

## Include Sustainability Metrics in Executive Compensation Resolution

**RESOLVED:** Shareholders of MGE request the board's Compensation Committee adopt a policy that rewards executive performance for improving the environmental and business sustainability of the company's operations.

**SUPPORTING STATEMENT:** The long-term interests of shareholders, as well as other constituents, are best served by companies that operate their businesses in a sustainable manner, focused on creating long-term value. Sustainability can be defined as the way environmental, social, and financial considerations are integrated into corporate strategy. Boards of directors and management teams that operate their companies with a focus on the long term are much more likely to prosper than those dominated by a short-term focus.

The 2013 MGE executive performance metrics were based on earnings per share, customer satisfaction ratings, and service reliability. Thus, no current compensation metrics reward the executives for superior performance that enhances the environment, or for short- and long-term business sustainability. Options for executive metrics promoting sustainability should include: reducing MGE's coal dependence, reducing greenhouse gas pollution, and rate design and/or policies that promote energy efficiency and distributed renewable energy generation.

The importance of rewarding executives with incentives to improve the environmental and business sustainability of the company's operations is imperative at this time.

The 2014 update to CERES' 2012 report, *Practicing Risk-Aware Electricity Regulation: What Every State Regulator Needs to Know*, authored by utility industry and financial experts, concludes that almost without exception the riskiest investments for utilities, ratepayers and investors are large base-load fossil fuel and nuclear plants. In contrast, energy efficiency, distributed energy and renewable energy are seen as more attractive investments that have lower risks and cost. The New York Times reported that NRG, which built a leading electricity business from coal and other conventional power plants, is aiming to reduce its carbon emissions 50 percent by 2030 and 90 percent by 2050. The EPA's proposed Clean Power Plan will put pressure on all sources to reduce carbon emissions in the future.

In documents submitted to the Public Service Commission of Wisconsin, MGE's 325-megawatt ownership stake in the Columbia and Elm Road coal plants means that the utility is committed to 70 percent coal power; further, MGE intends to run Columbia until 2038 and Elm Road until 2050. MGE's long-term coal contracts and the need to shift to other, less risky, cleaner sources of power are difficult issues for executives, which suggests metrics that rewards superior performance addressing this issue.