

## ***Audit Committee - Charter***

This charter describes the purpose, authority, composition, and responsibilities of the MGE Energy, Inc. Audit Committee of the Board of Directors (Committee).

### **Purpose**

The purpose of the Committee is to assist the Board of Directors (Board) of MGE Energy, Inc. (Company) in fulfilling its oversight responsibilities to the shareholders, potential shareholders, and the investment community relating to the integrity of financial reporting and accounting practices; the system of internal controls; the independence and performance of the internal and external audit processes; and the Company's process for monitoring compliance with laws and regulations and the Company's Code of Conduct.

### **Authority**

The Committee reports to the Board and has unrestricted access and authorization to obtain assistance from Company personnel to accomplish its purpose. In addition, the Committee has the discretion to initiate and supervise investigations within the scope of its duties as it may deem appropriate and to employ whatever additional advisors and consultants it deems necessary for the fulfillment of its duties. The Company shall provide to the Committee the funding necessary and appropriate to discharge its duties and responsibilities as set forth in this charter.

### **Composition**

The Committee shall consist of three or more members, as determined by the Board. Each member shall be an independent director, defined as a person other than an officer or employee of the Company or its subsidiaries or any other individual having a relationship which, in the opinion of the Company's Board, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. Committee members may not receive any consulting, advisory, or other fees directly or indirectly from the Company other than in the member's capacity as a member of the Audit Committee, the Board, or any other Board committee. Applicable laws and regulations shall be followed in evaluating a director's eligibility to serve on the Audit Committee.

All members of the Committee shall have a working familiarity with basic finance and accounting practices and be able to read and understand balance sheet, income and cash flow statements. At least one member of the Committee shall have accounting or related financial management expertise.

### **Meetings**

The Committee shall meet at least two times each year. The Chair of the Committee has the power to call a committee meeting whenever he or she thinks there is a need. A Committee member should not vote on any matter in which he or she has a conflict of interest. The Committee may ask members of management or others to attend the meeting and is authorized to receive all pertinent information from management.

### **General responsibilities**

1. The Committee shall provide open avenues of communication with the director - internal audit, the independent registered public accounting firm (independent accountants), management, and the Board.

## ***Audit Committee - Charter***

2. The Committee shall report committee actions to the Board and may make appropriate recommendations.
3. The role of the Committee is oversight, except as otherwise provided in the Charter.
4. The Committee shall establish procedures for the receipt, retention, and handling of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters; and the confidential, anonymous submission by employees of the Company and its affiliates of concerns regarding questionable accounting, internal control or auditing matters.

### **Responsibilities for engaging independent accountants and appointing the director - internal audit**

1. The ultimate accountability of the independent accountants shall be to the Board and the Committee, as representatives of the shareholders. The Committee shall have direct responsibility to select, compensate, evaluate, and replace the independent accountants.
2. The Committee shall approve the engagement of the independent accountants.
3. The Committee shall pre-approve any audit and non-audit services and relationships with the independent accountants. The Chair of the Committee or other designated Committee member may represent the entire Committee for purposes of this pre-approval. Any services approved by the Chair or other designated Committee member shall be reported to the full Committee at the next scheduled Committee meeting.
4. The Committee shall ensure that all partner rotation requirements are complied with by the independent accountants.
5. The Committee shall resolve any disagreements between management and the independent accountants regarding financial reporting.
6. The Committee shall ensure that the Company has clear hiring policies for employees or former employees of the independent accountants.
7. The Committee shall review and have veto power over the appointment, compensation, replacement, reassignment or dismissal of the director - internal audit.
8. The Committee shall assure the objectivity of the director - internal audit and the independence, as defined by Public Company Accounting Oversight Board (PCAOB) Rule 3526, of the independent accountants, including:
  - a. Receipt from the independent accountants of a formal written statement delineating all relationships between them and the Company.
  - b. A review of management consulting services provided by the independent accountants and the fees paid for them.
  - c. Receipt of a written statement affirming their independence at least annually.The Committee shall be responsible for an active dialogue with the independent accountants with respect to any disclosed relationships or services that may impact the objectivity and independence of the independent accountants and for taking, or recommending that the full Board take, appropriate action to oversee the independence of the independent accountants.
9. The Committee shall consider, in consultation with the independent accountants and the director - internal audit, the audit scope and plan of the director - internal audit and the independent accountants. Any changes to the audit plans shall be reviewed with the Chair of the Committee.
10. The Committee shall make sure that the director - internal audit and the independent accountants coordinate the internal and external audits.

## ***Audit Committee - Charter***

### **Responsibilities for reviewing internal audits, the annual external audit and the review of quarterly and annual financial statements**

1. The Committee shall ensure that the independent accountants are available to the Board at least annually, and shall provide the Committee with a timely analysis of significant financial reporting issues.
2. The Committee shall discuss with the independent accountants:
  - a. All critical accounting policies and practices.
  - b. All discussions with management regarding alternative accounting treatments of financial information within generally accepted accounting principles, including the impact of using the alternative treatments and disclosures and the treatment preferred by the accounting firm.
3. The independent accountants shall provide the Committee with all material written communications with management.
4. The Committee shall ask management, the director - internal audit, and the independent accountants about significant risks and exposures and shall assess management's responses to address them.
5. The Committee shall review with the independent accountants and the director - internal audit the adequacy of the Company's internal controls, including computerized information system controls and security.
6. Shortly after the annual external audit is completed by the independent accountants, the Committee shall review the following with management and the independent accountants:
  - a. The Company's annual financial statements.
  - b. Any major issues regarding accounting principles and financial statement presentations, including any significant changes in the Company's selection or application of accounting principles.
  - c. The independent accountants' audit of and report on the annual financial statements.
  - d. The independent accountants' qualitative judgment about the appropriateness, not just the acceptability, of accounting principles and financial disclosures, and about the degree of aggressiveness or conservatism of the Company's accounting principles and underlying estimates.
  - e. Any serious difficulties or disputes with management encountered during the course of the audit.
  - f. Anything else about the audit procedures or findings that is required to be discussed with the Committee for compliance with applicable Statements on Auditing Standards.
7. It is the responsibility of the director - internal audit, not the Committee, to plan and conduct audits. The Committee shall review the following with management and the director - internal audit:
  - a. Any significant findings during the year and management's responses to them.
  - b. Any difficulties the director - internal audit encountered while conducting audits, including any restrictions on the scope of his or her work or access to required information.
  - c. The internal auditing department's budget and staffing.
  - d. The internal auditing department's charter.
8. It is the responsibility of management, not the Committee, to determine that the Company's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. The Committee shall:

## ***Audit Committee - Charter***

- a. Review with management annual filings with the Securities and Exchange Commission (SEC) and other published documents containing the Company's annual financial statements and shall consider whether the information in the filings is consistent with the information in the financial statements. The Chair of the Committee may represent the entire Committee for purposes of this review.
  - b. Review the interim financial reports with management and the independent accountants prior to filing with the SEC. The Chair of the Committee may represent the entire Committee for purposes of this review.
9. The Committee shall review and approve the Audit Committee report for inclusion in the Company's proxy statement.

### **Periodic Committee responsibilities**

1. The Committee shall review and reassess the adequacy of, and update as necessary, the Committee's charter at least annually. The annual review will include a review of the charter by SEC outside counsel for compliance with NASDAQ and SEC requirements.
2. The Committee shall review with the director - internal audit the results of his or her examination of compliance with the Company's Code of Ethics.
3. The Committee shall resolve corporate disclosure disputes that are unresolved by the Company's Disclosure Committee.
4. The Committee shall review with the Company's general counsel, legal and regulatory matters that may have a material effect on the Company's financial statements, compliance policies, and programs.
5. The Committee shall meet regularly in separate executive session and also in separate private sessions with the director - internal audit, the independent accountants, and management to discuss any matters that the Committee or these groups believe should be discussed privately with the Committee.
6. The Committee shall conduct an appropriate review of all "related party transactions" for potential conflict of interest situations. A "related party transaction" is a transaction required to be disclosed pursuant to item 404 of Regulation S-K promulgated by the Securities and Exchange Commission.
7. The Committee shall conduct a periodic self-evaluation of the Committee's performance and processes.

APPROVED BY MGE ENERGY BOARD OF DIRECTORS AT THEIR NOVEMBER 20, 2009, MEETING