



INTERIM REPORT  
DECEMBER 15, 2020

# Bold goals

Community  
focus



Together we build a  
strong energy future.

## Comments from the Chairman and CEO

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### UW's Nelson Institute releases analysis of MGE's net-zero carbon goal

The University of Wisconsin-Madison released in November its analysis of the company's goal of net-zero carbon electricity. Using climate modeling available through the Intergovernmental Panel on Climate Change (IPCC), Dr. Tracey Holloway in the Nelson Institute for Environmental Studies and the Department of Atmospheric and Oceanic Sciences compared MGE's goal to the modeled pathways for the electricity sector in industrialized nations to limit global warming to 1.5 degrees Celsius. Dr. Holloway determined MGE's goal is in line with or more aggressive than these model benchmarks for climate solutions.

"MGE chose to partner with Dr. Holloway for this independent analysis because she is an expert in the area of climate science," said Jeff Keebler, MGE Chairman, President and CEO. "Her study concluded MGE is on the path toward deep decarbonization, pursuing globally recognized strategies to achieve an ambitious goal that is consistent with the latest climate science. And, consistent with the science, we fully expect to achieve carbon reductions of 65% by 2030."

#### Methodology

To evaluate which combinations of energy and land use policies could support a 1.5 degrees Celsius scenario, research groups around the world have developed computer models to project the global temperature response to different assumptions about energy technology and other factors throughout the next 100 years. The results of these computer models were reported in the IPCC's October 2018 Special Report and shared through an online database, which provides information and options to support planning for a low-carbon future.

Dr. Holloway used energy use scenarios in the database for the analysis of MGE operations and the company's deep decarbonization goal. The models suggested that by 2050, emissions from electricity generation in industrialized countries should be 87% to 99% lower than the 2005 baseline. MGE has announced a plan for net-zero carbon emissions by 2050, which is a 100% reduction from 2005 levels. MGE's plan reflects carbon reductions consistent with limiting global warming to 1.5 degrees Celsius to prevent the most severe impacts of climate change.

"We've said since introducing our clean energy and carbon reduction goals—if we can go further faster through partnerships with our customers and the evolution of new technologies, we will. Our carbon reduction goal reflects our vision and signals our direction but does not determine our pace," said Keebler.

MGE continues to work with Dr. Holloway on further analysis of deep decarbonization strategies locally. The UW-Madison report, *Interpreting Global Energy Scenarios for Emissions Planning at the Utility Scale*, is available at [minds.wiscconsin.edu](http://minds.wiscconsin.edu) and at [mge.com/netzeroreport](http://mge.com/netzeroreport).

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### Two Creeks Solar serving customers

The 150-megawatt (MW) Two Creeks Solar project in northeastern Wisconsin began serving customers with carbon-free energy in early November. MGE owns 50 MW of Two Creeks, which consists of about 500,000 solar panels spread out over 800 acres.

Located in the town of Two Creeks and the city of Two Rivers near the Point Beach Nuclear Power Plant, Two Creeks Solar is jointly owned by MGE and Wisconsin Public Service (WPS). It is part of more than 250 MW in clean energy generation announced by MGE within the last five years that is expected to result in renewable capacity growth of about 650% by the end of 2022.



Two Creeks Solar  
Photo courtesy of Wisconsin Public Service, WEC Energy Group

## Dane County Airport Solar project complete

MGE's 9-MW solar project at the Dane County Regional Airport is expected to come online in December to serve Dane County operations. The array will generate enough carbon-free electricity to provide Dane County with about 40% of the energy used by all County-owned facilities, according to the County.

The partnership advances both the County's and MGE's clean energy goals. It was built under MGE's Renewable Energy Rider (RER), which gives MGE and a larger customer the opportunity to partner on a customized renewable energy solution. RER customers are responsible for costs associated with the generation facility and any distribution costs. Dane County is leasing the land to MGE. MGE owns the array and sells the energy to Dane County.



*Dane County Airport Solar*

## Third-quarter earnings

In November, MGE Energy reported earnings for the third quarter of \$31.8 million, or 88 cents per share, compared to \$30.7 million, or 88 cents per share, for the same period in 2019.

Electric net income increased \$1.0 million in the third quarter of 2020 compared to the same period last year. This increase was primarily due to AFUDC equity earned from the construction of Two Creeks and Badger Hollow I and II as well as savings in operating and maintenance costs. AFUDC equity for the Two Creeks and Badger Hollow I and II solar projects increased \$0.9 million compared to the same period in 2019.

The Two Creeks and Badger Hollow solar projects will provide MGE electric customers with renewable energy, advancing the company's commitment to achieving net-zero carbon electricity for all customers by 2050. A foundational objective in MGE's ongoing transition toward deep decarbonization is ensuring all customers benefit from new technologies and greater sustainability.

COVID-19 and associated governmental regulations led to a reduction of retail sales, impacting third-quarter electric earnings. Electric commercial retail sales dropped approximately 8% in the third quarter compared to the same period in the prior year; however, ongoing remote work arrangements contributed to higher electric residential sales. Third-quarter electric residential sales increased by approximately 9% compared to the third quarter of 2019. Gas net income in the third quarter of 2020 remained relatively flat compared to the third quarter of 2019.

We have been subject to and are following local, state and federal public health and safety regulations and guidance to address the pandemic. We have operated continuously throughout the pandemic and have not suffered any material disruptions in service or employment.

## EI Index Award for total shareholder return

In November, Chairman, President and CEO Jeff Keebler accepted on behalf of MGE Energy this year's Edison Electric Institute (EEI) Index Award in the Small-Capitalization category. The annual award for investor-owned electric utilities is presented to EEI member companies that have achieved the highest five-year total shareholder return in their categories. Total return is the combination of stock price appreciation and reinvested dividends. Keebler accepted the award during EEI's financial conference, which went virtual this year due to the global pandemic.

## Tax updates

Investors directly registered with MGE Energy: If you received MGE Energy dividends during 2020, the 1099-DIV tax information will be mailed with your December dividend payment notification. It also will be available to print at [computershare.com](http://computershare.com). For tax information regarding your sale of MGE Energy shares, the required tax information will be mailed on or before Feb. 16, 2021.

Investors owning shares through a brokerage firm: Your broker will provide the necessary tax forms. Please contact your broker if you have any questions. Thank you for your investment in MGE Energy.

## Lobbying efforts

We monitor federal, state and local legislation and regulations. Learn more at [mgeenergy.com/lobbying](http://mgeenergy.com/lobbying).

## Balance Sheet

(Unaudited) (in thousands)	Sep 30 2020	Dec 31 2019	(in thousands)	Sep 30 2020	Dec 31 2019
<b>Assets</b>					
<b>Plant:</b>					
Property, plant and equipment, net . . . . .	\$1,536,567	\$1,530,199	Common shareholders' equity . . . . .	\$973,584	\$855,676
Construction work in progress . . . . .	197,594	112,484	Long-term debt . . . . .	520,383	523,741
<b>Total Plant . . . . .</b>	<b>1,734,161</b>	<b>1,642,683</b>	<b>Total Capitalization . . . . .</b>	<b>1,493,967</b>	<b>1,379,417</b>
<b>Investments . . . . .</b>	<b>93,106</b>	<b>88,492</b>	<b>Current Liabilities:</b>		
<b>Current Assets:</b>					
Cash and cash equivalents . . . . .	53,058	23,481	Accounts payable . . . . .	56,054	55,161
Accounts receivable, net . . . . .	39,177	40,482	Other current liabilities . . . . .	59,426	73,659
Other current assets . . . . .	107,698	117,678	<b>Total Current Liabilities . . . . .</b>	<b>115,480</b>	<b>128,820</b>
<b>Total Current Assets . . . . .</b>	<b>199,933</b>	<b>181,641</b>	<b>Other Credits:</b>		
Other long-term assets . . . . .	168,526	168,848	Deferred income taxes . . . . .	253,411	243,302
<b>Total Assets . . . . .</b>	<b>\$2,195,726</b>	<b>\$2,081,664</b>	Other . . . . .	332,868	330,125
			<b>Total Other Credits . . . . .</b>	<b>586,279</b>	<b>573,427</b>
			<b>Total Capitalization and Liabilities . . . . .</b>	<b>\$2,195,726</b>	<b>\$2,081,664</b>

## Income Statement

(Unaudited) (in thousands, except per-share amounts)	Three Months Ended Sep 30		Nine Months Ended Sep 30	
	2020	2019	2020	2019
<b>Operating Revenues:</b>				
Electric revenues . . . . .	\$116,568	\$120,821	\$303,556	\$315,367
Gas revenues . . . . .	18,643	17,377	98,568	112,547
<b>Total Operating Revenues . . . . .</b>	<b>135,211</b>	<b>138,198</b>	<b>402,124</b>	<b>427,914</b>
<b>Operating Expenses:</b>				
Fuel used for electric generation and purchased power . . . . .	23,653	25,027	63,393	71,234
Cost of gas sold . . . . .	3,812	3,092	40,950	55,220
Other operations and maintenance . . . . .	45,819	48,070	136,412	143,979
Depreciation and amortization . . . . .	18,592	18,193	55,193	53,423
Other general taxes . . . . .	5,010	5,078	14,892	15,026
<b>Total Operating Expenses . . . . .</b>	<b>96,886</b>	<b>99,460</b>	<b>310,840</b>	<b>338,882</b>
<b>Operating Income . . . . .</b>	<b>38,325</b>	<b>38,738</b>	<b>91,284</b>	<b>89,032</b>
Other income, net . . . . .	6,534	5,204	19,131	15,074
Interest expense, net . . . . .	(5,765)	(5,831)	(17,740)	(17,227)
Income before income taxes . . . . .	39,094	38,111	92,675	86,879
Income tax provision . . . . .	(7,300)	(7,454)	(16,053)	(16,667)
<b>Net Income . . . . .</b>	<b>\$31,794</b>	<b>\$30,657</b>	<b>\$76,622</b>	<b>\$70,212</b>
Earnings per share of common stock (basic and diluted) . . . . .	\$0.88	\$0.88	\$2.16	\$2.03
Average shares of common stock outstanding (basic and diluted) . . . . .	36,163	34,668	35,427	34,668

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

## Statistics

Electric	Nine Months Ended: Sep 30		
Sales (thousands of kilowatt-hours)	2020	2019	% Change
Residential . . . . .	684,585	638,590	7.2%
Commercial . . . . .	1,308,511	1,410,360	(7.2%)
Industrial . . . . .	122,106	131,195	(6.9%)
Other-retail/municipal . . . . .	263,029	276,795	(5.0%)
Sales to the market . . . . .	92,539	110,246	(16.1%)
<b>Total Sales . . . . .</b>	<b>2,470,770</b>	<b>2,567,186</b>	<b>(3.8%)</b>
Gas	Nine Months Ended: Sep 30		
Deliveries (thousands of therms)	2020	2019	% Change
Residential . . . . .	68,394	74,769	(8.5%)
Commercial/industrial . . . . .	62,582	70,255	(10.9%)
Gas transportation . . . . .	55,002	54,129	1.6%
<b>Total Gas Deliveries . . . . .</b>	<b>185,978</b>	<b>199,153</b>	<b>(6.6%)</b>



### MGEE Shareholder Services

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