

MGE ENERGY INC
Form 10-Q
August 07, 2018

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, 2018

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

For the transition period from _____ to _____

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

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133 South Blair Street

Madison, Wisconsin 53788

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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 registrant was required to file such reports), and (2) have been subject to such filing requirements for the past 90 days: Yes No

Indicate by check mark whether the registrants have submitted electronically and posted on their corporate Web sites, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrants were required to submit and post such files):

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.	X				
Madison Gas and Electric Company			X		

If an emerging growth company, indicate by check mark if the registrant has 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.

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

MGE Energy, Inc. and Madison Gas and Electric Company: Yes No

Number of Shares Outstanding of Each Class of Common Stock as of July 31, 2018

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MGE Energy, Inc.
Madison Gas and Electric
Company

Common stock, \$1.00 par value, 34,668,370 shares outstanding.
Common stock, \$1.00 par value, 17,347,894 shares outstanding (all of which are
owned beneficially and of record by MGE Energy, Inc.).

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PART I. FINANCIAL INFORMATION.

Filing Format

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

Forward-Looking Statements

This report, and other documents filed by MGE Energy and MGE with the Securities and Exchange Commission (SEC) from time to time, contain forward-looking statements that reflect management's current assumptions and estimates regarding future performance and economic conditions especially as they relate to economic conditions, future load growth, revenues, expenses, capital expenditures, financial resources, regulatory matters, and the scope and expense associated with future environmental regulation. These forward-looking statements are made pursuant to the provisions of the Private Securities Litigation Reform Act of 1995. Words such as "believe," "expect," "anticipate," "estimate," "could," "should," "intend," "will," and other similar words generally identify forward-looking statements. Both MGE Energy and MGE caution investors that these forward-looking statements are subject to known and unknown risks and uncertainties that may cause actual results to differ materially from those projected, expressed, or implied.

The factors that could cause actual results to differ materially from the forward-looking statements made by a registrant include (a) those factors discussed in the registrants' 2017 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 17, as updated by Part I, Item 1. Financial Statements Note 9 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

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

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

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

MGE Energy and Subsidiaries:

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

Other Defined Terms:

AFUDC	Allowance for Funds Used During Construction
ANPR	Advance Notice of Public Rulemaking
ARO	Asset Retirement Obligation
ASU	Accounting Standard Update
ATC	American Transmission Company LLC
ATC Holdco	ATC Holdco, LLC
Blount	Blount Station
CAVR	Clean Air Visibility Rule
CCR	Coal Combustion Residual
CNG	Compressed Natural Gas
codification	Financial Accounting Standards Board Accounting Standards Codification
Columbia	Columbia Energy Center
cooling degree days	Measure of the extent to which the average daily temperature is above 65 degrees Fahrenheit, which is considered an indicator of possible increased demand for energy to provide cooling
CPP	Clean Power Plan
CSAPR	Cross-State Air Pollution Rule
Dth	Dekatherms, a quantity measure used in respect of natural gas
EGUs	Electric Generating Units
electric margin	Electric revenues less fuel for electric generation and purchase power costs, a non-GAAP measure
Elm Road Units	Elm Road Generating Station
EPA	United States Environmental Protection Agency
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission

Forward Wind	Forward Wind Energy Center
FTR	Financial Transmission Rights
GAAP	Generally Accepted Accounting Principles
gas margin	Gas revenues less cost of gas sold, a non-GAAP measure
GHG	Greenhouse Gas
heating degree days (HDD)	Measure of the extent to which the average daily temperature is below 65 degrees Fahrenheit, which is considered an indicator of possible increased demand for energy to provide heating
IRS	Internal Revenue Service
kWh	Kilowatt-hour, a measure of electric energy produced

MISO	Midcontinent Independent System Operator (a regional transmission organization)
MW	Megawatt, a measure of electric energy generating capacity
MWh	Megawatt-hour, a measure of electric energy produced
NAAQS	National Ambient Air Quality Standards
NO _x	Nitrogen Oxides
PGA	Purchased Gas Adjustment clause, a regulatory mechanism used to reconcile natural gas costs recovered in rates to actual costs
PPA	Purchased Power Agreement
PSCW	Public Service Commission of Wisconsin
Riverside	Riverside Energy Center
ROE	Return on Equity
SCR	Selective Catalytic Reduction
SEC	Securities and Exchange Commission
SO ₂	Sulfur Dioxide
Stock Plan	Direct Stock Purchase and Dividend Reinvestment Plan of MGE Energy
Tax Act	Tax Cuts and Jobs Act
UW	University of Wisconsin at Madison
VIE	Variable Interest Entity
WCCF	West Campus Cogeneration Facility
WEPCO	Wisconsin Electric Power Company, a subsidiary of WEC Energy Group, Inc.
working capital	Current assets less current liabilities
WPL	Wisconsin Power and Light Company, a subsidiary of Alliant Energy Corporation
XBRL	eXtensible Business Reporting Language

Item 1. Financial Statements.

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Operating Revenues:				
Electric revenues	\$ 99,282	\$ 102,382	\$ 194,149	\$ 200,779
Gas revenues	24,980	24,081	87,745	82,507
<i>Total Operating Revenues</i>	124,262	126,463	281,894	283,286
Operating Expenses:				
Fuel for electric generation	15,251	11,910	27,151	24,109
Purchased power	12,979	16,720	30,012	32,074
Cost of gas sold	9,562	9,231	49,188	45,015
Other operations and maintenance	43,453	44,880	87,846	88,644
Depreciation and amortization	13,872	13,275	27,495	26,234
Other general taxes	4,914	4,852	9,783	9,779
<i>Total Operating Expenses</i>	100,031	100,868	231,475	225,855
Operating Income	24,231	25,595	50,419	57,431
Other income, net	4,731	3,570	9,650	7,095
Interest expense, net	(4,783)	(4,886)	(9,522)	(9,780)
Income before income taxes	24,179	24,279	50,547	54,746
Income tax provision	(5,828)	(8,736)	(12,195)	(19,903)
Net Income	\$ 18,351	\$ 15,543	\$ 38,352	\$ 34,843
Earnings Per Share of Common Stock				
(basic and diluted)	\$ 0.53	\$ 0.45	\$ 1.11	\$ 1.01
Dividends per share of common stock	\$ 0.323	\$ 0.308	\$ 0.645	\$ 0.615
Weighted Average Shares Outstanding				
(basic and diluted)	34,668	34,668	34,668	34,668

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

MGE Energy, Inc.
Consolidated Statements of Comprehensive Income (unaudited)
(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net Income	\$ 18,351	\$ 15,543	\$ 38,352	\$ 34,843
Other comprehensive income, net of tax:				
Unrealized gain on available-for-sale securities, net of tax (\$- and (\$21), and \$- and (\$86), respectively)	-	32	-	129
Comprehensive Income	\$ 18,351	\$ 15,575	\$ 38,352	\$ 34,972

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,	
	2018	2017
Operating Activities:		
Net income	\$ 38,352	\$ 34,843
Items not affecting cash:		
Depreciation and amortization	27,495	26,234
Deferred income taxes	(664)	1,037
Provision for doubtful receivables	354	367
Employee benefit plan (credit) cost	(1,076)	727
Equity earnings in ATC	(4,441)	(5,094)
Other items	160	778
Changes in working capital items:		
Decrease in current assets	29,120	20,595
Decrease in current liabilities	(1,333)	(11,516)
Dividends from ATC	3,905	4,072
Cash contributions to pension and other postretirement plans	(2,640)	(8,284)
Other noncurrent items, net	2,386	3,257
<i>Cash Provided by Operating Activities</i>	91,618	67,016
Investing Activities:		
Capital expenditures	(100,389)	(42,169)
Capital contributions to investments	(3,280)	(5,557)
Other	598	852
<i>Cash Used for Investing Activities</i>	(103,071)	(46,874)
Financing Activities:		
Cash dividends paid on common stock	(22,361)	(21,321)
Repayment of long-term debt	(2,213)	(32,167)
Issuance of long-term debt	-	40,000
Proceeds from short-term debt	24,200	-
Other	-	(317)
<i>Cash Used for Financing Activities</i>	(374)	(13,805)
Change in cash, cash equivalents, and restricted cash	(11,827)	6,337
Cash, cash equivalents, and restricted cash at beginning of period	112,094	101,633
Cash, cash equivalents, and restricted cash at end of period	\$ 100,267	\$ 107,970

**Supplemental disclosures of cash flow
information:**

Significant noncash investing activities: