



***Fourth Quarter 2008 Earnings Conference Call
February 26, 2009***

Forward-Looking Statements

In this presentation, Integrys Energy Group and its subsidiaries make statements concerning expectations, beliefs, plans, objectives, goals, strategies, and future events or performance. Such statements are “forward-looking statements” within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are subject to assumptions and uncertainties; therefore, actual results may differ materially from those expressed or implied by such forward-looking statements. Although Integrys Energy Group and its subsidiaries believe that these forward-looking statements and the underlying assumptions are reasonable, they cannot provide assurance that such statements will prove correct.

Forward-looking statements include, among other things, statements concerning management’s expectations and projections regarding earnings, regulatory matters, fuel costs, sources of electric energy supply, coal and natural gas deliveries, remediation costs, environmental and other capital expenditures, liquidity and capital resources, trends, estimates, completion of construction projects, and other matters.

Forward-looking statements involve a number of risks and uncertainties. Some risk factors that could cause results to differ from any forward-looking statement include those described in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2008. Other factors include:

- Resolution of pending and future rate cases and negotiations (including the recovery of deferred costs) and other regulatory decisions impacting Integrys Energy Group’s regulated businesses;
- The impact of recent and future federal and state regulatory changes, including legislative and regulatory initiatives regarding deregulation and restructuring of the electric and natural gas utility industries and possible future initiatives to address concerns about global climate change, changes in environmental, tax, and other laws and regulations to which Integrys Energy Group and its subsidiaries are subject, as well as changes in the application of existing laws and regulations;
- Current and future litigation, regulatory investigations, proceedings, or inquiries, including but not limited to, manufactured gas plant site cleanup, reconciliation of revenues from the Gas Charge and related natural gas costs, and the contested case proceeding regarding the Weston 4 air permit;

Forward-Looking Statements

- The impacts of changing financial market conditions, credit ratings, and interest rates on the liquidity and financing efforts of Integrys Energy Group and its subsidiaries;
- The risks associated with executing Integrys Energy Group's plan to significantly reduce the scope and scale, or divest in its entirety, the nonregulated energy services business;
- The risks associated with changing commodity prices (particularly natural gas and electricity) and the available sources of fuel and purchased power, including their impacts on margins;
- Resolution of audits or other tax disputes with the Internal Revenue Service and various state, local, and Canadian revenue agencies;
- The effects, extent, and timing of additional competition or regulation in the markets in which Integrys Energy Group's subsidiaries operate;
- The retention of market-based rate authority;
- The risk associated with the value of goodwill or other intangibles and their possible impairment;
- Investment performance of employee benefit plan assets;
- Advances in technology;
- Effects of and changes in political and legal developments, as well as economic conditions and the related impact on customer demand;
- Potential business strategies, including mergers, acquisitions, and construction or disposition of assets or businesses, which cannot be assured to be completed timely or within budgets;
- The direct or indirect effects of terrorist incidents, natural disasters, or responses to such events;
- The effectiveness of risk management strategies and the use of financial and derivative instruments;
- The risks associated with the inability of Integrys Energy Group's and its subsidiaries' counterparties, affiliates, and customers to meet their obligations;
- Weather and other natural phenomena, in particular the effect of weather on natural gas and electricity sales;
- The utilization of tax credit carryforwards;
- The effect of accounting pronouncements issued periodically by standard-setting bodies; and
- Other factors discussed in the 2008 Annual Report on Form 10-K and in other reports filed by Integrys Energy Group from time to time with the United States Securities and Exchange Commission.



Non-GAAP Financial Information

Diluted Earnings Per Share Information – Non-GAAP Financial Information

Integrus Energy Group, Inc. prepares financial statements in accordance with accounting principles generally accepted in the United States (GAAP). Along with this information, we disclose and discuss “diluted earnings per share (EPS) from continuing operations – adjusted,” “forward book value,” and “managerial gross margin,” which are non-GAAP measures. Management uses these measures in its internal performance reporting and for reports to the Board of Directors. We disclose these measures in our quarterly earnings releases, on investor conference calls, and during investor conferences and related events. Management believes that diluted EPS from continuing operations – adjusted is a useful measure for providing investors with additional insight into our operating performance because it eliminates the effects of certain items that are not comparable from one period to the next.

Management believes that forward book value and managerial gross margin provide investors with a more complete view of the fair value of the nonregulated contract portfolio and changes therein.

Unlike GAAP gross margin, managerial gross margin includes the fair value of contracts that are not currently subject to the derivative accounting rules. Therefore, this measure allows investors to better compare our financial results from period to period. The presentation of this additional information is not meant to be considered in isolation or as a substitute for our results of operations prepared and presented in conformance with GAAP. A reconciliation of non-GAAP information to GAAP information is included either on the slide where the information appears, in the Supplemental Data Package, or in the Appendix.

Key Accomplishments in 2008

- Successfully managed business through global credit crisis
- Peoples Energy merger synergy savings increased, cost to achieve decreased
- Weston 4
 - Placed into service
 - Two national awards
- Completed four rate cases
 - Have interim rates effective on a fifth rate case
- Approximately 80% of our regulated customers have a form of decoupling
 - Encourages customers conservation
 - Enables us to promote energy efficiency
 - Helps stabilize our margins and net income
- Board appointed Charlie Schrock as President and CEO

2009 Initiatives

- Reassessed strategic direction and made adjustments
 - Planning to divest nonregulated energy services business segment or substantially scale it back
 - Reduction in deployed guarantees and invested capital
 - If retained, targeting an annualized core net income contribution not to exceed \$30 million by December 31, 2009
 - Further – expect its demands on liquidity and capital are not significant by the end of calendar year 2010
 - JP Morgan retained as financial advisor for this effort
 - Reduced near term capital expenditures for the regulated utilities by 30% and 40% in 2009 and 2010, respectively
 - No pay increases for Integrys Energy Group Senior Executives and Board of Directors
 - Hiring freeze
 - Reduced use of outside contractors
- End result of these initiatives
 - Targeting long-term growth in earnings per share from continuing operations – adjusted of 4 to 6 percent, with 2009 as the base year
 - Growth will come from improving earnings with timely rate case filings and selective investments in required renewable, environmental, and infrastructure projects

Key Drivers – 4Q08 Versus 4Q07

(All dollars in millions and after tax)

Income available for common shareholders, 4Q08	\$ 25.6
Income available for common shareholders, 4Q07	<u>85.1</u>
Quarter-over-Quarter Change	<u>\$ (59.5)</u>

Key Drivers of Quarter-over-Quarter Change

	4Q08	4Q07	Change	Explanation
Integrys Energy Services – non-cash accounting activity (related to derivative and inventory accounting activity)	\$ (41.9)	\$ 47.2	\$ (89.1)	Accounting
Integrys Energy Services' recognition of investment tax credits on solar projects in the fourth quarter of 2008	10.0	-	10.0	Operations
Discontinued operations (receipt of contingent gain related to Stoneman sale in 2008, post closing adjustments related to sale of oil and natural gas business in 2007)	4.6	(6.0)	10.6	Operations
Holding Company and Other segment (increase in income from investment in American Transmission Company, decrease in consulting and contractor fees)	3.2	(3.9)	7.1	Operations
Natural gas utility earnings (Rate increase at Peoples Gas, cold weather conditions, synergy savings, partially offset by higher bad debt expense)	36.0	28.1	7.9	Operations
Electric utility earnings (increase in depreciation expense related to Weston 4 and increase in transmission expense)	14.0	17.9	(3.9)	Operations
Halt on synthetic fuel production and sale versus recognition of Section 29/45K federal tax credits on the production and sale of synthetic fuel in 2007	-	5.1	(5.1)	Operations - Expiration Section 29 Legislation
Other			3.0	Operations
Total			<u>\$ (59.5)</u>	

	4Q08	4Q07	Change
External costs to achieve merger synergies	\$ 2.4	\$ 6.4	\$ (4.0)

Liquidity

■ Credit Facilities

- Approximately \$2.4 billion
- 27 financial institutions
- Expanded credit facilities by \$400 million in November 2008
- At December 31, 2008, approximately \$750 million available, plus holding \$254 million of cash
- At February 25, 2009, approximately \$890 million available, plus holding \$320 million of cash

■ Subsequent Cash Needs/Generation

- Maturities of long-term debt – approximately \$155 million in 2009
- Impacts of natural gas storage cycle and fulfillment of customer obligations expected to generate \$1.0 billion of cash from January 1, 2009, through April 30, 2009
 - \$600 million from natural gas distribution utilities
 - \$400 million from Integrys Energy Services
- Flexibility remains with reduced capital expenditure program

Collateral Requirement Impact of Theoretical Credit Rating Downgrade

Estimates as of end of December 2008

(millions)	One Notch	Two Notches	Three Notches	Four Notches	Total
	BBB for Nonregulated BBB+ for Regulated	BBB- for Nonregulated BBB for Regulated	BB+ for Nonregulated BBB- for Regulated	BB for Nonregulated BB+ for Regulated	
Nonregulated	\$ 72	\$260	\$370	\$ 0	\$702
Regulated	20	51	30	26	127
Total	92	311	400	26	829
Cumulative	92	403	803	829	

Notes:

- These estimates are related to contracts that have specific ratings-based requirements relative to the posting of collateral.
- The amount of collateral to be paid at any point in time is dependent on a variety of factors, including but not limited to (1) notational amount of trading positions, (2) nature of counterparty agreements, and (3) changes in commodity prices.
- Procurement contract collateral requirements are a function of market prices. Collateral posting requirements for Integrys Energy Group will generally increase as forward market prices fall and decrease as forward market prices rise. Given the relationship to forward market prices, contract requirements can be volatile.
- This depicts anticipated incremental collateral postings for credit rating changes only. All other factors are held constant.

Investing in Capital Projects to Better Serve Our Growing Customer Base

Construction Expenditures by Company (Millions)	2009	2010	2011	Total
Wisconsin Public Service	\$277	\$113	\$319	\$ 709
Peoples Gas *	77	86	195	358
Upper Peninsula Power	18	42	10	70
Minnesota Energy Resources	13	14	17	44
North Shore Gas	10	11	14	35
Michigan Gas Utilities	7	8	11	26
Subtotal for Utilities	\$402	\$274	\$566	\$1,242
IntegrYS Energy Services	43	0	0	43
IntegrYS Business Support	42	21	20	83
Total Anticipated Capital Expenditures	\$487	\$295	\$586	\$1,368
American Transmission Company (equity contribution)	\$ 27	\$ 12	\$ 0	\$ 39

* Includes accelerated cast iron main replacement program in 2011.

Estimated Utility Depreciation

Depreciation by Company (Millions)	2009	2010	2011	Total
Wisconsin Public Service	\$108	\$113	\$114	\$335
Peoples Gas	62	65	80	207
Upper Peninsula Power	7	8	9	24
Minnesota Energy Resources	12	13	10	35
North Shore Gas	7	7	8	22
Michigan Gas Utilities	7	8	8	23
Total for Utilities	\$203	\$214	\$229	\$646

Investing in Regulated Utility Capital Projects

	(Millions)			
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Total</u>
Capital Expenditures for Regulated Utility Operations	\$ 402	\$ 274	\$ 566	\$ 1,242
Estimated Depreciation for Regulated Utility Operations	<u>203</u>	<u>214</u>	<u>229</u>	<u>646</u>
Net Growth in Rate Base Investment	<u><u>\$ 199</u></u>	<u><u>\$ 60</u></u>	<u><u>\$ 337</u></u>	<u><u>\$ 596</u></u>



Long-Term Financings Summary

■ Long-Term Debt, 2009

■ Expected transactions

- Integrys Energy Group, up to \$350 million (includes refinancing \$155 million maturity)
- Peoples Gas Light and Coke, approximately \$50 million

■ Equity

- No new issuance through 2009 planned at this time beyond issuing new shares under the Stock Investment Plan and our stock-based employee benefit plans
- Will continue to assess given capital market conditions



Integrys Gas Group – Recent Accomplishments

- General rate case increase filings in Michigan for Michigan Gas Utilities and in Minnesota for Minnesota Energy Resources
 - In January 2009, the Michigan Public Service Commission approved a \$6 million rate increase with a 10.45% ROE and 50.01% common equity component
 - In October 2008, Minnesota Public Utilities Commission approved interim rate increase of \$19.8 million or 5.8%
 - Final rates expected in second quarter of 2009
- Bad debt increased, but under control

Integrys Gas Group – Prospects for Future Growth in Value

- Current Illinois rate case filings for Peoples Gas and North Shore Gas
- Acceleration of investment in Chicago infrastructure provided we receive proper regulatory treatment
- Pursue decoupling for Michigan Gas Utilities (required for next general rate case filing pursuant to recent stipulation) and Minnesota Energy Resources

Wisconsin Public Service / UPPCO

Operational Update

- **Wisconsin Public Service granted new electric and natural gas rates effective January 1, 2009**
 - Included decoupling with maximum recoverable or refundable revenues of \$8 million for natural gas and \$14 million for electric
- **Weston 4**
 - Earned POWER Magazine's 2008 Power Plant of the Year Award
 - Earned Power Engineering Magazine's 2008 Best Coal-Fired Project Award in December 2008
- **Completed 99-megawatt wind farm project transaction**
 - Expected in service by end of 2009
- **Laterals for Guardian II pipeline completed on schedule**
 - Cost was \$79 million, less than revised estimate of \$85 million
- **Customer Weather-Normalized Usage Decline – Electric**
 - In fourth quarter 2008, residential declined 4% and commercial and industrial declined approximately 6%
 - After-tax impact of \$1.2 million, or approximately \$0.02 per share, in fourth quarter 2008
- **Bad debt expense – slight increase**

Wisconsin Public Service / UPPCO Operations – Prospects for Future Growth in Value

■ Wisconsin Public Service

- Opportunity for a limited reopener in 2010 for consideration of:
 - Fuel and purchased power costs
 - Construction costs associated with 99-megawatt wind farm
 - Amortization of deferred replacement power costs related to Weston 3 outage
 - Changes in pension and benefit plan costs
 - Emission allowances
 - Energy conservation costs
- Capital investments related to environmental mandates and renewable portfolio standards will drive future growth in value

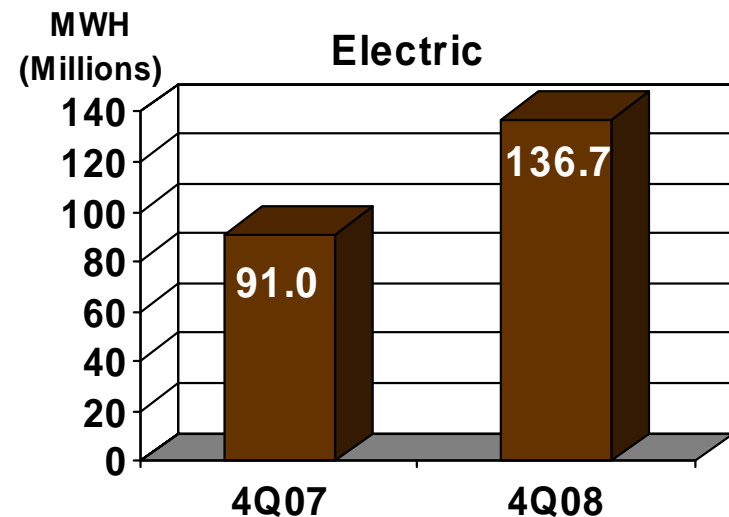
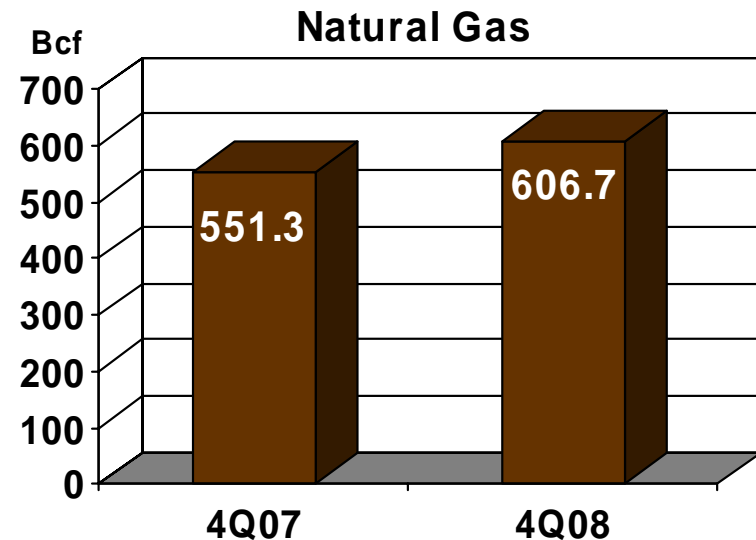
■ UPPCO

- Federal Energy Regulatory Commission-mandated modifications planned for 2010
 - Approximately \$30 million for improving existing dams

IntegrYS Energy Services Forward Contracted Volumes – 4Q08

Key Drivers in 4Q08:

- Lower energy prices, longer contracting terms
- Wholesale electric customer origination



2008 Integrys Energy Services Value Creation

**Integrys Energy Services
Managerial Gross Margin Summary
Year-to-Date December 2008
(Pretax dollars in millions)**

	Natural Gas			Electric and Other			Total Natural Gas and Electric
	Retail	Wholesale	Total	Retail	Wholesale	Total	
MANAGERIAL GROSS MARGIN							
Forward Book Value (a non-GAAP financial measure)⁽¹⁾							
As of December 31, 2008	\$ 56.1	\$ 39.1	\$ 95.2	\$ 89.7	\$ 102.7	\$ 192.4	\$ 287.6
As of December 31, 2007	41.2	37.0	78.2	58.5	48.4	106.9	185.1
Change in Forward Book Value	14.9	2.1	17.0	31.2	54.3	85.5	102.5
Total Realized Gross Margin⁽²⁾	57.4	61.9	119.3	71.9	59.4	131.3	250.6
Year-to-Date December 2008 Managerial Gross Margin (non-GAAP)	<u>\$ 72.3</u>	<u>\$ 64.0</u>	<u>\$ 136.3</u>	<u>\$ 103.1</u>	<u>\$ 113.7</u>	<u>216.8</u>	<u>\$ 353.1</u>
Year-to-Date December 2007 Managerial Gross Margin (non-GAAP)⁽³⁾	\$ 66.4	\$ 47.5	\$ 113.9	\$ 75.1	\$ 82.2	\$ 157.3	\$ 271.2
Change from Prior Year	<u>\$ 5.9</u>	<u>\$ 16.5</u>	<u>\$ 22.4</u>	<u>\$ 28.0</u>	<u>\$ 31.5</u>	<u>\$ 59.5</u>	<u>\$ 81.9</u>

Refer to the appendix for a reconciliation of the non-GAAP financial metrics to the GAAP financial statements.

- (1) Forward Book Value – Represents the estimated value that will be realized upon settlement of the contract portfolio based on industry standard valuation approaches and assumptions. Derivative and non-derivative contracts are included in managerial gross margin.
- (2) Realized Gross Margin – This is a GAAP-based measure that represents physical sales, net of physical purchases and the cash settlement of financial contracts (i.e., forwards, futures, options, and swaps). Realized margins associated with the nonregulated generation fleet are included herein, although the change in value of the physical plants is not included in the forward book value section. Purchase accounting amortization has been excluded from this line item. The year-to-date natural gas lower of cost or market adjustment of \$167.3 million pretax has also been excluded from this schedule and impacts the wholesale natural gas and total realized gross margin amounts above.
- (3) The 2007 Managerial Gross Margin includes the value acquired as part of the Peoples Energy merger, which was \$27.2 million at acquisition date.

Future Integrys Energy Services Accounting Recognition

As of December 31, 2008
(Pre-tax dollars in millions)

Settlement Years	Forward Book Value	Amount Recognized To Date In GAAP Gross Margin	Amount Yet To Be Recognized In GAAP Gross Margin In Future Periods	Purchase Accounting Amortization To Be Recognized In Future Periods	GAAP Gross Margin To Be Recognized In Future Periods
	A	B	C=A-B	D	E=C+D
2009	\$ 130.4	\$ (49.2)	\$ 179.6	\$ 2.9	\$ 182.5
2010	75.1	(8.9)	84.0	2.7	86.7
2011	35.1	10.5	24.6	2.0	26.6
2012	13.3	3.8	9.5	0.3	9.8
2013 and Beyond	33.7	10.9	22.8	(0.1)	22.7
	<u>\$ 287.6</u>	<u>\$ (32.9)</u>	<u>\$ 320.5</u>	<u>\$ 7.8</u>	<u>\$ 328.3</u>

Refer to the Appendix for a reconciliation of the non-GAAP financial metrics to the GAAP financial statements.

IntegrYS Energy Services

Mark-to-Market Volatility Adjustment

	Quarter-to-date December 31,		Year-to-date December 31,	
	2008	2007	2008	2007
	(Net of tax \$ in millions)		(Net of tax \$ in millions)	
GAAP Gross Margin	\$ (2.7)	\$130.1	\$ 85.7	\$ 304.1
Add: Non-GAAP Adjustments				
Purchase Accounting	1.9	11.9	13.8	21.3
Synfuel activity included in gross margin	0.0	(8.1)	0.0	(19.6)
Power contract in Maine liquidated in 2005	0.0	0.0	0.0	0.9
	\$ (0.8)	\$133.9	\$ 99.5	\$ 306.7
Less: Managerial Gross Margin	\$ 98.9	\$ 58.0	\$ 353.1	\$ 271.2
Mark-to-Market Volatility Adjustment - Pretax (1)	(97.7)	75.9	(253.6)	35.5
Mark-to-Market Volatility Adjustment - Net of tax (1)	\$ (59.8)	\$ 45.5	\$ (152.2)	\$ 21.3

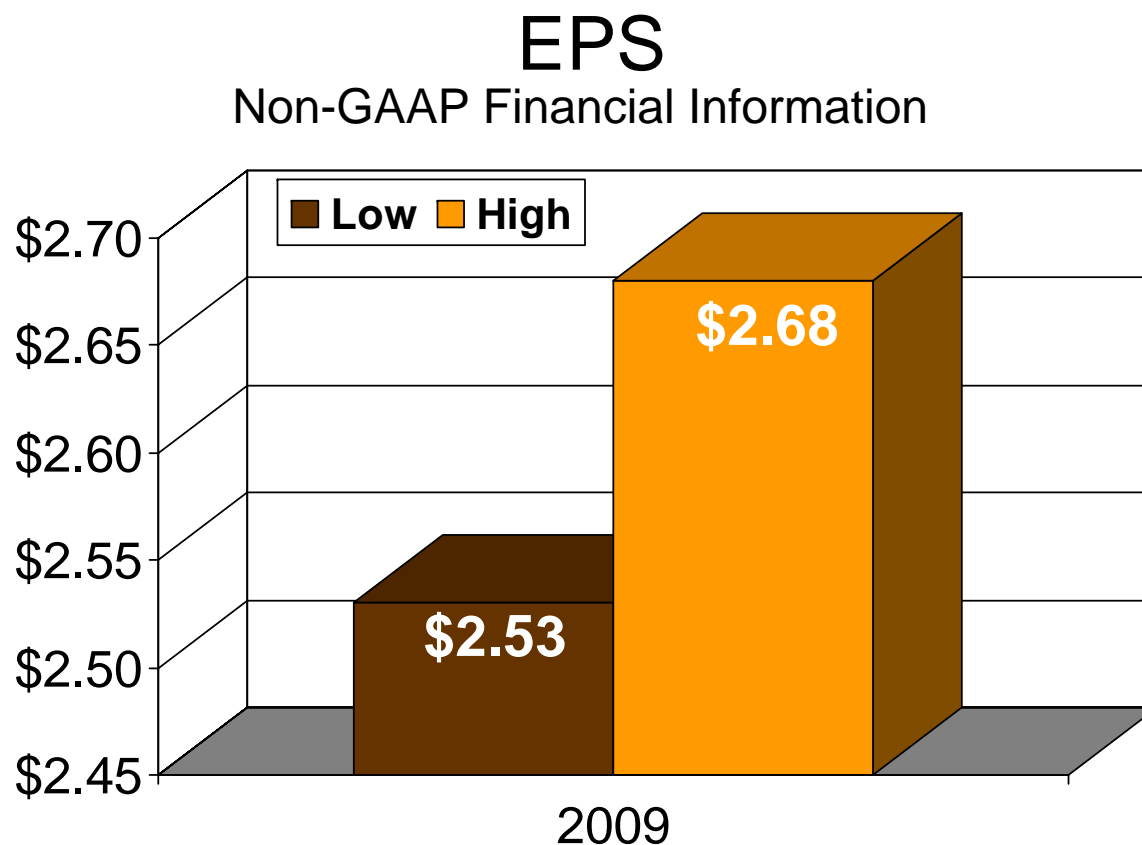
- (1) Represents the estimated impact of derivative accounting mismatches that create earnings volatility not reflective of the economic substance of the underlying commercial activity.



Integrys Energy Services – Prospective Outlook

- Exploring strategic alternatives to exit this business segment
- 2009 targets if divestiture not executed
 - Parent corporate guarantees not to exceed \$1.1 billion from \$2.6 billion at December 31, 2008
 - Capital deployed not to exceed \$600 million from \$1 billion at December 31, 2008

Integrys Energy Group, Inc. – Guidance for Diluted EPS from Continuing Operations – Adjusted



Key Assumptions for 2009:

- Normal weather conditions
- Availability of generation units
- Reasonable rate relief for certain utilities
- Excludes the impact of non-cash lower-of-cost-or-market inventory adjustments and derivative accounting mark-to-market volatility for all of 2009 (such mark-to-market volatility is expected to include about \$29.6 million of non-cash after-tax gains for all of 2009 relating to contracts terminating in 2009, which had net non-cash after-tax losses recognized in 2008).

Diluted EPS from Continuing Operations – Adjusted – By Business Segment

	<u>2009</u>	
	<u>Low</u>	<u>High</u>
Guidance, February 26, 2009	\$ 2.53	\$ 2.68
Earnings per Share Guidance by Segment		
Electric	\$ 1.05	\$ 1.13
Natural Gas	0.91	0.97
Nonregulated Energy Services*	0.39	0.39
Other	0.18	0.19

* Excludes the impact of non-cash lower-of-cost-or-market inventory adjustments and derivative accounting mark-to-market volatility for all of 2009 (such mark-to-market volatility is expected to include about \$29.6 million of non-cash after-tax gains for all of 2009 relating to contracts terminating in 2009, which had net non-cash after-tax losses recognized in 2008).

Improved Earnings with Timely Rate Cases

Integrys Energy Group, Inc.

Utilities Returns on Equity – 2008

<i>(Millions)</i>	Natural Gas Utility						Electric Utility		
	New acquisitions				WPSC	Total	WPSC	UPPCO	Total
	PGL	NSG	MERC	MGU					
13-Month Adjusted Average Utility Equity	\$ 659.0	\$ 104.3	\$ 97.9	\$ 101.5	\$ 217.9	\$ 1,180.6	\$ 866.1	\$ 54.2	\$ 920.3
Utility Net Income	\$ 37.2	\$ 6.9	\$ 4.7	\$ 5.5	\$ 32.0	\$ 86.3	\$ 88.7	\$ 3.9	\$ 92.6
2008 Utility ROE	5.64%	6.66%	4.80%	5.41%	14.69%	7.31%	10.24%	7.18%	10.06%
Allowed Utility ROE	10.19%	9.99%	11.71%	10.45%	10.90%		10.90%	10.75%	
Allowed Utility Net Income	\$ 67.2	\$ 10.4	\$ 11.5	\$ 10.6	\$ 23.7	\$ 123.4	\$ 94.4	\$ 5.8	\$ 100.2
Utility Net Income Excess (Shortfall)	\$ (30.0)	\$ (3.5)	\$ (6.8)	\$ (5.1)	\$ 8.3	\$ (37.1)	\$ (5.7)	\$ (1.9)	\$ (7.6)
Total for natural gas and electric utilities									\$ (44.7)

Enhancing Shareholder Value

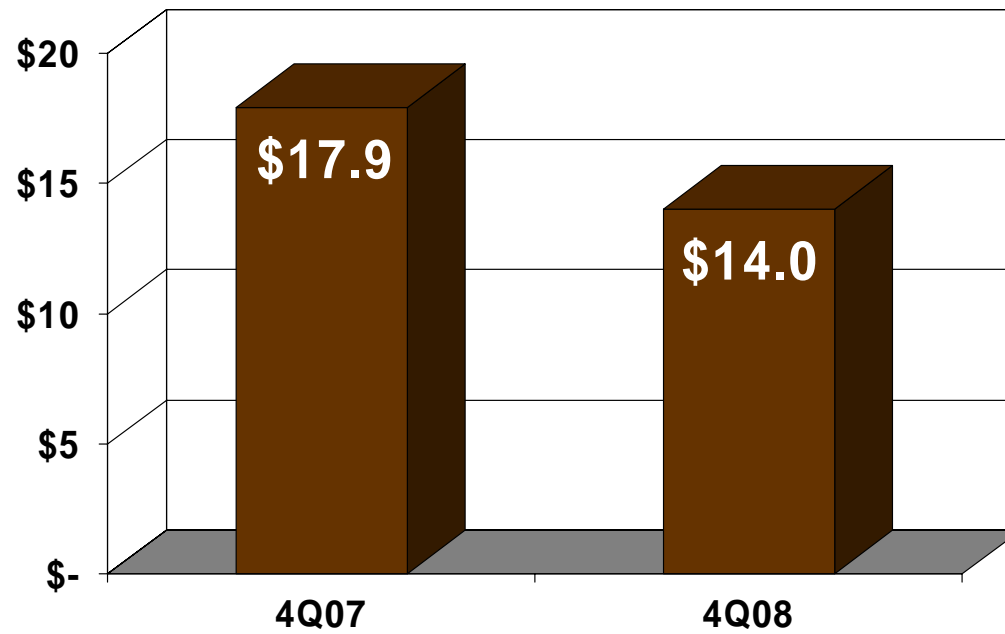
- Future investment opportunities in our regulated utilities
- Future investment in American Transmission Company
- Strategy change
 - Substantially scaling back or divesting nonregulated energy services business segment
 - Implementation has begun
 - Expect to complete in 2009
 - 2009 becomes the foundational base for future growth
 - Improved business risk profile
 - Targeting long-term growth in earnings per share of 4% to 6% on an average annualized basis
- Quarterly dividend increased to \$0.68 per share
 - Marks 51st consecutive year of dividend increases
 - Demonstrates Board of Directors' confidence that we can achieve our long-term growth target



Appendix

Regulated Electric Utility Segment – 4Q08

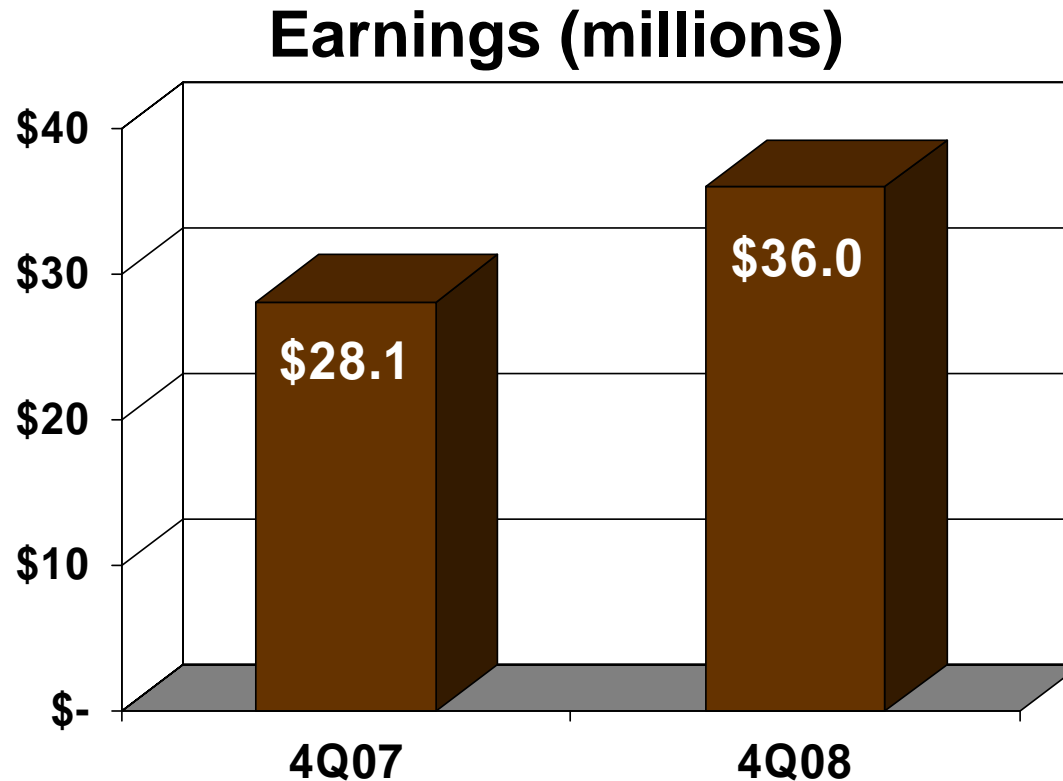
Earnings (millions)



Key Drivers (after tax):

- (--) \$2.0 million increase in depreciation expense related to Weston 4 being placed in service
- (--) \$1.9 million increase in transmission expense
- (--) \$1.0 million decrease in miscellaneous income
- (--) \$0.6 million increase in bad debt expense
- (+) \$2.4 million increase driven by fuel and purchased power costs that were \$1.8 million lower than were recovered in rates in 2008, compared to fuel and purchased power costs that were \$0.6 million higher than were recovered in rates in 2007

Regulated Natural Gas Utility Segment – 4Q08

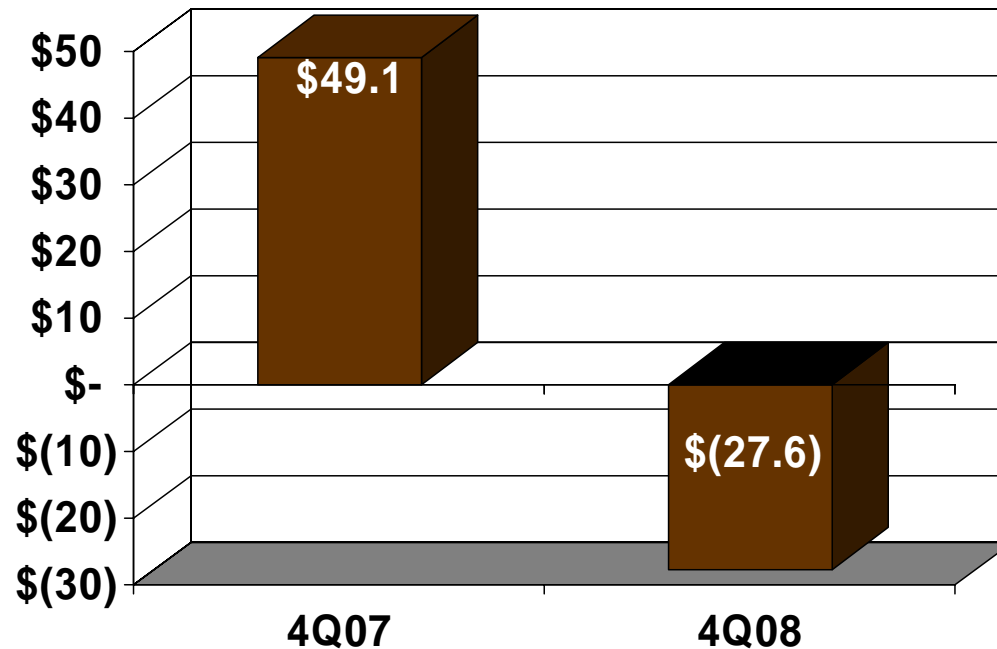


Key Drivers (after tax):

- (+) \$12.6 million Peoples Gas and Minnesota Energy Resources rate increases
- (+) \$ 2.4 million increase in earnings related to higher quarter-over-quarter natural gas segment volumes, driven by colder weather conditions.
- (--) \$ 9.3 million increase in operating and maintenance expense

Nonregulated Integrys Energy Services Segment – 4Q08

Income from Continuing Operations (millions)

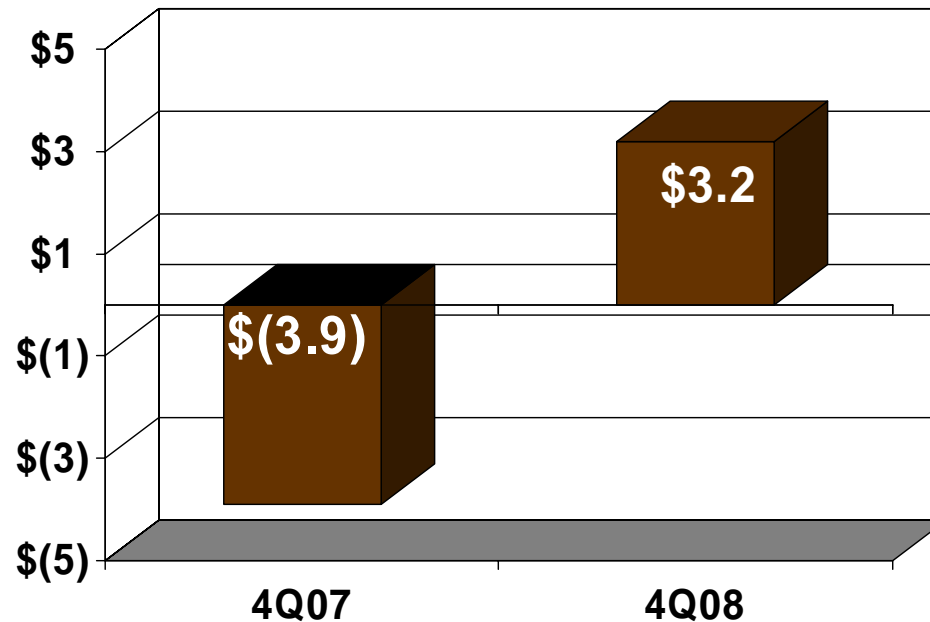


Key Drivers (after tax):

- (--) \$ 89.1 million decrease in margin, related to non-cash activity, driven by derivative and inventory accounting rules
- (--) \$ 5.6 million increase in operating and maintenance expense, driven by an increase in payroll and benefits expense, higher broker commissions driven by higher volumes, and an increase in bad debt expense
- (--) \$ 5.1 million of earnings from investment in a synthetic fuel production facility in 2007
- (+) \$ 10.0 million increase in realized natural gas margins, primarily related to realized gains on wholesale natural gas storage transactions
- (+) \$ 10.0 million of investment tax credits recognized on solar projects in the fourth quarter of 2008
- (+) \$ 3.7 million increase in earnings related to discontinued operations

Holding Company/Other – 4Q08

Earnings (millions)



Key Drivers (after tax):

- (+) \$ 1.8 million increase in earnings from ownership in American Transmission Company
- (+) \$ 6.6 million decrease in operating and maintenance expenses, primarily related to reductions in consulting fees, compensation and benefits, and contractor costs.

Michigan Gas Utilities Rate Case

- On January 13, 2009, the Michigan Public Service Commission approved a natural gas delivery rate increase
 - Annual Revenue Requirement Increase \$6 million
 - Rate Base/Investment: \$201 million
 - Return on Equity: 10.45%
 - Equity Component: 50.01%
- First increase since 2003
- Web site:
<http://efile.mpsc.cis.state.mi.us/cgi-bin/efile/viewcase.pl?casenum=15549>
- Order requires decoupling filing with the next rate case

Minnesota Energy Resources Rate Case

- In July requested \$22.0 million, 6.4%, increase in retail natural gas delivery rates from Minnesota Public Utilities Commission
 - Rate Base/Investment: \$201 million
 - Return on Equity: 11.25%
 - Equity Component: 50%
- Requested full 6.4% interim rate increase while Commission considers request
 - Interim rates of \$19.8 million, 90% of \$22 million requested, approved, and were effective October 1, 2008
 - Final rates expected in June 2009
- Web site:
<https://www.edockets.state.mn.us/EFiling/ShowFile.do?DocNumber=5405047>

Regulated Natural Gas Utility Segment – Illinois Rate Cases

- Refiled rate case for Peoples Gas Light and Coke and for North Shore Gas with the Illinois Commerce Commission to avoid a potential issue with the effective date of the new rates. We expect the new rates to be effective in January 2010.

Peoples Gas

■ Base Rate Revenue Requirement Increase	\$161.9 million
■ Rate Base/Investment:	\$1,396.1 million
■ Return on Equity:	12%
■ Equity Component:	56%

North Shore Gas

■ Base Rate Revenue Requirement Increase	\$22 million
■ Rate Base/Investment:	\$179.2 million
■ Return on Equity:	12%
■ Equity Component:	56%

- Riders

- Gas commodity component of bad debt expense (both companies)
- Infrastructure for accelerated cast iron main replacement (Peoples only)

Wisconsin Public Service Rate Case







Wisconsin Jurisdiction

- On December 30, 2008, the Public Service Commission of Wisconsin approved new rates
- New electric rates were effective January 1, 2009
 - Effective Base Rate Revenue Requirement Increase \$48 million ⁽¹⁾
 - Rate Base/Investment: \$1,350 million
 - Return on Equity: 10.90% ⁽²⁾
 - Equity Component: 53.41%
- New natural gas rates were effective January 1, 2009
 - Base Rate Revenue Requirement Decrease \$3 million
 - Rate Base/Investment: \$435 million
 - Return on Equity: 10.90% ⁽²⁾
 - Equity Component: 53.41%
- Rate Stabilization Mechanism also approved, which ensures consistent revenues regardless of impact of changes in energy use
 - Amounts deferred until future rate cases with carrying costs at short-term debt rate
 - ± \$14 million cap on deferral for electric, ± \$8 million cap on deferral for natural gas. This equates to approximately 100 basis points on common equity.
 - Approved on a 4-year pilot basis for residential, small commercial, and small industrial customers
- We will reopen for 2010 on a limited basis; key items for consideration include:
 - Fuel and purchased power costs
 - Updated construction costs on 99-megawatt wind farm project
 - Pension and benefit asset growth







⁽¹⁾ Increase as compared to rates authorized on January 12, 2008. The final fuel surcharge adjustment of \$48 million previously authorized in July 2008 was rolled into base rates effective January 1, 2009, resulting in no net change in overall electric rates on January 1, 2009.

⁽²⁾ No Return on Equity was specified for the 2009 rate case. Therefore, the 10.90% value has been carried forward from the 2007 rate case.

Regulated Utilities Serving Approximately 2.2 Million Customers

	PGL 	NSG 	MERC 	MGU 	WPS 		UPPCO 
As of 12/31/2008							
Electric Customers					436,000		52,000
Natural Gas Customers	819,000	158,000	210,000	166,000	316,000		
Generation capacity (megawatts)					2,149.8		56.3
Natural gas storage (Bcf)	58.0	10.0	6.0	9.0	13.0		
For the period ending 12/31/2008							
Annual electric volumes (million megawatt-hours)					15.4		1.1
Annual natural gas throughput (Bcf)	189.7	38.7	31.4	77.5	80.9		
Retail as of 12/31/2008							
	Natural Gas	Natural Gas	Natural Gas	Natural Gas	Natural Gas	Electric	Electric
Rate base/investment (\$ millions), IL	1,195	178					
Rate base/investment (\$ millions), WI					415	1,350	
Rate base/investment (\$ millions), MI				182	4	25	90.0
Rate base/investment (\$ millions), MN			205				
Wholesale as of 12/31/08							
Rate base/investment (\$ millions)						173	11.0

Regulated Utilities Regulatory Rate Base and ROE

	PGL	NSG	MERC	MGU	WPS	UPPCO
						
	Natural Gas	Natural Gas	Natural Gas	Natural Gas	Natural Gas	Electric
Retail last authorized, IL/MN						
Rate base/investment (\$ millions)	1,212	182	125			
Allowed ROE	10.19%	9.99%	11.71%			
Authorized regulatory equity %	56.00%	56.00%	50.00%			
Date of decision	2/5/2008	2/5/2008	7/29/2003			
Retail last authorized, MI						
Rate base/investment (\$ millions)				201 ⁽¹⁾	2	14
Allowed ROE				10.45%	14.25%	10.60%
Authorized regulatory equity %				50.01%	42.40%	56.39%
Date of decision				1/13/2009	6/7/1983	12/4/2007
Retail last authorized, WI						
Rate base/investment (\$ millions)					435	1,350
Allowed ROE					10.9% ⁽²⁾	10.9% ⁽²⁾
Authorized regulatory equity %					53.41%	53.41%
Date of decision					12/30/2008	12/30/2008
Wholesale last authorized						
Rate base/investment (\$ millions)						168
Allowed ROE						11.00%
Authorized regulatory equity %						53.41% ⁽³⁾
Date of decision						11/19/2004

Notes:

- (1) - The 2009 MGU rate case was settled with no stated rate base value. \$201 million corresponds to MGU's filed amount.
- (2) - The 2009 WPS rate case was settled with a stipulation agreement with no stated change to ROE. 10.90% corresponds to WPS's last authorized ROE in January of 2007.
- (3) - Authorized regulatory equity percent is equal to retail actual equity percent.
- * - All rates are based on individual contracts with customers, consequently no allowed ROE, and authorized equity percent applies.

Reconciliation of Integry's Energy Services' Forward Book Value to GAAP

As of December 2008
(Pre-tax dollars in millions)

	Natural Gas			Electric and Other			Total Natural Gas and Electric
	Retail	Wholesale	Total	Retail	Wholesale	Total	
Forward Book Value (a Non-GAAP financial measure)							
As of December 31, 2008	\$ 56.1	\$ 39.1	\$ 95.2	\$ 89.7	\$ 102.7	\$ 192.4	\$ 287.6
Unamortized electric and gas option premiums (1)	(0.6)	1.1	0.5	6.9	5.1	12.0	12.5
Less: Fair value of nonderivative contracts, derivative contracts designated as normal purchase and sales, portfolio valuation reserves, elimination, and other (2)	(101.1)	(95.1)	(196.2)	220.1	116.2	336.3	140.1
Net Risk Management Assets and Liabilities per GAAP Balance Sheet	\$ 156.6	\$ 135.3	291.9	\$(123.5)	\$ (8.4)	\$(131.9)	\$ 160.0

(1) Option premiums are included in the GAAP balance sheet until expiration of the associated options. The forward book value line item of managerial gross margin only includes the net difference between the premium and the fair value of the option. Upon option expiration, premium amortization is included in the total realized gross margin line in the managerial gross margin analysis. A positive number represents an option premium paid (future expense), while a negative number represents an option premium received (future income).

(2) Represents the estimated fair value of contracts that either do not meet the criteria for derivative accounting treatment under SFAS 133 or contracts that have been excluded from mark-to-market accounting under the normal purchase and sale exception. Contract types include full requirements sales contracts, natural gas storage and transport capacity contracts, among others. A positive number represents positive fair value (positive future cash flow), while a negative number represents fair value (negative future cash flow).

Integrays Energy Services – Margins

(\$ Millions)

	3 Months Ended December 31			12 Months Ended December 31		
	2008	2007	Change	2008	2007	Change
Natural Gas						
Retail						
Realized margins (1)	\$ 17.2	\$ 19.4	\$ (2.2)	\$ 57.4	\$ 59.2	\$ (1.8)
Unrealized gain/(loss) (2)	8.6	6.4	2.2	34.8	(5.2)	40.0
Effect of purchase accounting on realized margins (3)	(1.0)	(2.4)	1.4	(5.9)	(8.7)	2.8
Effect of purchase accounting on unrealized margins (3)	0.1	(5.3)	5.4	(0.7)	(2.7)	2.0
	<u>24.9</u>	<u>18.1</u>	<u>6.8</u>	<u>85.6</u>	<u>42.6</u>	<u>43.0</u>
Wholesale						
Realized margins without lower of cost or market impact (1)	11.0	(6.0)	17.0	61.9	53.2	8.7
Lower of cost or market impact on realized margin	(47.8)	6.9	(54.7)	(167.3)	(7.0)	(160.3)
Unrealized gain/(loss) (2)	65.8	30.1	35.7	119.6	45.1	74.5
Effect of purchase accounting on realized margins (3)	1.2	0.7	0.5	2.2	3.9	(1.7)
Effect of purchase accounting on unrealized margins (3)	0.1	0.9	(0.8)	(0.6)	1.4	(2.0)
	<u>30.3</u>	<u>32.6</u>	<u>(2.3)</u>	<u>15.8</u>	<u>96.6</u>	<u>(80.8)</u>
Total Natural Gas Margins	\$ 55.2	\$ 50.7	\$ 4.5	\$ 101.4	\$ 139.2	\$ (37.8)
Electric and Other						
Retail						
Realized margins (1)	18.5	14.5	4.0	71.9	50.5	21.4
Unrealized gain/(loss) (2)	(59.0)	27.9	(86.9)	(112.8)	25.7	(138.5)
Effect of purchase accounting on realized margins (3)	(3.2)	(7.3)	4.1	(9.6)	(16.3)	6.7
Effect of purchase accounting on unrealized margins (3)	0.9	1.5	(0.6)	0.8	1.1	(0.3)
	<u>(42.8)</u>	<u>36.6</u>	<u>(79.4)</u>	<u>(49.7)</u>	<u>61.0</u>	<u>(110.7)</u>
Wholesale Trading and Structured Origination (4)						
Realized margins (1)	23.5	24.5	(1.0)	59.4	71.7	(12.3)
Unrealized gain/(loss) (2)	(38.6)	10.2	(48.8)	(25.4)	12.6	(38.0)
	<u>(15.1)</u>	<u>34.7</u>	<u>(49.8)</u>	<u>34.0</u>	<u>84.3</u>	<u>(50.3)</u>
Oil option activity						
Realized gain	-	23.5	(23.5)	-	23.5	(23.5)
Unrealized gain/(loss)	-	(15.4)	15.4	-	(3.9)	3.9
	<u>-</u>	<u>8.1</u>	<u>(8.1)</u>	<u>-</u>	<u>19.6</u>	<u>(19.6)</u>
Total Electric and Other Margins	(57.9)	79.4	(137.3)	(15.7)	164.9	(180.6)
Total Gross Margin	\$ (2.7)	\$ 130.1	(132.8)	\$ 85.7	\$ 304.1	(218.4)
Reconciliation of Total Gross Margin						
Realized margins without lower of cost or market impact (1)	\$ 70.2	\$ 75.9	\$ (5.7)	\$ 250.6	\$ 258.1	\$ (7.5)
Lower of cost or market impact on realized margin	(47.8)	6.9	(54.7)	(167.3)	(7.0)	(160.3)
Unrealized gain/(loss) (2)	(23.2)	59.2	(82.4)	16.2	74.3	(58.1)
Effect of purchase accounting on realized margins (3)	(3.0)	(9.0)	6.0	(13.3)	(21.1)	7.8
Effect of purchase accounting on unrealized margins (3)	1.1	(2.9)	4.0	(0.5)	(0.2)	(0.3)
Total Gross Margin	\$ (2.7)	\$ 130.1	\$ (132.8)	\$ 85.7	\$ 304.1	\$ (218.4)

IntegrYS Energy Services – Definitions Related to Margin Exhibit

	3 Months Ended December 31			12 Months Ended December 31		
	2008	2007	Change	2008	2007	Change
Volumes Delivered (includes only transactions settled physically for the periods shown)						
Retail Natural Gas (in billion cubic feet)	84.0	88.4	(4.4)	336.0	319.4	16.6
Realized per unit margins (\$ per dekatherm)	\$ 0.20	\$ 0.22	\$ (0.02)	\$ 0.17	\$ 0.19	\$ (0.02)
Retail Electric (in kilowatt-hours)	4,019.0	4,017.1	1.9	16,561.3	14,584.4	1,976.9
Realized per unit margins (\$ per megawatt-hour)	\$ 4.60	\$ 3.61	\$ 0.99	\$ 4.34	\$ 3.46	\$ 0.88

Definitions (These definitions should be used in conjunction with the previous slide.)

- (1) Realized margins - Represents physical sales, net of physical purchases and the cash settlement of financial contracts (i.e., forwards, futures, and swaps). Wholesale natural gas realized margins include the negative impact of the inventory lower of cost or market adjustment of \$47.8 million for the three month period and \$167.3 million for the twelve month period ended December 31, 2008.
- (2) Unrealized gain/(loss) - Represents the non-cash change in fair value of the portfolio of contracts deemed to be derivative instruments as defined by Financial Accounting Standards Board Statement No. 133 "Accounting for Derivative Instruments." In addition to the change in the value of currently outstanding contracts, this amount is impacted when contracts are settled. The value is taken out of unrealized gain/loss and the actual settlement gain/loss and the actual settlement amount are reflected in realized margins.
- (3) Effect of purchase accounting - Represents the attribution of purchase price related to the contracts acquired via the Peoples Energy merger. The value of the contracts (calculated as of the merger date) is reversed through gross margin in the month of settlement. A portion of this impact runs through unrealized gains and loss and another portion runs through realized margins. Both are noncash impacts that are broken out above in order to help reconcile to the year-over-year variance discussion within Item 2 of the Form 10-K, Management's Discussion and Analysis of the Financial Condition and Results of Operations. This schedule excludes the amortization of intangibles identified as part of the merger (i.e., customer list) which is included in operating expenses.
- (4) Wholesale Trading and Structured Origination - Captures our proprietary trading activity, structured origination activity and optimization of our plants and customer load. Variance explanations are captured in three line items in the Form 10-K: (1) Realized gains on structured origination contracts, (2) Liquidation of an electric supply contract in 2005, and (3) All other wholesale electric operations.

Estimated Synergy Savings and External Costs to Achieve

Updated Merger Cost Savings and External Costs to Achieve (Pre-tax Dollars in Millions)							
	2006	2007	2008	2009E	2010E	2011E	Total
Total Estimated Synergy Savings - Current	–	38	83	97	106	114	438
Estimated Synergies Savings on February 21, 2007	–	29	73	82	88	94	366
Total Estimated Costs to Achieve - Current	(20) ¹	(91) ²	(24) ³	(12) ⁴	–	–	(147)
Estimated Costs to Achieve on February 21, 2007	(20) ¹	(91) ⁵	(33) ⁶	(11)	(31)	–	(186)

- (1) Includes/included \$18.2 million incurred by Peoples Energy.
- (2) Includes \$13.1 million of system write-offs, all of which were capitalized. Overall \$54.6 million was capitalized.
- (3) Includes \$8 million of capital assets.
- (4) Anticipate that \$5.2 million will be capitalized.
- (5) Included \$34.5 million of system write-offs, of which \$11.7 million would have been capitalized. Overall \$59 million was capitalized.
- (6) Anticipated that \$6 million would have been capitalized.