Notes to Consolidated Financial Statements.

- *Residential volume.* During the six months ended June 30, 2023, residential sales decreased by approximately 4% compared to the same period in the prior year. This decrease was driven by warmer than normal weather in the first quarter of 2023.

- *Customer fixed and demand charges.* During the six months ended June 30, 2023, fixed and demand charges decreased $2.4 million primarily attributable to the decrease in demand charges for commercial customers. and decreased fixed residential customer charge.

- *Commercial, industrial and other-retail/municipal volume.* During the six months ended June 30, 2023, sales decreased by approximately 2% compared to the same period in the prior year driven by warmer weather in the first quarter of 2023.

***Electric fuel and purchased power***

| | Six Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| *(In millions)* | | 2023 | | 2022 | | $ Change |
| Fuel for electric generation | $ | 27.4 | $ | 27.4 | $ | — |
| Purchased power | | 21.2 | | 26.2 | | (5.0) |

The $5.0 million decrease in purchased power was due to an approximately 13% decrease in market purchases as a result of lower customer sales and an approximately 26% decrease in average cost.

Fuel and purchased power costs are generally offset by electric revenue and do not have a significant impact on net income. MGE expects to seek and receive recovery of fuel and purchased power costs that exceed the fuel rules bandwidth in customer rates. See Footnote 9 of the Notes to Consolidated Financial Statements in this Report for further information on the fuel rules bandwidth.

***Gas deliveries and revenues***

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

| | Revenues | | | Therms Delivered | | |
|---|---|---|---|---|---|---|
| *(In thousands, except HDD and average* | Six Months Ended June 30, | | | Six Months Ended June 30, | | |
| *rate per therm of retail customer)* | 2023 | 2022 | % Change | 2023 | 2022 | % Change |
| Residential | $ 72,412 | $ 80,331 | (9.9)% | 60,746 | 70,925 | (14.4)% |
| Commercial/Industrial | 49,710 | 55,423 | (10.3)% | 57,249 | 63,794 | (10.3)% |
| Total retail | 122,122 | 135,754 | (10.0)% | 117,995 | 134,719 | (12.4)% |
| Gas transportation | 3,767 | 3,216 | 17.1% | 38,305 | 42,876 | (10.7)% |
| Other revenues | 364 | 25 | n.m.% | — | — | —% |
| Total | $ 126,253 | $ 138,995 | (9.2)% | 156,300 | 177,595 | (12.0)% |
| Heating degree days (normal 4,365) | | | | 3,929 | 4,588 | (14.4)% |
| Average rate per therm of retail customer | $ 1.035 | $ 1.008 | 2.7% | | | |

n.m. not meaningful

Gas revenue decreased $12.7 million during the six months ended June 30, 2023, compared to the same period in the prior year, due to the following:

| *(In millions)* | |
|---|---|
| Decrease in volume | $ (11.4) |
| Rate changes | (2.2) |
| Other | 0.9 |
| Total | $ (12.7) |

- *Volume.* For the six months ended June 30, 2023, retail gas deliveries decreased approximately 12% compared to the same period in the prior year primarily attributable to warmer than normal weather in the first quarter of 2023. During the first quarter of 2022, the weather was slightly colder than normal.

- *Rate changes.* In December 2021, the PSCW authorized MGE to increase 2023 rates for retail gas customers by approximately 0.96%.

  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 in view of the pass-through treatment of the costs. Payments for natural gas decreased driving lower rates during the six months ended June 30, 2023.

  The average retail rate per therm excluding customer fixed charge for the six months ended June 30, 2023, decreased approximately 2% compared to the same period in the prior year, reflecting a decrease in natural gas commodity costs (recovered through the PGA).

***Cost of gas sold***

Cost of gas sold decreased $11.0 million during the six months ended June 30, 2023, compared to the same period in the same period in the prior year. Therms delivered decreased approximately 13%, partially offset by an approximately 1% increase in cost per therm. MGE recovers the cost of natural gas in its gas segment through the PGA as described under gas deliveries and revenue above.

***Consolidated operations and maintenance expenses***

During the six months ended June 30, 2023, operations and maintenance expenses increased $0.5 million, compared to the same period in the prior year. The following contributed to the net change:

| *(In millions)* | | |
|---|---|---|
| Increased electric production expenses | $ | 1.2 |
| Increased other expenses | | 0.7 |
| Increased administrative and general costs | | 0.6 |
| Decreased customer accounts costs | | (1.1) |
| Decreased electric distribution expenses | | (0.9) |
| Total | $ | 0.5 |

- Increased electric production expenses are primarily related to an increase in Columbia maintenance costs.

- Decreased customer accounts costs are primarily related to lower technology support costs which were higher in 2022 during the stabilization period of the new customer information system that went live in September 2021.

- Electric distribution expenses were higher in 2022 primarily related to June 2022 storm response costs.

***Consolidated depreciation expense***

Electric depreciation expense increased $7.2 million and gas depreciation expense increased $0.2 million during the six months ended June 30, 2023, compared to the same period in the prior year. As part of the PSCW approved electric limited reopener for 2023, MGE accelerated the depreciation schedule for Columbia Unit 2 from 2038 to 2029 to align with the depreciation schedule approved for Columbia Unit 1. The accelerated depreciation schedule, which began in 2023, for Columbia Unit 2 contributed to the increase in electric depreciation expense.

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

The nonregulated energy operations are conducted through MGE Energy's subsidiaries: MGE Power Elm Road (the Elm Road Units) and MGE Power West Campus (WCCF), which have been formed to own and lease electric generating capacity to assist MGE. During the six months ended June 30, 2023 and 2022, net income at the nonregulated energy operations segment was $11.0 million and $10.9 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 six months ended June 30, 2023 and 2022, other income at the transmission investment segment primarily reflects ATC's operations and was $5.2 million and $5.1 million, respectively. See Footnote 3 of the Notes to Consolidated Financial Statements in this Report for summarized financial information regarding ATC and "Other Matters" below for additional information concerning ATC.

**All Other Operations - MGE Energy**

***Other income***

The decrease of $2.6 million in other income from all other operations during the six months ended June 30, 2023, primarily results from increased investment distribution losses from our venture capital funds compared to the same period in the prior year. These venture capital investments support early-stage companies working to advance smart technologies, the customer experience, distributed energy resources, electrification, cybersecurity and other priorities for utility companies such as greater sustainability.

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

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:

| | Six Months Ended June 30, | |
|---|---|---|
| *(In millions)* | 2023 | 2022 |
| MGE Power Elm Road | $ 7.3 | $ 6.7 |
| MGE Power West Campus | 3.6 | 3.6 |

**Contractual Obligations and Commercial Commitments - MGE Energy and MGE**

There were no material changes, other than from the normal course of business, to MGE Energy's and MGE's contractual obligations (representing cash obligations that are considered to be firm commitments) and commercial commitments (representing commitments triggered by future events) during the six months ended June 30, 2023, 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 2022 Annual Report on Form 10-K.

**Purchase Contracts – MGE Energy and MGE**

See Footnote 8.c. of Notes to Consolidated Financial Statements in this Report for a description of commitments as of June 30, 2023, that MGE Energy and MGE have entered with respect to various commodity supply and transportation contracts to meet their obligations to deliver electricity and natural gas to customers.

**Long-term Debt – MGE Energy and MGE**

In March 2023, $19.3 million of City of Madison, Wisconsin Industrial Development Revenue Refunding Bonds, Series 2020A were remarketed. See Footnote 6.c. of Notes to Consolidated Financial Statements in this Report for further information.

## *Liquidity and Capital Resources*

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 operations and both long-term and short-term debt financing. 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 2022 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 six months ended June 30, 2023 and 2022:

| | MGE Energy | | MGE | |
|---|---|---|---|---|
| *(In thousands)* | 2023 | 2022 | 2023 | 2022 |
| Cash provided by (used for): | | | | |
| Operating activities | $ 126,991 | $ 111,276 | $ 125,050 | $ 109,549 |
| Investing activities | (111,759) | (69,063) | (108,506) | (66,300) |
| Financing activities | (11,943) | (36,568) | (13,720) | (33,791) |

**Cash Provided by Operating Activities**

Cash flows from operating activities for MGE Energy and MGE principally reflect the receipt of customer payments for electric and gas service and outflows related to fuel for electric generation, purchased power, gas, and operation and maintenance expenditures.

***MGE Energy***

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

Cash provided by operating activities during the six months ended June 30, 2023, was $127.0 million, an increase of $15.7 million when compared to the same period in the prior year, driven by:

A $28.1 million increase in cash as a result of higher overall collections from customers during the six months ended June 30, 2023, when compared to the prior year. This increase was driven by the 2023 rates approved by the PSCW, effective January 1, 2023, and decrease in the per-unit cost of natural gas during the six months ended June 30, 2023.

These increases in net cash provided by operating activities were partially offset by:

A decrease of $3.3 million in cash from higher payments for MGE Energy's federal and state taxes during the six months ended June 30, 2023, when compared to the prior year.

A decrease of $1.7 million in cash from higher payments for interest, driven by MGE's issuance of long-term debt during the fourth quarter of 2022 and first quarter of 2023, compared to the prior period.

A decrease of $6.7 million in cash from higher payments for other operation and maintenance expenses. During the first quarter of 2023, a $2.0 million contribution to the MGE Foundation was paid.

***MGE***

Cash provided by operating activities during the six months ended June 30, 2023, was $125.1 million, an increase of $15.5 million when compared to the same period in the prior year, driven by:

A $28.1 million increase in cash as a result of higher overall collections from customers during the six months ended June 30, 2023, when compared to the prior year. This increase was driven by the 2023 rates approved by the PSCW, effective January 1, 2023, and decrease in the per-unit cost of natural gas during the six months ended June 30, 2023.

These increases in net cash provided by operating activities were partially offset by:

A decrease of $3.0 million in cash from higher payments for MGE's federal and state taxes during the six months ended June 30, 2023, when compared to the prior year.

A decrease of $1.7 million in cash from higher payments for interest, driven by MGE's issuance of long-term debt during the fourth quarter of 2022 and first quarter of 2023, compared to the prior period.

A decrease of $7.4 million in cash from higher payments for other operation and maintenance expenses.

**Capital Requirements and Investing Activities**

***MGE Energy***

MGE Energy's cash used for investing activities increased $42.7 million during the six months ended June 30, 2023, when compared to the same period in the prior year.

Capital expenditures during the six months ended June 30, 2023, were $107.7 million. This amount represents an increase of $41.7 million from the expenditures made in the same period in the prior year. This increase primarily reflects the purchase of 25 MW of West Riverside and purchase of Red Barn wind farm.

***MGE***

MGE's cash used for investing activities increased $42.2 million during the six months ended June 30, 2023, when compared to the same period in the prior year.

Capital expenditures during the six months ended June 30, 2023, were $107.7 million. This amount represents an increase of $41.7 million from the expenditures made in the same period in the prior year. This increase primarily reflects the purchase of 25 MW of West Riverside purchase of Red Barn wind farm.

***MGE Energy's and MGE's Capital Requirements***

MGE Energy's and MGE's liquidity are primarily affected by their capital expenditure requirements. During the six months ended June 30, 2023, capital expenditures for MGE Energy and MGE totaled $107.7 million, which included $105.2 million of utility capital expenditures. The primary driver of the increased utility capital expenditures during the six months ended June 30, 2023, were the purchases of West Riverside and Red Barn wind farm.

MGE does not currently expect any material changes to its construction plans as presented in the 2023 through 2027 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 2022 Annual Report on Form 10-K. MGE is monitoring import regulations under the Uyghur Forced Labor Protection Act and the U.S. Department of Commerce investigation. These disruptions have had and may continue to impact current and future solar projects increasing costs or causing delays in construction timelines. As projects are delayed, timing of capital expenditures will be correspondingly shifted. See "Other Matters" below for additional information on the solar procurement disruptions.

**Cash Used for Financing Activities**

***MGE Energy***

Cash used for MGE Energy's financing activities was $11.9 million during the six months ended June 30, 2023, compared to $36.6 million for the same period in the prior year.

During the six months ended June 30, 2023, dividends paid were $29.5 million compared to $28.0 million in the prior year. The increase reflected a higher dividend rate per share ($0.815 vs. $0.775).

During the six months ended June 30, 2023, MGE borrowed $50 million through the issuance of senior unsecured notes which was used to assist with financing additional capital expenditures and other corporate obligations. In addition, $19.3 million of Industrial Development Revenue Bonds was tendered by their holders as required by the terms of the bonds and remarketed as permitted by those terms. There were no long-term debt borrowings during the six months ended June 30, 2022.

During the six months ended June 30, 2023, net short-term debt repayments were $28.5 million, compared to $5.5 million of repayments in the same period in the prior year.

***MGE***

During the six months ended June 30, 2023, cash used for MGE's financing activities was $13.7 million, compared to $33.8 million for the same period in the prior year.

During the six months ended June 30, 2023, cash dividends to parent (MGE Energy) were $21.0 million, compared to $12.0 million in the same period 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 $10.3 million during the six months ended June 30, 2023, compared to $13.3 million in the same period in the prior year.

During the six months ended June 30, 2023, MGE borrowed $50 million through the issuance of senior unsecured notes which was used to assist with financing additional capital expenditures and other corporate obligations. In addition, $19.3 million of Industrial Development Revenue Bonds was tendered by their holders as required by the terms of the bonds and remarketed as permitted by those terms. There were no long-term debt borrowings during the six months ended June 30, 2022.

During the six months ended June 30, 2023, net short-term debt repayments were $28.5 million, compared to $5.5 million of repayments in the same period in the prior year.

**Capitalization Ratios**

MGE Energy's capitalization ratios were as follows:

| | MGE Energy | |
|---|---|---|
| | June 30, 2023 | December 31, 2022 |
| Common shareholders' equity | 60.4% | 60.4% |
| Long-term debt[a] | 37.3% | 35.7% |
| Short-term debt | 2.3% | 3.9% |

(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**

See the discussion of environmental matters included in the 2022 Annual Report on Form 10-K, as updated by Footnote 8.a. of Notes to Consolidated Financial Statements in this Report.

**Other Matters**

***Rate Matters***

In December 2021, the PSCW approved a settlement agreement to increase gas rates 0.96% in 2023 and a potential 2023 electric rate change to be addressed through a limited reopener.

In December 2022, the PSCW approved the electric rate case limited reopener. The reopener provides for a 9.01% increase to electric rates for 2023.

In April 2023, MGE filed a 2024/2025 rate application with a proposed increase of 3.75% for electric rates and a 2.56% increase for gas rates in 2024. The application addresses rates for 2025 proposing a 3.41% increase for electric rates and a 1.66% increase to gas rates for 2025. PSCW approval is pending. A final order is expected before the end of the year.

Details related to MGE's 2023 approved settlement agreement and 2023 electric limited reopener, and 2024/2025 proposed rate proceeding are as follows:

| *(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 (2023 Test Period) | $ 1,162,516 | $ 19,976 | 9.8% | 55.63% | 1/1/2023 |
| Gas (2023 Test Period) | $ 312,270 | $ 8,228 | 9.8% | 55.63% | 1/1/2023 |
| Electric (2024 Test Period)[(d)] | $ 1,202,123 | $ 13,995 | 9.8% | 56.12% | 1/1/2024 |
| Gas (2024 Test Period)[(d)] | $ 338,417 | $ 3,701 | 9.8% | 56.12% | 1/1/2024 |
| Electric (2025 Test Period)[(d)] | $ 1,281,236 | $ 13,871 | 9.8% | 56.05% | 1/1/2025 |
| Gas (2025 Test Period)[(d)] | $ 345,463 | $ 3,341 | 9.8% | 56.05% | 1/1/2025 |

(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 of Financial Condition and Results of Operations - 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.

See Footnote 9 of Notes to Consolidated Financial Statements in this Report for further discussion of rate proceedings.

***ATC***

MISO transmission owners, including ATC, are involved in two complaints filed at FERC by several parties challenging that the base ROE in effect for MISO transmission owners, including ATC, was no longer just and reasonable. Each complaint provided for a 15-month statutory refund period: November 12, 2013 through February 11, 2015 (the "First Complaint Period") and February 12, 2015 through May 11, 2016 (the "Second Complaint Period").

In May 2020, FERC issued an order further refining the methodology for setting authorized ROE. This refined methodology increased the authorized ROE from 9.88% to 10.02%. This base ROE is effective for the First Complaint Period and for all periods following September 2016. This order also dismissed the second complaint. Accordingly, no refunds were ordered for the Second Complaint Period.

As a result of the May 2020 FERC order, our share of ATC's earnings reflected a $0.6 million reduction of our reserve. Additionally, our share of ATC's earnings reflected the derecognition of a possible refund related to the Second Complaint Period as ATC considered such a refund to be no longer probable. However, due to pending requests for rehearing, a loss related to the 2015 complaint remains possible. Our share of the estimated refund for the Second Complaint Period is approximately $2.3 million. MGE has not recorded a possible loss for the Second Complaint Period.

Several petitions for review of FERC’s prior orders were filed with the U.S. Court of Appeals for the D.C. Circuit (the "Court") and an oral argument was held in November 2021. In August 2022, the Court ruled that four of the five arguments made by the complaining parties were unpersuasive. However, the Court agreed that FERC’s decision to reintroduce a risk-premium model into its ROE methodology was arbitrary and capricious. The Court vacated the underlying orders for the First Complaint Period and remanded to FERC for further proceedings. In 2022, our share of ATC's earnings reflected an estimated possible loss of approximately $0.9 million, inclusive of interest and net of tax, for a possible additional refund for the First Complaint Period and for the period following the Second Complaint Period. Although the Court agreed that FERC was correct to use the base ROE established in the first complaint to adjudicate the second, and that FERC was right to dismiss the second complaint, the second complaint was also remanded for FERC to reopen proceedings. Any reduction in ATC's ROE could result in lower equity earnings and distributions from ATC in the future.

We derived approximately 6.2% and 6.4% of our net income during the six months ended June 30, 2023 and 2022, respectively, from our investment in ATC.

**Uyghur Forced Labor Protection Act**

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. The Uyghur Forced Labor Protection Act (UFLPA), a federal law that became effective on June 21, 2022, further established that all goods mined, produced, or manufactured wholly or in part in Xinjiang or by certain defined entities are prohibited from U.S. importation. Suppliers for MGE's current solar projects were able to provide the CBP sufficient documentation to meet WRO compliance requirements, and MGE expects the same will be true for UFLPA purposes, however we cannot currently predict what, if any, impact the UFLPA will have on the overall supply of solar panels into the United States and the related impact to timing and cost of solar projects included in our capital plan. In the event that such disruptions cause costs to exceed the levels approved for specific projects, we expect to file a notification with the PSCW and expect to request recovery of any increases in MGE's next rate proceeding.

**U.S. Department of Commerce Investigation**

In March 2022, the U.S. Department of Commerce (USDOC) announced a solar tariff investigation on solar panels from four Southeast Asian countries. This investigation could result in additional tariffs on solar panels. In June 2022, the USDOC issued a 24-month exemption from tariffs for solar panel and module imports from these four countries. 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. In the event that such disruptions cause costs to exceed the levels approved for specific projects, we expect to file a notification with the PSCW and expect to request recovery of any increases in MGE's next rate proceeding.

**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.

There were no material changes to the market risks disclosed in Item 7A. Quantitative and Qualitative Disclosures About Market Risk in our 2022 Annual Report on Form 10-K.

## Item 4. Controls and Procedures.

During the second quarter of 2023, each registrant's management, including the principal executive officer and principal financial officer, evaluated its disclosure controls and procedures related to the recording, processing, summarization, and reporting of information in its periodic reports that it files with the SEC. These disclosure controls and procedures have been designed to ensure that material information relating to that registrant, including its subsidiaries, is accumulated and made known to that registrant's management, including these officers, by other employees of that registrant and its subsidiaries as appropriate to allow timely decisions regarding required disclosure, and that this information is recorded, processed, summarized, evaluated, and reported, as applicable, within the time periods specified in the SEC's rules and forms. The evaluations take into account changes in the internal and external operating environments that may impact those controls and procedures. Due to the inherent limitations of control systems, not all misstatements may be detected. These inherent limitations include the realities that judgments in decision making can be faulty and breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. Also, MGE Energy does not control or manage certain of its unconsolidated entities and thus, its access and ability to apply its procedures to those entities is more limited than is the case for its consolidated subsidiaries.

As of June 30, 2023, each registrant's principal executive officer and principal financial officer concluded that its disclosure controls and procedures were effective. Each registrant intends to strive continually to improve its disclosure controls and procedures to enhance the quality of its financial reporting.

During the quarter ended June 30, 2023, 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 1A Risk Factors.

There were no material changes from the risk factors disclosed in Item 1A. Risk Factors in our 2022 Annual Report on Form 10-K.

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

Under the MGE Energy, Inc. Direct Stock Purchase and Dividend Reinvestment Plan (Stock Plan), common stock shares purchased by plan participants may be either shares issued by MGE Energy or shares purchased on the open market, as determined from time to time by MGE Energy. Shares issued by MGE Energy are covered by an existing registration statement. Shares purchased in the open market are purchased at the direction of the plan participants by MGE Energy's transfer agent's securities broker-dealer for the accounts of those plan participants. Subject to the plan's restrictions, the timing and amount of open market purchases is determined by the plan participants and the broker-dealer. MGE Energy is not involved in the open market purchases. During 2023, shares purchased under the Stock Plan have been purchased in the open market.

### 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: August 3, 2023

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

Date: August 3, 2023

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

Date: August 3, 2023

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

## Signatures – Madison Gas and Electric Company

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

MADISON GAS AND ELECTRIC

Date: August 3, 2023

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

Date: August 3, 2023

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

Date: August 3, 2023

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