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Sent via e-mail
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U.S. Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-1090

Subject: Comments on Securities Offering and Disclosure Rules:
Alternatives to Reliance on Security Ratings
SEC Release Nos. 33-9186 and 34-63874
File No. S7-18-08

Ladies and Gentlemen:

Madison Gas and Electric Company (MGE) is filing comments in response to the "security ratings" proposed rule published by the Securities and Exchange Commission (Commission or SEC) at 76 Fed. Reg. 8946 on February 16, 2011. In the proposed rule, the Commission proposes to replace reliance on security ratings in a number of its forms and regulations governing securities issuances with a "$1 billion in non-convertible securities over 3 year" test.[1] Unfortunately, the proposed "$1 billion in non-convertible securities over 3 year" test would prevent MGE, and, we believe, many other utilities that are held by holding companies, from continuing to use the Form S-3 to issue their debt securities.

MGE has relied, and continues to rely, on the availability of Form S-3 to offer its debt securities to the public promptly as needed and to benefit from favorable interest rates and market conditions, thus keeping our cost of financing and cost of capital low. Without the ability to continue relying on the availability of Form S-3, we believe that we would incur significant additional costs and delays associated with the preparation of issuance-by-issuance registration statements on Form S-1 and the uncertainty associated with the registration statement review process. As a result, we believe that we would be compelled to rely more on private market funding – although that too does not provide the efficiencies associated with issuing debt securities through Form S-3 shelf-registration statements.

[1] Specifically, at 76 Fed. Reg. 8949, the Commission proposes to allow use of the Forms S-3 and F-3 for "primary offerings of non-convertible securities if an issuer has issued (as of a date within 60 days prior to the filing of the registration statement) for cash at least $1 billion in non-convertible securities in offerings registered under the Securities Act, other than common equity, over the prior three years." At 76 Fed. Reg. 8954, the Commission proposes corresponding changes to the Forms S-4 and F-4, Schedule 14A, and Rules 138, 139, and 168.

MGE Energy, Inc. is the parent company of MGE. MGE Energy is listed on the Nasdaq Stock Market. As a result of its market capitalization, MGE Energy is a "well-known seasoned issuer," as defined in applicable SEC rules. As a wholly-owned subsidiary of MGE Energy, MGE cannot meet the market capitalization test for a well-known seasoned issuer and does not meet the $1 billion non-convertible securities issuance test. Inasmuch as MGE has enjoyed one of the highest debt ratings for a combination electric and gas utility, we have relied upon the "investment grade ratings" eligibility provision of Form S-3, and the removal of that eligibility provision, without a suitable replacement, would deprive us, an issuer of highly rated debt, from the use of an efficient means of issuing those debt securities. Further, in what seems to be an odd twist, the proposal denies access to issuers who have been measured in the issuance of their debt but allows access to non-investment grade issuers who have issued large amounts of debts.

While we appreciate the requirement placed upon the SEC by Section 939A(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act to remove references to credit ratings, we note the further directive to substitute an appropriate standard of creditworthiness. Volumes of issued or outstanding securities may be reflective of how well known or accepted an issuer is in the market; however, they are not necessarily reflective of the credit quality of the issuer or its securities. Thus, we believe that some alternative approach or approaches are needed – either as an additional eligibility criterion or as a replacement.

Assuming a desire to find a creditworthiness substitute, we would suggest some form of debt to equity test, in which an issuer meeting a minimum ratio of debt to equity would continue to be qualified to use Form S-3. The issuer would need to be a reporting company under the Securities Exchange Act of 1934 (and be required to file such reports as a result of Section 12 or 15 of the Securities Exchange Act of 1934, as opposed to being a voluntary filer). The test would be applied according to the timing presently laid out in Rule 405 for determining well-known seasoned issuer status – i.e., the time of filing the issuer's most recent shelf registration statement or any amendment thereof (presumably, the test would be based upon financial information contained in the most recently filed Form 10-Q or Form 10-K) or the filing of the issuer's most recent Form 10-K. This approach, however, will require some direction and definition around the determination of "debt" and "equity" for purposes of applying the test.

If a market acceptance test is desired, then we would suggest a test that allows a majority-owned subsidiary of a well-known seasoned issuer parent company to qualify to use Form S-3. Generally speaking, we believe the market follows well-known seasoned issuer parent companies as well as their subsidiary companies that contribute materially to their results of operations and financial condition. That analysis is certainly the case with MGE Energy, where MGE contributes a substantial portion of its revenues, net income, assets and financial condition. The test would provide that a "qualifying subsidiary" could use Form S-3. A qualifying subsidiary would be a subsidiary that (i) is majority-owned by the parent company or whose common stock is entirely-owned by the parent entity, (ii) is a reporting company under the Securities Exchange Act of 1934 (and is required to file such reports as a result of Section 12 or 15 of the Securities Exchange Act of 1934, as opposed to being a voluntary filer) and (iii) has assets or net worth exceeding a specified dollar threshold or a specified percentage of the parent company's consolidated assets or net worth. The specified percentage could be set at the "significant subsidiary" level (i.e., 10% of consolidated assets or net worth) or a slightly larger percentage, say 20%. As above, the test would be applied according to the timing presently laid out in Rule 405 for determining well-known seasoned issuer status – i.e., the time of filing the most recent shelf registration statement or any amendment thereof (presumably based upon financial information contained in the most recently filed Form 10-Q or Form 10-K) or the filing of the most recent Form 10-K.

Finally, we would hope that any change in the rule includes some provision for grandfathering companies that currently meet the "investment grade" eligibility requirement for the use of Form S-3 and that continue to meet that requirement during the grandfathering period. Ideally, this grandfathering would be indefinite, but in any event at least three years. The extended period would allow orderly planning and transition to a new process, should that be necessary. It would also allow additional time to consider possible alternative approaches before the grandfathering expires. That seems prudent given the potential disruption and increased costs that might be borne by affected issuers by changes in the rules.

We appreciate the opportunity to respond to this important issue.

Sincerely,

/s/ Kenneth G. Frassetto
Director -
Shareholder Services and Treasury Management

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