

MADISON GAS & ELECTRIC CO
Form 10-Q
November 06, 2012

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:

September 30, 2012

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 53703 (608) 252-7000 www.mgeenergy.com	Identification No. 39-2040501
000-1125	Madison Gas and Electric Company (a Wisconsin Corporation)	39-0444025

Edgar Filing: MADISON GAS & ELECTRIC CO - Form 10-Q

133 South Blair Street

Madison, Wisconsin 53703

(608) 252-7000

www.mge.com

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. Madison Gas and Electric Company	X		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 October 31, 2012**

MGE Energy, Inc.	Common stock, \$1.00 par value, 23,113,638
------------------	---

Madison Gas and Electric Company Common
shares
outstanding.
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>5</u>
<u>MGE Energy, Inc.</u>	<u>5</u>
<u>Consolidated Statements of Income (unaudited)</u>	<u>5</u>
<u>Consolidated Statements of Comprehensive Income (unaudited)</u>	<u>5</u>
<u>Consolidated Statements of Cash Flows (unaudited)</u>	<u>6</u>
<u>Consolidated Balance Sheets (unaudited)</u>	<u>7</u>
<u>Consolidated Statements of Common Equity (unaudited)</u>	<u>4</u>

	<u>8</u>
<u>Madison Gas and Electric Company</u>	
	<u>9</u>
<u>Consolidated Statements of Income (unaudited)</u>	
	<u>9</u>
<u>Consolidated Statements of Comprehensive Income (unaudited)</u>	
	<u>9</u>
<u>Consolidated Statements of Cash Flows (unaudited)</u>	
	<u>10</u>
<u>Consolidated Balance Sheets (unaudited)</u>	
	<u>11</u>
<u>Consolidated Statements of Common Equity (unaudited)</u>	
	<u>12</u>
<u>MGE Energy, Inc., and Madison Gas and Electric Company</u>	
	<u>13</u>
<u>Notes to Consolidated Financial Statements (unaudited)</u>	
	<u>13</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.</u>	
	<u>33</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk.</u>	
	<u>48</u>
<u>Item 4. Controls and Procedures.</u>	
	<u>50</u>
<u>PART II. OTHER INFORMATION.</u>	
	<u>51</u>
<u>Item 1. Legal Proceedings.</u>	

	<u>51</u>
<u>Item 1A. Risk Factors.</u>	
	<u>51</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.</u>	
	<u>51</u>
<u>Item 4. Mine Safety Disclosures.</u>	
	<u>51</u>
<u>Item 6. Exhibits.</u>	
	<u>52</u>
<u>Signatures - MGE Energy, Inc.</u>	
	<u>53</u>
<u>Signatures - Madison Gas and Electric Company</u>	
	<u>54</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 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," 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 (a) include those factors discussed in the Registrants' 2011 Annual Report on Form 10-K: Item 1A. Risk Factors, as updated by Part II. Item 1A. Risk Factors in this Report, 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 publicly release 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 <http://www.sec.gov>, MGE Energy's website at <http://www.mgeenergy.com>, and MGE's website at <http://www.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:

MAGAEL	MAGAEL, LLC
MGE	Madison Gas and Electric Company
MGE Construct	MGE Construct, LLC
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 Transco	MGE Transco Investment, 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
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
CSAPR	Cross-State Air Pollution Rule
CWA	Clean Water Act
CWDC	Central Wisconsin Development Corporation
DOE	U.S. Department of Energy
Dth	Dekatherms, a quantity measure used in respect of natural gas
Elm Road Units	Elm Road Generating Station
EPA	United States Environmental Protection Agency
ERISA	Employee Retirement Income Security Act
EGU	Electric Generating Unit
FASB	Financial Accounting Standards Board
FTR	Financial Transmission Rights
GHG	Greenhouse Gas
HAPs	Hazardous Air Pollutants
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
MACT	Maximum Achievable Control Technology

MAP-21	Moving Ahead for Progress in the 21st Century Act
MATS	Mercury and Air Toxics Standards
MISO	Midwest 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
NGCC	Natural Gas Combined Cycle
NO ₂	Nitrogen Dioxide
NOV	Notice of Violation
NO _x	Nitrogen Oxides
NSPS	New Source Performance Standards
OPRB	Other Postretirement Benefits
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
PSCW	Public Service Commission of Wisconsin
PSD	Prevention of Significant Deterioration
RICE	Reciprocating Internal Combustion Engine
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
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

Item 1. Financial Statements.**MGE Energy, Inc.****Consolidated Statements of Income (unaudited)***(In thousands, except per-share amounts)*

	Three Months Ended September 30, 2012 2011		Nine Months Ended September 30, 2012 2011	
Operating Revenues:				
Regulated electric revenues	\$ 118,914	\$ 114,963	\$ 305,189	\$ 291,804
Regulated gas revenues	16,587	17,249	92,235	119,748
Nonregulated revenues	2,337	1,360	6,894	3,884
<i>Total Operating Revenues</i>	137,838	133,572	404,318	415,436
Operating Expenses:				
Fuel for electric generation	16,395	16,656	36,727	39,304
Purchased power	18,102	18,024	54,962	49,997
Cost of gas sold	7,389	8,171	50,035	72,170
Other operations and maintenance	41,975	39,744	126,202	119,814
Depreciation and amortization	9,706	10,296	29,042	30,669
Other general taxes	4,383	4,347	13,937	13,053
<i>Total Operating Expenses</i>	97,950	97,238	310,905	325,007
Operating Income	39,888	36,334	93,413	90,429
Other income, net	2,856	2,341	7,975	6,880
Interest expense, net	(4,849)	(5,142)	(14,717)	(15,047)
Income before income taxes	37,895	33,533	86,671	82,262
Income tax provision	(14,253)	(12,495)	(32,711)	(30,718)
Net Income	\$ 23,642	\$ 21,038	\$ 53,960	\$ 51,544
Earnings Per Share of Common Stock (basic and diluted)	\$ 1.02	\$ 0.91	\$ 2.33	\$ 2.23
Dividends per share of common stock	\$ 0.395	\$ 0.383	\$ 1.161	\$ 1.133
Average Shares Outstanding (basic and diluted)	23,114	23,114	23,114	23,114

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 September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net Income	\$ 23,642	\$ 21,038	\$ 53,960	\$ 20,166
Investment income:				
Net appreciation in fair value of investments				
Mutual funds	\$ 81,455,628		\$ 31,034,661	
Self-directed brokerage accounts	45,949,180		15,702,537	
Common collective trusts	464,993,866		127,968,265	
Separate accounts	11,315,193		7,548,141	
Ingersoll-Rand Stock Fund	148,040,970		216,157,182	
Schlumberger (formerly Cameron) Stock Fund	—		225,066	
	751,754,837		398,635,852	
Interest and dividend income	30,772,014		28,451,874	
Total investment income	\$ 782,526,851		\$ 427,087,726	

Trane 401K and Thrift
Notes to Financial Statements
December 31, 2017 and 2016

The following summarizes the classification of the Master Trust investments by classification and method of valuation as of December 31, 2017:

	Level 1	Level 2	Level 3	Not subject to leveling (a)	Total
Master Trust					
Investments at fair value:					
Separate accounts:					
Stable value funds	\$—	\$ —	—	—\$169,720,687	\$169,720,687
Fixed income bond funds	—	—	—	164,173,817	164,173,817
Mutual funds	468,554,273	—	—	—	468,554,273
Self-directed brokerage accounts	348,321,774	—	—	—	348,321,774
Common collective trusts:					
Index funds	—	—	—	1,161,200,920	1,161,200,920
Target date retirement funds	—	—	—	1,726,883,175	1,726,883,175
Ingersoll-Rand Stock Fund	—	—	—	957,631,804	957,631,804
Total Investments, at fair value	\$816,876,047	\$ —	—	—\$4,179,610,403	\$4,996,486,450

(a) In accordance with GAAP, certain investments that are measured at fair value using the NAV per share (or its equivalent) as a practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented on the summarized Master Trust Investments, at fair value earlier in this Note.

The following summarizes the classification of the Master Trust investments by classification and method of valuation as of December 31, 2016:

	Level 1	Level 2	Level 3	Not subject to leveling (a)	Total
Master Trust					
Investments at fair value:					
Separate accounts:					
Stable value funds	\$—	\$ —	—	—\$179,564,496	\$179,564,496
Fixed income bond funds	—	—	—	164,951,057	164,951,057
Mutual funds	375,178,274	—	—	—	375,178,274
Self-directed brokerage accounts	302,715,812	—	—	—	302,715,812
Common collective trusts:					
Index funds	—	—	—	949,865,814	949,865,814
Target date retirement funds	—	—	—	1,413,839,124	1,413,839,124
Ingersoll-Rand Stock Fund	—	—	—	862,147,714	862,147,714
Total Investments, at fair value	\$677,894,086	\$ —	—	—\$3,570,368,205	\$4,248,262,291

(a) In accordance with GAAP, certain investments that are measured at fair value using the NAV per share (or its equivalent) as a practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented on the summarized Master Trust Investments, at fair value earlier in this Note.

5 Tax Status

The U.S. Internal Revenue Service ("IRS") has determined and informed the Company by a favorable determination letter dated September 12, 2017, that the Plan and related trust are qualified in accordance with applicable sections of

the IRC to be exempt from U.S. federal income tax. Plan management, the Committee and the Plan's counsel believe that the Plan is being operated in material compliance with the applicable requirements of the IRC and therefore no provision for U.S. federal income tax is required.

Trane 401K and Thrift
Notes to Financial Statements
December 31, 2017 and 2016

GAAP requires Plan management to evaluate tax positions taken by the Plan and recognize a tax liability (or asset) if the Plan has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. The plan administrator has analyzed the tax positions taken by the Plan and has concluded that as of December 31, 2017 and 2016, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Plan is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

6 Party-In-Interest Transactions

Certain plan investments held in the Master Trust are managed by Fidelity Management Trust Company, the Plan's trustee and recordkeeper. These transactions qualify as permitted party-in-interest transactions.

Certain Master Trust investments are units of the Ingersoll-Rand Stock Fund which primarily invests in ordinary shares of IR-plc. These transactions qualify as permitted party-in-interest transactions.

7 Plan Termination

Although it has not expressed any intent to do so, the Company has the right under the Plan to modify or discontinue its contributions at any time and to terminate the Plan subject to the provisions of the Plan, ERISA and applicable collective bargaining agreements. In the event of Plan termination, all affected participants would become 100% vested in any unvested Company contributions in accordance with applicable law.

8 Risks and Uncertainties

Through the Master Trust, the Plan provides for investment options in any combination of equity and fixed income investments in the U.S. and abroad through various investment options. Investment asset classes are exposed to various risks, such as market, interest rate, inflation, foreign currency, economic, political and credit risks. Due to the level of risk associated with the Plan's investments, it is reasonably possible that changes in risks in the near term would materially affect participants' account balances and the amounts reported in the Statements of Net Assets Available for Benefits and the Statements of Changes in Net Assets Available for Benefits.

Schedule I

Trane 401K and Thrift
 Schedule H, line 4i – Schedule of Assets (Held at End of Year)
 December 31, 2017

Plan Sponsor: Trane U.S. Inc.
 Employer Identification: 25-0900465
 Plan Number: 043

	Identity of issue, borrower lessor, or similar party	Description of investment, including maturity date, rate of interest, collateral par, or maturity value	Cost	Current Value
(a)	(b)	(c)	(d)	(e)
*	Plan's interest in Ingersoll-Rand Master Trust, excluding participant loans	Master Trust 3.17% participation Due 01/01/2018 -	**	\$158,347,303
***	Notes receivable from participants	04/30/2047 3.25% - 9.50%	—	4,654,617
TOTAL ASSETS (Held at End of Year)				\$163,001,920

*Includes assets which represent permitted party-in-interest transactions to the Plan.

**Cost information is not required for participant directed investments; therefore, this information is omitted.

***The accompanying financial statements classify participant loans as notes receivable from participants.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

TRANE 401K AND THRIFT PLAN

Dated: June 20, 2018 By: /s/ Paul Longstreet

Name: Paul
Longstreet
Title: Benefits
Administration
Committee

EXHIBIT INDEX

Exhibit No. Description

23.1 Consent of Cherry Bekaert LLP

13