

MGE ENERGY INC
Form 10-Q
May 07, 2015

United States
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended:

March 31, 2015

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	39-0444025

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(a Wisconsin Corporation)

133 South Blair Street

Madison, Wisconsin 53788

(608) 252-7000

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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, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

	Large Accelerated Filer	Accelerated Filer	Non-accelerated Filer	Smaller Reporting Company
MGE Energy, Inc.	X			
Madison Gas and Electric Company			X	

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 April 30, 2015

MGE Energy, Inc.	Common stock, \$1.00 par value, 34,668,370 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.

	<u>3</u>
<u>Filing Format</u>	<u>3</u>
<u>Forward-Looking Statements</u>	<u>3</u>
<u>Where to Find More Information</u>	<u>3</u>
<u>Definitions, Abbreviations, and Acronyms Used in the Text and Notes of this Report</u>	<u>4</u>
<u>Item 1. Financial Statements.</u>	<u>6</u>
<u>MGE Energy, Inc.</u>	<u>6</u>
<u>Consolidated Statements of Income (unaudited)</u>	<u>6</u>
<u>Consolidated Statements of Comprehensive Income (unaudited)</u>	<u>6</u>
<u>Consolidated Statements of Cash Flows (unaudited)</u>	<u>7</u>
<u>Consolidated Balance Sheets (unaudited)</u>	<u>8</u>

<u>Consolidated Statements of Common Equity (unaudited)</u>	9
<u>Madison Gas and Electric Company</u>	10
<u>Consolidated Statements of Income (unaudited)</u>	10
<u>Consolidated Statements of Comprehensive Income (unaudited)</u>	10
<u>Consolidated Statements of Cash Flows (unaudited)</u>	11
<u>Consolidated Balance Sheets (unaudited)</u>	12
<u>Consolidated Statements of Common Equity (unaudited)</u>	13
<u>MGE Energy, Inc., and Madison Gas and Electric Company</u>	14
<u>Notes to Consolidated Financial Statements (unaudited)</u>	14
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.</u>	30
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk.</u>	39
<u>Item 4. Controls and Procedures.</u>	42
<u>PART II. OTHER INFORMATION.</u>	43
	5

<u>Item 1. Legal Proceedings.</u>	<u>43</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.</u>	<u>43</u>
<u>Item 4. Mine Safety Disclosures.</u>	<u>43</u>
<u>Item 6. Exhibits.</u>	<u>43</u>
<u>Signatures - MGE Energy, Inc.</u>	<u>45</u>
<u>Signatures - Madison Gas and Electric Company</u>	<u>46</u>

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' 2014 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 18, 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.

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 State Energy Services	MGE State Energy Services, LLC
MGE Transco	MGE Transco Investment, LLC
NGV Fueling Services	NGV Fueling Services, LLC
North Mendota	North Mendota Energy & Technology Park, LLC

Other Defined Terms:

AFUDC	Allowance for Funds Used During Construction
ATC	American Transmission Company LLC
BART	Best Available Retrofit Technology
Blount	Blount Station
CAA	Clean Air Act
CAIR	Clean Air Interstate Rule
CAVR	Clean Air Visibility Rule
Codification	Financial Accounting Standards Board Accounting Standards Codification
Columbia	Columbia Energy Center
CSAPR	Cross-State Air Pollution Rule
CWA	Clean Water Act
Dth	Dekatherms, a quantity measure used in respect of natural gas
EGUs	Electric Generating Units
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
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	

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	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
NOV	Notice of Violation
NOx	Nitrogen Oxides
PGA	Purchased Gas Adjustment clause, a regulatory mechanism used to reconcile natural gas costs recovered in rates to actual costs
PJM	PJM Interconnection, LLC (a regional transmission organization)
PM	Particulate Matter
PPA	Purchased Power Agreement
ppb	Parts Per Billion
PSCW	Public Service Commission of Wisconsin

ROE	Return on Equity
SCR	Selective Catalytic Reduction
SEC	Securities and Exchange Commission
SIP	State Implementation Plan
SO ₂	Sulfur Dioxide
the State	State of Wisconsin
Stock Plan	Direct Stock Purchase and Dividend Reinvestment Plan of MGE Energy
UW	University of Wisconsin at Madison
VIE	Variable Interest Entity
WCCF	West Campus Cogeneration Facility
WDNR	Wisconsin Department of Natural Resources
Working capital	Current assets less current liabilities
WPDES	Wisconsin Pollutant Discharge Elimination System
WPL	Wisconsin Power and Light Company
WPSC	Wisconsin Public Service 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	
	March 31,	
	2015	2014
Operating Revenues:		
Regulated electric revenues	\$ 98,240	\$ 98,852
Regulated gas revenues	69,928	110,713
Nonregulated revenues	1,966	680
<i>Total Operating Revenues</i>	170,134	210,245
Operating Expenses:		
Fuel for electric generation	11,892	14,132
Purchased power	22,865	18,555
Cost of gas sold	46,919	78,508
Other operations and maintenance	40,674	40,472
Depreciation and amortization	10,849	9,746
Other general taxes	5,084	4,861
<i>Total Operating Expenses</i>	138,283	166,274
Operating Income	31,851	43,971
Other income, net	2,105	4,552
Interest expense, net	(5,091)	(4,541)
Income before income taxes	28,865	43,982
Income tax provision	(10,587)	(16,265)
Net Income	\$ 18,278	\$ 27,717
Earnings Per Share of Common Stock		
(basic and diluted)	\$ 0.53	\$ 0.80
Dividends per share of common stock	\$ 0.283	\$ 0.272
Average Shares Outstanding		
(basic and diluted)	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	
	March 31,	
	2015	2014
Net Income	\$ 18,278	\$ 27,717
Other comprehensive income, net of tax:		
Unrealized (loss) gain on available-for-sale securities, net of tax (\$57 and \$(5))	(85)	7
Comprehensive Income	\$ 18,193	\$ 27,724

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

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

	Three Months Ended	
	March 31,	
	2015	2014
Operating Activities:		
Net income	\$ 18,278	\$ 27,717
Items not affecting cash:		
Depreciation and amortization	10,849	9,746
Deferred income taxes	3,723	(877)
Provision for doubtful receivables	97	743
Employee benefit plan expenses	792	(332)
Equity earnings in ATC	(1,881)	(2,481)
Other items	(658)	(679)
Changes in working capital items:		
Decrease in current assets	17,985	3,283
(Decrease) increase in current liabilities	(11,091)	19,604
Dividend income from ATC	1,420	1,917
Cash contributions to pension and other postretirement plans	(10,809)	(818)
Other noncurrent items, net	5,935	547
<i>Cash Provided by Operating Activities</i>	34,640	58,370
Investing Activities:		
Capital expenditures	(11,533)	(21,800)
Capital contributions to investments	(280)	(693)
Other	(48)	(682)
<i>Cash Used for Investing Activities</i>	(11,861)	(23,175)
Financing Activities:		
Cash dividends paid on common stock	(9,794)	(9,420)
Repayment of long-term debt	(1,037)	(1,019)
Repayment of short-term debt	(7,000)	-
Other	-	(80)
<i>Cash Used for Financing Activities</i>	(17,831)	(10,519)
Change in cash and cash equivalents	4,948	24,676
Cash and cash equivalents at beginning of period	65,755	68,813
Cash and Cash Equivalents at End of Period	\$ 70,703	\$ 93,489

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

7

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

	March 31, 2015	December 31, 2014
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 70,703	\$ 65,755
Accounts receivable, less reserves of \$3,972 and \$4,329, respectively	43,861	41,614
Other accounts receivable, less reserves of \$401 and \$420, respectively	6,443	7,610
Unbilled revenues	25,366	31,262
Materials and supplies, at average cost	18,027	17,121
Fossil fuel	14,418	8,098
Stored natural gas, at average cost	8,398	21,036
Prepaid taxes	30,860	38,910
Regulatory assets - current	7,537	8,360
Deferred income taxes - current	109	3,482
Other current assets	10,219	10,711
<i>Total Current Assets</i>	235,941	253,959
Other long-term receivables	5,454	2,181
Regulatory assets	155,473	156,823
Other deferred assets and other	4,548	4,837
Property, Plant, and Equipment:		
Property, plant, and equipment, net	1,189,106	1,189,077
Construction work in progress	21,322	19,029
<i>Total Property, Plant, and Equipment</i>	1,210,428	1,208,106
Investments	72,347	71,760
Total Assets	\$ 1,684,191	\$ 1,697,666
LIABILITIES AND CAPITALIZATION		
Current Liabilities:		
Long-term debt due within one year	\$ 4,203	\$ 4,182
Short-term debt	-	7,000
Accounts payable	37,540	41,655
Accrued interest and taxes	3,999	5,086
Accrued payroll related items	8,318	11,241
Derivative liabilities	7,120	6,901
Other current liabilities	10,511	13,931
<i>Total Current Liabilities</i>	71,691	89,996
Other Credits:		
Deferred income taxes	342,400	342,045
Investment tax credit - deferred	1,179	1,223
Regulatory liabilities	23,981	22,715

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Accrued pension and other postretirement benefits	79,742	90,201
Derivative liabilities	46,319	46,560
Other deferred liabilities and other	57,017	50,269
<i>Total Other Credits</i>	550,638	553,013
Capitalization:		
Common shareholders' equity	667,658	659,401
Long-term debt	394,204	395,256
<i>Total Capitalization</i>	1,061,862	1,054,657
Commitments and contingencies (see Footnote 8)	-	-
Total Liabilities and Capitalization	\$ 1,684,191	\$ 1,697,666

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

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

	Common Stock Shares	Common Stock Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
2014						
Beginning balance - December 31, 2013	34,668	\$ 34,668	\$ 316,268	\$ 266,197	\$ 377	\$ 617,510
Net income				27,717		27,717
Other comprehensive income (loss)					7	7
Common stock dividends declared (\$ 0.272 per share)				(9,420)		(9,420)
Cash in lieu of fractional shares related to stock split				(80)		(80)
Ending balance - March 31, 2014	34,668	\$ 34,668	\$ 316,268	\$ 284,414	\$ 384	\$ 635,734
2015						
Beginning balance - December 31, 2014	34,668	\$ 34,668	\$ 316,268	\$ 308,007	\$ 458	\$ 659,401
Cumulative effect of new accounting principle (see Footnote 4)				(142)		(142)
Beginning balance - Adjusted				307,865		659,259
Net income				18,278		18,278
Other comprehensive income (loss)					(85)	(85)
Common stock dividends declared (\$0.283 per share)				(9,794)		(9,794)
Ending balance - March 31, 2015	34,668	\$ 34,668	\$ 316,268	\$ 316,349	\$ 373	\$ 667,658

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

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

	Three Months Ended	
	March 31,	
	2015	2014
Operating Revenues:		
Regulated electric revenues	\$ 98,245	\$ 98,858
Regulated gas revenues	69,933	110,718
Nonregulated revenues	1,966	680
<i>Total Operating Revenues</i>	170,144	210,256
Operating Expenses:		
Fuel for electric generation	11,894	14,134
Purchased power	22,868	18,558
Cost of gas sold	46,923	78,513
Other operations and maintenance	40,472	40,317
Depreciation and amortization	10,837	9,734
Other general taxes	5,084	4,861
Income tax provision	9,776	14,924
<i>Total Operating Expenses</i>	147,854	181,041
Operating Income	22,290	29,215
Other Income and Deductions:		
AFUDC - equity funds	128	1,950
Equity in earnings in ATC	1,881	2,481
Income tax provision	(808)	(1,264)
Other expense, net	(39)	(158)
<i>Total Other Income and Deductions</i>	1,162	3,009
Income before interest expense	23,452	32,224
Interest Expense:		
Interest on long-term debt	5,151	5,249
Other interest, net	32	(25)
AFUDC - borrowed funds	(42)	(643)
<i>Net Interest Expense</i>	5,141	4,581
Net Income	\$ 18,311	\$ 27,643
Less Net Income Attributable to Noncontrolling Interest, net of tax	(6,553)	(6,510)
Net Income Attributable to MGE	\$ 11,758	\$ 21,133

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

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

	Three Months Ended	
	March 31,	
	2015	2014
Net Income	\$ 18,311	\$ 27,643
Other comprehensive income, net of tax:		
Unrealized (loss) gain on available-for-sale securities, net of tax (\$55 and (\$12))	(82)	18
Comprehensive Income	\$ 18,229	\$ 27,661
Less: Comprehensive income attributable to Noncontrolling Interest, net of tax	(6,553)	(6,510)
Comprehensive Income attributable to MGE	\$ 11,676	\$ 21,151

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

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

	Three Months Ended	
	March 31,	
	2015	2014
Operating Activities:		
Net income	\$ 18,311	\$ 27,643
Items not affecting cash:		
Depreciation and amortization	10,837	9,734
Deferred income taxes	2,391	(1,141)
Provision for doubtful receivables	97	743
Employee benefit plan expenses	792	(332)
Equity earnings in ATC	(1,881)	(2,481)
Other items	(526)	(546)
Changes in working capital items:		
Decrease in current assets	18,825	7,817
(Decrease) increase in current liabilities	(8,859)	17,488
Dividend income from ATC	1,420	1,917
Cash contributions to pension and other postretirement plans	(10,809)	(818)
Other noncurrent items, net	5,901	521
<i>Cash Provided by Operating Activities</i>	36,499	60,545
Investing Activities:		
Capital expenditures	(11,533)	(21,800)
Capital contributions to investments	(178)	(533)
Other	(17)	(637)
<i>Cash Used for Investing Activities</i>	(11,728)	(22,970)
Financing Activities:		
Cash dividends paid to parent by MGE	-	(7,000)
Distributions to parent from noncontrolling interest	(6,818)	(6,909)