

Ladies and Gentlemen:

We are writing to share our views on the draft report proposed to be issued by the Advisory Committee on Smaller Public Companies to the Securities and Exchange Commission.

We are generally supportive of the draft report's scaled approach to securities regulation for smaller companies – at least as it relates to internal control reviews and assessments; however, we believe the upper end of the size limit for the so-called “smallcap companies” should be increased to a fixed number, such as \$1 billion, rather than being designed to target a fixed percentage of the public companies at the lower end of the size range.

Our reasons follow:

- ***We believe that a fixed dollar threshold provides a more definitive test that is less susceptible to macroeconomic factors affecting the number and valuation of smallcap companies.***

We would recommend that consideration be given to changing the threshold to a fixed dollar limit, such as \$1 billion. We believe that companies falling within the incremental range face similar cost pressures given their smaller customer bases and resources compared to significantly larger companies.

While we appreciate that the increased size limit will cause more companies to fall within the “smallcap company” category, we agree with the report's assessment that associated costs can outweigh real or apparent benefits. We particularly feel this statement to be true in the case of internal control reviews and assessments. These reviews and assessments are complicated for the reasons outlined in the draft report, namely, unclear guidance, legal/regulatory environments that are not fully supportive of professional judgment, a focus on minute details, and a lack of adequate resources.

- ***We believe that auditors and people responsible for the preparation and review of financial statements already examine the quality of internal controls and their effect on financial reporting.***

We understand that auditors must, as a part of their normal audit procedures, assess and take into account the adequacy of the control environment in designing and implementing those audit procedures, conducting their audits and rendering their opinions on the audited financial statements. They will continue to examine and consider internal control processes as a part of those audits. They will continue to share their findings regarding those processes with audit committees. Audit committees can be expected to take action on noted deficiencies or problems.

As has been noted in the draft report, it is important to emphasize that CEOs and CFOs of all companies, large or small, remain responsible for certifying their companies financial statements. In addition to the general securities law liabilities that apply to disclosures that are made, we take very seriously our responsibilities in connection with executing those certifications. We remain interested and engaged in the financial

reporting process irrespective of the internal control assessment requirements. Like others involved in the financial reporting process, we have an active interest in maintaining the quality of existing systems, seeking improvements where possible and taking corrective action to address noted deficiencies or problems.

- ***Overlaying an auditor opinion on existing processes is adding a cost and resource drain that is not, in our view, justified by the incremental benefit.***

We believe that, while the requirement that auditors express an opinion with respect to the internal control assessment may add some rigor, it does so at a significant cost not proportionate to the incremental value achieved. We agree with the report's recommendation that such a requirement be eliminated for smallcap companies.

Based on our experience over the past several years, we believe that the costs associated with internal control reviews are disproportionately visited upon smaller companies' customers and shareholders. Such companies generally have smaller revenue bases, smaller payrolls and fewer resources, although internal control systems seem somewhat comparable across companies. Such companies do not have the larger customer base on which to socialize that cost.

For those reasons, we hope that you will consider raising the limit on the size of smallcap companies so as to lessen the cost burden on those companies.

Sincerely,

Terry A. Hanson  
MGE Energy, Inc.  
Vice President, Chief Financial Officer and  
Secretary